ANNUAL REPORT 2008/2009

HEIDELBERG

STRATEGY: UNDERTAKING COUNTERMEASURES

The printing press industry is rightly regarded as an early indicator of cyclical trends. The Heidelberg Group’s business development as well as the development of Heidelberg’s share price made this point all too clear during the financial year. We believe that the global economy will be subject to considerable fluctuations even after the serious economic crisis is overcome. We are therefore undertaking extensive measures to deal with the cyclical aspects of the Group’s business.

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Bernhard Schreier
Chairman of the Management Board
Heidelberger Druckmaschinen Aktiengesellschaft

LETTER FROM THE MANAGEMENT BOARD

Dear Shareholders,
Dear Readers,

As the world market leader in the printing press industry, Heidelberg is one of the biggest exporters in the German engineering sector. Due to the global financial crisis and the recession in major economies, print shops held back on their investments worldwide – which we felt directly and painfully. The two halves of the financial year could not have been more different in nature. Whereas in the first half-year, favored by the success at the drupa trade show, we were successful in obtaining incoming orders of nearly 1.9 billion euros, during the second half-year orders plunged by nearly half.

Our decision to considerably further expand our cost-saving measures once again makes clear the seriousness of the situation. In March, we announced that we will reduce human resource capacity throughout the Group by a quarter. Two years ago, we had purposely extended an agreement with our employees on safeguarding the future because we wanted to hold on to valued employees and their expertise in the

Company. We had to terminate this contract. There was no alternative to this difficult measure, because no short-term improvement in the situation was, and is, foreseeable so far. The world economic crisis continues to have a stranglehold on our key markets. The capacity utilization of print shops in the industrialized countries has fallen to an extremely low level, consolidations are occurring regularly here, and print shops primarily in the emerging markets are having considerable difficulties in financing investment projects. Our competitors are also suffering from the crisis. The figures for the printing press industry that have been disclosed up to now speak for themselves.

Internationally, the market turbulence in the stock markets and the weak order backlog of companies have resulted in enormous price declines. The world economic crisis is hitting especially export-oriented companies. During the first quarter of 2009, the incoming orders of the German engineering industry fell by 42 percent from the previous year. Cyclic shares like Heidelberg's were especially heavily hit by declines.

The important task now is to conduct crisis management. The protection of the Group's financial stability is the highest priority here. The banks have meanwhile fundamentally assured us of long-term and adequate financing, although a final commitment is still pending. We must reduce the structural costs of the Group while simultaneously not neglecting the service we provide for customers. We are therefore focusing on the following priorities:

> For our customers, we continue to provide the most comprehensive solutions worldwide, the most professional advice, and the best service in our industry.
> We are further expanding the share of sales accounted for by the relatively non-cyclical business units Services, Consumables, and Packaging Printing as quickly as possible.
> We are continuing to further vigorously implement all the cost-reduction measures that we have bundled as part of our Heidelberg 2010 program. We intend to thereby realize savings of 350 to 380 million euros already during the current financial year.

We are confident of achieving this, since we have already been successful with these kinds of measures during the financial year. Early on – in July 2008 – we responded to worsening underlying conditions and then expanded our measures in October 2008 and in March 2009. Following substantial losses for the first six-month reporting period, we were able to again reach a nearly break-even operating result beginning in the third quarter – excluding the special items that were initially required for our Heidelberg 2010 program. By contrast to the sales downturns in the printing press area, our absolute sales figures in the service and consumables area continued to grow – which, however, has so far only been able to somewhat moderate the declines in the equipment area. Our position as the world market leader in sheetfed offset printing has remained undisputed, even during the current crisis, and our new large format packaging printing solutions are meeting with growing interest worldwide. The ‘Heidelberg’ brand name continues to stand for innovation, reliability, and quality. At this point, I would like to extend my thanks to our employees and the members of senior management, who ensure this even under unfavorable work-time conditions!

Our ‘startup position’ for the period following the crisis, when the economy picks up again, is excellent. This is especially so in such promising emerging markets as China and India. With our sizeable reduction in structural costs and a further considerable expansion in the share of sales accounted for by the more non-cyclical divisions, we are better prepared for future periods of global economic weakness.

However, at present, at least initially, we are still facing a difficult year. We hope the economic research institutes are right in their forecast that the global economy will recover beginning in 2010. Until that time, we will gather all our resources in order to guide Heidelberg safely through the crisis.

Yours sincerely,
Bernhard Schreier

The Management Board of Heidelberger Druckmaschinen Aktiengesellschaft

Dr. Jürgen Rautert

SALES

Born in 1958, married. Graduate degree in Mechanical Engineering, since 1990 active in product development at Heidelberg. Since July 1, 2004 Member of the Management Board, initially responsible for Engineering and Manufacturing, since July 1, 2008 in charge of Sales.

Dirk Kaliebe

FINANCE

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

Bernhard Schreier

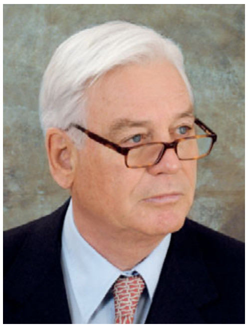
CHAIRMAN

Born in 1954, married, three children. Engineering graduate (Diplom-ingenieur, 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.

Stephan Plenz

TECHNOLOGY

Born in 1965, married, three children. Engineering graduate (Diplom-ingenieur, BA). Following completion of his Engineering degree in 1989, active at Heidelberg as a quality engineer. Since 1993 various management positions in production, finally as manager of the Wiesloch-Walldorf site. Member of the Management Board since July 1, 2008.



Dr. Mark Wössner
Chairman of the Supervisory Board

REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,

The Heidelberg Group finds itself in the most difficult circumstances of its recent corporate history. As the owners of the Company, this situation affects you to a significant degree. Heidelberg's shareholders' equity suffered considerably from the operating losses of the financial year as well as from the restructuring measures that are necessary to cope with the impact of the global economic crisis. In order to secure Heidelberg's liquidity, the Management Board had to act decisively and undertake numerous measures. The latest assessment assumes that the reorientation of the financing structure can be implemented successfully in the near future.

Let us recall: In June last year, Heidelberg was able to impressively demonstrate its primacy at the world's largest trade show for the print media industry. Heidelberg was a magnet for visitors to drupa in Duesseldorf, and was also successful in signing numerous sales contracts. The results of the trade show slightly bettered our own forecast. The further developments in the financial year appeared to be potentially promising and calculable. However, instead of that, back in the summer of 2008 the financial crisis spilled over into the real economy and resulted in increasingly restrained investment activity by our customers, who are also keenly suffering from the economic crisis, as well as in a rapid downturn in business.

The Management Board reacted gradually to the increasingly escalating crisis as soon as the consequences began to take on concrete form. Some see this as cause for reproach. Occasionally one even has the impression that 'responding' to certain developments is somehow negative because the development was not foreseen and no proactive action was taken. Let us stick to the facts. No one was able to predict the course and extent of this crisis – not in the past, and not today. And there will come a time when Heidelberg will again be an efficient, solidly established company. Corporate management is guided by this leitmotif when reacting to events – and they are right to do so. The first package of measures was tied up in July 2008 and subsequently considerably expanded, first in October 2008 and then once again at our financial year-end in March 2009. Since November 2008, in view of our need to increasingly take advantage of the opportunities offered by short-time work, it became ever more clear that Heidelberg would be forced to let go of around a quarter of its highly qualified employees. Furthermore, investments were rigorously cancelled, projects were deferred, and various cost-saving measures were introduced in order to achieve the intended annual cost reductions totaling € 400 million. The reaction was therefore comprehensive, long-term in outlook, and balanced. The Management Board will respond with additional measures should the situation demand it.

This is an extremely difficult situation, particularly for the employees who are losing their jobs. Those who remain face considerably lower salaries because of short-time work and other cost reductions. It is primarily our employees who, with their experience and creativity, are to bring Heidelberg back on the track to success afterwards. The crisis necessitates a considerable willingness to make sacrifices and simultaneously to be prepared to make a commitment and remain engaged. The Supervisory Board therefore wishes to express its particular thanks to the employees and their representatives!

It became necessary to lend significant support to the Management Board during the financial year. We did so at meetings of the Supervisory Board and committees as well as at meetings with shareholders and staff representatives. All current topics and measures were intensively discussed together. Shareholders and staff representatives frequently also met separately in order to address the situation from their respective viewpoints and to develop their own proposals.

We fulfilled all the responsibilities incumbent on us under legal provisions and the Articles of Association, extensively advising and monitoring the Management Board in the management of the Company and its transactions. The close cooperation between the Management Board and the Supervisory Board also in the currently strained situation was not limited to the four ordinary meetings of the Supervisory Board, at which the Management Board informed us in detail about current developments and the Company's business development in detail. We were always quickly and extensively informed concerning all significant decision-making procedures. We also passed resolutions in writing for projects that necessitated a quick decision. My contacts with the Management Board have been especially close during the financial year. I was always informed promptly and in detail concerning significant decisions and developments, as a result of which I was able to examine possible actions for the Company together with the Chairman of the Management Board and his colleagues and we were able to represent the Company and its interests together.

The newly selected Supervisory Board was constituted immediately following the Annual General Meeting held on July 18, 2008. Furthermore, the Human Resources Committee met three times and passed two resolutions by circulation. The Management Committee also held three meetings and the Audit Committee met five times. The newly formed Nomination Committee did not meet, and there also 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 the Supervisory Board's Discussions

Our discussions during the financial year focused increasingly on the Company's financial performance during the year as well as on the securing of its liquidity and the restructuring that is necessary in order to cope with the impact of the financial and economic crisis. The development of sales and earnings, Heidelberg's financial position, and the development of the price of the Heidelberg share, which caused us some concern, were the regular focus of discussions in the Supervisory Board during the financial year.

We view the strategic expansion of the consumables business favorably in order to reduce the Group's dependence on cyclical fluctuations. We therefore agreed to the acquisition of the Hi-Tech Coatings corporate group, which is based in the UK and the Netherlands, following completion of the negotiations by circulation in writing. We had held extensive discussions concerning this transaction on the Supervisory Board already in advance.

In our meeting held on March 30, 2009, we focused on the planning process for the current and future financial years and discussed several possible scenarios in this regard. The planning process included all the measures undertaken for overcoming the current crisis as well as all significant aspects of markets and products. Our discussions focusing on the planning process and its premises were intensive and also, quite frankly, contentious, with various assessments expressed concerning future developments. The Management Board and the Supervisory Board were in agreement that, if necessary, the planning process must be reorganized if the planning assumptions change.

Corporate Governance

We regularly focused our attention on the corporate governance of the Company during the reporting period. In the constituent meeting of the newly elected Supervisory Board held on July 18, 2008, we focused on the rights and obligations of the members of the Supervisory Board under the law and the Articles of Association. The primary focus here was on the confidentiality and effectiveness of our work. We also discussed the responsibilities and obligations that are included in our Rules of Procedure.

During the year, these Rules of Procedure as well as that of the Management Board were brought up to date. The new requirements of the Corporate Governance Code for the structure of the remuneration of the members of the Management Board were taken into consideration. We agreed to again fundamentally examine and analyze the effectiveness of our work at the beginning of the current financial year. The Corporate Governance Report is available on pages 13 to 16.

Work in the Committees

In order to be able to fulfill our responsibilities, we established a total of five committees that were newly constituted following the Annual General Meeting on July 18, 2008. Our committees, especially the Management Committee and the Audit Committee, support and decisively assist the Supervisory Board in its work by preparing the discussions and meetings of the Board and examining decisions beforehand. In certain cases, the Supervisory Board granted the committees decision-making authority. 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 222.

The Management Committee informed itself at its meetings held during the reporting period in particular on the options available for taking action to improve the situation of borrowed funds and shareholders' equity. The Management Committee furthermore discussed the impending restructuring measures and their possible impact on the Group. The Audit Committee examined the respective quarterly results. Furthermore, together with the auditor, this committee also 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, controlling for participations, 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 18, 2008 selected PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, as the external auditor. This firm examined and approved without qualification the overall annual financial statements for financial year 2008/2009 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 18, 2008. 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 May 29, 2009. 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 held on May 29, 2009, 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, 2009.

In view of the crisis, the Supervisory Board agreed to the proposal of the Management Board on the appropriation of distributable profit, under which no dividend payment be made for the reporting year.

Composition of Management Board and Supervisory Board

As was already mentioned, the term of office of the Supervisory Board, which was newly elected at the Annual General Meeting held on July 18, 2008, expired during the financial year. Dr. Mark Wössner, Dr. Siegfried Jaschinski, Mr. Robert J. Koehler, Dr. Gerhard Rupprecht, and Dr. Klaus Sturany were reelected to the Supervisory Board as shareholders’ representatives. Dr. Werner Brandt, Mr. Edwin Eichler, and Professor Dr. Günther Schuh were newly elected to the Supervisory Board. The long-standing members Dr. Jürgen Heraeus, Mr. Martin Blessing, and Mr. Uwe Lüders retired. The staff representatives were also newly elected in accordance with the provisions of the Codetermination Act, with no change in composition occurring. I wish to express my thanks to all my colleagues on the Supervisory Board for their outstanding cooperation based on trust. In the future and especially during the current difficult situation, the Supervisory Board will continue to focus intensively on the interests of the Corporation and its long-term development, and will do whatever it can for Heidelberg’s benefit.

The Supervisory Board also wishes to thank the members of the Company’s Management Board as well as all the Company’s employees for their dedicated work at all times despite the generally difficult environment.

Munich, June 8, 2009

For the Supervisory Board

Dr. Mark Wössner
Chairman of the Supervisory Board

Corporate Governance

> **New Version of the Code Published on August 8, 2008**
> **Focus on Management Board Remuneration System**
> **Constitution of the Supervisory Board Committees following the Annual General Meeting of July 18, 2008**

Since the German Corporate Governance Code was adopted in 2002, with few exceptions Heidelberg has succeeded for the most part in rapidly implementing the recommendations and suggestions of the Code. In the current financial year, Heidelberg once again complied with all the recommendations of the Code.

The primary focus of the new provisions of the Code, which were published on August 8, 2008, was on the remuneration of the Management Board. We report on the remuneration of the Company's Supervisory Board and Management Board together in the section 'Remuneration Report' on pages 42 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, 2008. Heidelberg adapted its Rules of Procedure to the new requirements of the Code and immediately fulfilled Items 4.2.2 and 4.2.3 in day-to-day practice. These Items deal with the structuring of the remuneration of the Management Board and how the Supervisory Board should deal with it. Already for many years, preliminary discussions were held in the Audit Committee concerning our quarterly and half-year interim reports in terms of Item 7.1.2 of the Code. Heidelberg can therefore again state that the Company has been in full compliance in the past and present, and can pledge full compliance vis-à-vis future applicable situations and events. This also applies to the Code's numerous recommendations. Heidelberg applies or rather 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.

As in past years, the recommendations in Items 3.6 and 6.8 were not fully met. 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. 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.

All Supervisory Board Committees Newly Formed

Within the framework of the constituent meeting of the Supervisory Board following the Annual General Meeting held on July 18, 2008, all the Supervisory Board committees were reformed: the Management Committee, the Audit Committee, the Human Resources Committee, the Nomination Committee, and the Mediation Committee. The current composition of these committees is shown in the Notes to the Consolidated Financial Statements on page 222.

Constituent Meeting Focuses on Corporate Governance Issues

Following its constitution and after the committees were formed, in the constituent meeting of the Supervisory Board, the Chairman of the Supervisory Board prompted a discussion on fundamental and current corporate governance issues. In the course of this discussion, the Members of the Supervisory Board concerned themselves with the position of the Company's Supervisory and Management Boards and the requirement for confidentiality that arise from it. Discussions furthermore focused on the obligation to report on directors' dealings, as well as how to deal with insider events and the corresponding prohibition against transactions involving shares. Finally, the Chairman of the Supervisory Board further clarified individual issues involving the Rules of Procedure for the Supervisory Board. For example, he discussed dealing with conflicts of interest, the scope of the D&O insurance, and the intention of implementing another efficiency examination at the beginning of the current financial year.

Communications with Stakeholders

During the financial year, we revitalized our communications with the capital market, the financial press, and analysts. Heidelberg's share price nevertheless went through an alarming development due to the wide-ranging impact of the financial and economic crisis. We will work further on improving our communications and external image. We publish regular quarterly reports and communicate intensively with the trade and financial press on current issues. All stakeholders should always have the possibility of informing themselves about Heidelberg on an up-to-date basis. All the significant dates regarding our Company are shown in the financial calendar, which is included in the Annual Report, in the quarterly reports, and on the Internet at www.heidelberg.com. The Investor Relations pages of our Internet site present all the available and up-to-date information concerning Heidelberg, including not only key performance data, disclosures, actions subject to reporting, and the Company's corporate governance, but the so-called annual document and the declarations of compliance of prior years as well.

Comprehensive transparency includes ongoing control of significant transactions 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. No such transactions occurred 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 on pages 8 to 12.

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 42 in the Notes to the Consolidated Financial Statements. Note 43 also provides 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. A new tranche of the LTI was not made available during the reporting period.

Foresighted Risk Management

The Company maintains structured risk management and risk reporting that focus on practical requirements. This helps the Company recognize and assess risks and introduce corrective measures at an early stage. The Company's risk management has also proven its success in the current financial and economic crisis. We report on the risk management system as well as current corporate risks in the Management Report on pages 38 to 40 and on pages 108 to 114.

Audit of the Financial Statements by PricewaterhouseCoopers

No relationships are maintained between the auditor, the auditor's management organs, and the chief auditors at 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, June 4, 2009

For the Supervisory Board:
Dr. Mark Wössner

For the Management Board:
Bernhard Schreier

BENEFITTING FROM OPPORTUNITIES – LOWERING THE BREAK-EVEN POINT

We are actively responding to the impact of the current world economic crisis on the Group's earnings position. By expanding non-cyclical business areas, we are additionally preparing Heidelberg to confront future cyclical fluctuations. We are also ensuring that we are in a position to make use of opportunities to the best of our ability following the crisis. Our starting point for this is favorable. Heidelberg is still the undisputed world market leader in sheetfed offset printing and our networked solutions are unique in our industry. The Heidelberg brand name stands for state-of-the-art technologies, maximum reliability, and the best service worldwide.

Saphira
Transformers
Washers
Printing inks
Color calibration according to print substrate
Pantone and special inks
Printing coatings
Water-based coatings
UV coatings
Primer
Lubricants
Alcohol
Washing solutions
Washing cloths
Powder
Blankets
Rollers
Rods
Screws
Gears
Sliders
Screw threads
Gear racks
Gripper supporting tubes
Friction bearings
All-purpose tools
Cables
Control boxes
Control devices
Switches
Control electronics

STRATEGIC FOCUS: REDUCING DEPENDENCE ON CYCLICAL FLUCTUATIONS 1

STABILITY

CLEARLY EXPANDING SALES IN SERVICE AND CONSUMABLES

Consistently high print quality and production security – with our services as well as tested consumables, which we sell under the Saphira brand name, we ensure these advantages to our customers. By systematically expanding our offerings and sales in this business area, among others through cooperative agreements, we achieve one advantage above all: stability. This is because the need for consumables is growing worldwide almost regardless of economic cycles.

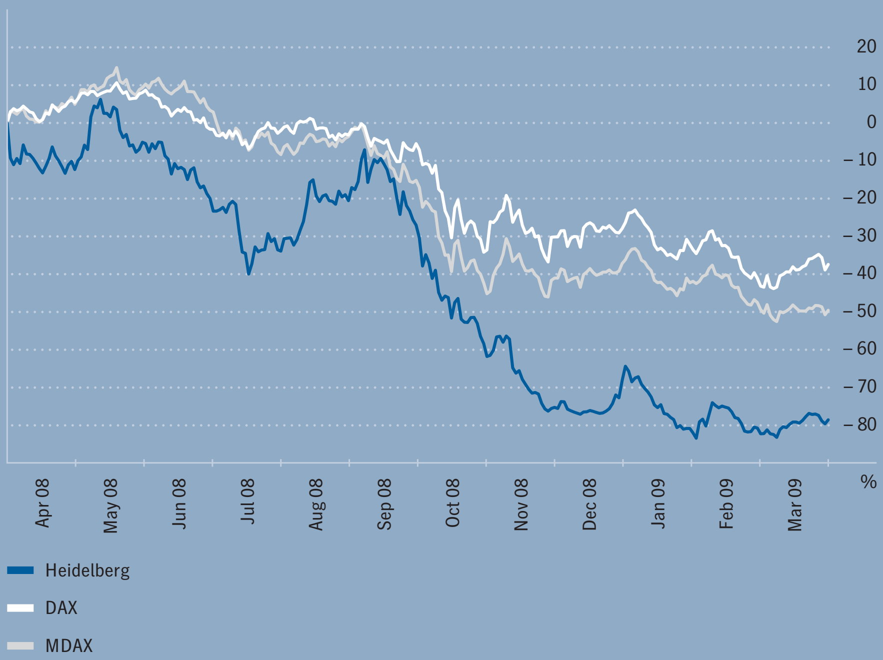
THE HEIDELBERG SHARE, STRATEGY, AND MANAGEMENT

Developments on the financial markets and the world economic crisis have hit Heidelberg's principal sales markets with full force. The economic environment deteriorated considerably during the second half of the financial year. Our share price declined considerably, falling at a disproportionately rapid pace vis-à-vis the DAX and MDAX stock market indexes.

We are undertaking vigorous efforts to reduce the Group's dependence on cyclical fluctuations. For example, during the reporting year, we were successful in boosting the sales volume of consumables and we have been rapidly implementing our Heidelberg 2010 program, which will considerably cut back our structural costs. We continue to emphasize our solutions provider strategy, which ensures meaningful production and cost advantages for print shops. We will also continue to maintain a high level of comprehensive consulting expertise by our sales and service companies in all regions.

PERFORMANCE OF THE HEIDELBERG SHARE

compared with the DAX/MDAX (index: April 1, 2008 = 0 percent)



Heidelberg Share – Modest Recovery Following Dramatic Price Declines

> **High for the Year at € 18.06; Low at € 2.81**
> **Proposal: No Dividend Payment**
> **Information in Accordance with Section 315 (4) of the Commercial Code**

The global financial market crisis determined the trend of stock market indexes during the financial year. The unprecedented decline on the stock markets was a reflection of the development of the capital market throughout 2008 and for the first few months of 2009. Confidence again increased somewhat in the stock markets only when, in March 2009, global economic performance began declining at a somewhat slower pace than in the past and when the amounts available under economic stimulus packages were increased throughout the world.

KEY PERFORMANCE DATA OF THE HEIDELBERG SHARE

Figures in €

	07/08	08/09
Earnings per share	1.81	– 3.20
Price-earnings ratio [1]	9.40	–
Cash flow per share	3.71	– 3.06
Dividend per share [2]	0.95	–
Dividend yield in percent [1]	5.58	–
Payout ratio in percent	52.49	–
Share price – high	40.66	18.06
Share price – low	14.57	2.81
Share price – beginning of financial year	34.86	15.42
Share price – financial year-end	17.01	3.64
Market capitalization – financial year-end – in € millions	1,328	284
Index weighting of the MDAX in percent	1.24	0.72
Number of shares in thousands [3]	78,126	77,643

[1] In terms of the financial year-end price in Xetra trading; source of prices: Bloomberg
[2] In financial year 2008/2009, proposal by the Management Board and Supervisory Board
[3] Weighted number of outstanding shares

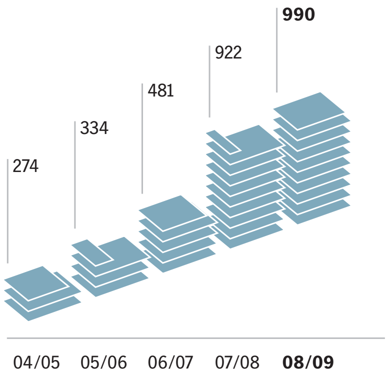
Development of the Heidelberg Share in Relation to the DAX and MDAX

After June 2008, the two major German share indexes, the DAX and the MDAX, also declined at an accelerating pace. After reaching a low point early in March in 2009, a moderate upswing occurred. During the period March 31, 2008 to March 31, 2009, the DAX fell by approximately 37 percent and the MDAX by 50 percent.

The development of the price of the Heidelberg share was even more dramatic. Already months before the global downward spiral had set in, restrained business prospects, burdens resulting from high raw material and energy costs, and the weak US dollar had resulted in declines in the share price. Beginning early in September, our share then moved in tandem with the negative stock market trend. This followed on the heels of a pickup for several weeks beginning in mid-July and continuing through early September – among others due to the strengthening of the US dollar. The more evident it became that the global economy would experience its worst recession of the postwar era, the greater the extent to which the price of the Heidelberg share came under pressure. Following two low points, with prices below € 3, the price of our share began to stabilize somewhat beginning in March. This development continued through May. During the financial year as a whole, however, our share lost approximately 79 percent of its value.

AVERAGE DAILY SALES VOLUME OF THE HEIDELBERG SHARE

Figures in thousands of shares



Low Price Worsens the Standing of the Heidelberg Share in Index Rankings

Of the 50 companies listed in the MDAX, Deutsche Börse's index ranking in the category 'market capitalization based on free float' put Heidelberg's share in 43rd place due to its low price, compared with 32nd place the previous year. In the category 'Stock Market Volume', Heidelberg also fell from 14th place the previous year to 16th place.

Heidelberg's market capitalization plummeted during the financial year, falling from € 1.3 billion as of March 31, 2008 to € 284 million at financial year-end. As the graph on the left clearly shows, the average daily trading volume of the Heidelberg share had risen considerably in the previous years. At the present time as well, this key performance value continues at a high level, since it reflects an average for the last twelve months. Nevertheless, the volume was considerably lower at the end of the financial year.

Arousing Interest in Heidelberg's Share among Others at Capital Market Conferences

After an interval of four years, the drupa trade show – the largest international trade show for the print and media industry – was again held in Duesseldorf from May 29 to June 11, 2008. We organized our analysts' and investors' conference presenting the annual financial statements at drupa, thereby introducing our innovations to 40 participants from Germany and abroad within the framework of a tour of this trade show. We additionally took part in numerous international road shows as well as nine capital market conferences, two of which were held at drupa. In our discussions with investors and analysts, we believe it is important to acquaint interested parties with the distinctive features of printing press construction. Whenever possible, we consequently supplemented discussions with plant tours or tours of our Print Media Center.

Nevertheless, the share's very high coverage declined slightly. A gratifying development was the considerably greater number of analysts who have recently again recommended buying or holding the Heidelberg share.

Our investor relations work is favorably rated. The investor relation benchmark 2008/2009 of the 'net federation' places Heidelberg in second place among MDAX enterprises and 14th overall.

Annual General Meeting 2008 Approves All Decisions; Proposal to the Annual General Meeting 2009: No Dividend Payment

Approximately 1,800 shareholders attended the Annual General Meeting on July 18, 2008, which was held in Mannheim's Rosengarten Congress Center. Some 60 percent of Heidelberg's share capital was represented. All the proposals on the agenda that required a decision were confirmed. Among others, it was decided to distribute a dividend of € 0.95 per share entitled to dividends. In terms of the average price for the previous financial year, this amounted to a dividend yield of 3.4 percent.

Due to the extremely difficult economic environment, we posted a marked net loss during the financial year. In order to considerably reduce our structural costs, we were forced to terminate the pact to safeguard the future that had been agreed upon with our employees. We will propose to this year's Annual General Meeting that no dividend be distributed in order to sustain the Heidelberg Group's liquidity.

SHAREHOLDER STRUCTURE

Figures in percent

Free float	80
Allianz SE	12
RWE AG	8

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

In accordance with Section 315 (4) nos. 1 – 9 of the Commercial Code, in the Group Management Report we address all points that may be of significance should a public takeover bid occur for Heidelberg.

The **subscribed capital** (share capital) of Heidelberger Druckmaschinen Aktiengesellschaft amounted to € 199,791,191.04 at financial year-end and is apportioned among 78,043,434 no-par bearer shares. The shares are not subject to restricted transfer rights. In accordance with Section 71 b of the Stock Corporation Act, the Company is not entitled to any rights arising from the 400,000 own shares it is holding. The Company's Management Board is not aware of any other limitations to voting rights or the transfer of shares.

As of the March 31, 2009 reporting date, **free float** was approximately 80 percent. In accordance with Section 21 (1) of the Securities Trading Act (Wertpapierhandelsgesetz), on September 20, 2002 the Munich-based firm Allianz SE informed us that it maintained a 12.03 percent **indirect participation** in the capital of the Company as of that date. On May 25, 2009 RWE Aktiengesellschaft, Essen, informed us that its participation had fallen to 8.008 percent as of that date. No shareholder has **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.

The **appointment and recall of the members of the Company's Management Board** occur in connection with Sections 84 ff. of the Stock Corporation Act in association with Sections 30 ff. of the Codetermination Act. **Changes in the Articles of Association** occur in accordance with the provisions of Sections 179 ff. (133) of the Stock Corporation Act in association with Section 19 (3) of Heidelberg's Articles of Association. According to Section 19 (3) of the Articles of Association, 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 Association, the Supervisory Board is authorized to revise or add to the current version of the Articles of Association.

On July 18, 2008, Heidelberg's Annual General Meeting authorized the Management Board to acquire shares in the Company up to January 15, 2010 either over the stock market or by means of a public offering directed to all shareholders. Shares acquired may total up to 10 percent of the share capital at the time of the resolution or – provided the amount is lower – 10 percent of the share capital at the time the authorization is exercised. The acquired shares may be sold over the stock market or through an offer to all shareholders.

With the consent of the Supervisory Board, the Management Board is additionally authorized, under exclusion of the subscription right of the shareholders:

> to sell shares, if for cash and at a price as defined in the authorization that is not substantially below the stock market price; the volume of shares thereby sold together with shares that have been issued since July 18, 2008 under subscription right exclusion may not exceed a total of 10 percent of the existing share capital, or – if this value is less – 10 percent of the share capital existing at the time the authorization is exercised;

> 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; this program was approved by the Ordinary Annual General Meeting of the Company on September 29, 1999 under Agenda Item 8;

> to make use of shares in fulfillment of obligations arising from convertible and/or bonds with warrants that have been or will be issued by a member of the Heidelberg Group; and
> to make use of shares in order to terminate or similarly execute expedited shareholder action under corporate law.

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

The Management Board is further authorized, with the consent of the Supervisory Board, to recall acquired own shares without the need for additional authorization from the Annual General Meeting. This authorization may be executed either in full or in part.

With the consent of the Supervisory Board, up to July 1, 2011 the Management Board may increase the share capital of the Company at one time or in stages through the issue of new shares against cash or contributions in kind, by up to a maximum amount of up to € 59,937,356.80; the subscription right of the shareholders may be excluded. Details concerning **'Authorized Capital 2008'** can be found in Section 3 (6) of the Articles of Association.

The share capital of the Company is increased on a contingent basis as follows:

> 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, share capital 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 Association. The Company has the option of making a cash settlement in place of issuing shares to those entitled to participate. Subscription rights issued by the Management Board on the basis of this authorization as of March 31, 2009 totaled 1,824,105, of which 72,000 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 nominal amount of up to € 500,000,000.00, with a maximum term 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 share capital was therefore increased on a contingent basis by up to € 21,992,570.88.

For details, please refer to the **'Contingent Capital II'** segment of Section 3 (4) of the Articles of Association. The Heidelberg Group has made partial use of this authorization, on February 9, 2005 issuing a convertible bond in the nominal 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 26 and 28.

> On July 20, 2006, the Annual General Meeting authorized the Management Board, in agreement with the Supervisory Board, to issue bearer warrants and/or convertible bonds through July 19, 2011 in a total nominal amount of up to € 500,000,000.00 with a maximum term of 30 years, thereby granting option and/or conversion rights to new shares in a pro rata amount of the share capital in a total amount of up to € 21,260,979.20. The subscription right of the shareholders may be excluded. The share capital was accordingly increased by up 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 Association.

> On July 18, 2008, the Annual General Meeting authorized the Management Board, in agreement with the Supervisory Board, to issue up to July 17, 2013 bearer convertible bonds and/or bonds with warrants, profit sharing rights and/or profit participating bonds or combinations of these instruments either with or without a limit to the term with a total nominal amount of up to € 500,000,000.00, and to grant the bearers and creditors, respectively, of bonds or conversion and option rights, to bearer shares of the Company, with a pro rata share of the share capital totaling up to € 19,979,118.08 subject to the conditions governing the bonds. The subscription rights of the shareholders may be excluded. The share capital was thereby increased on a contingent basis by up to € 19,979,118.08. Details are included in the **'Contingent Capital 2008/I'** segment of Section 3 (7) of the Articles of Association.

> On July 18, 2008, the Annual General Meeting authorized the Management Board, in agreement with the Supervisory Board, to issue up to July 17, 2013 bearer convertible bonds and/or bonds with warrants, participation rights and/or income bonds or combinations of these instruments either with or excluding a limit to the period of validity, in the total nominal amount of up to € 500,000,000.00 either with or without a limit on the term with a total nominal amount of up to € 19,979,118.08 subject to

the conditions governing the bonds. The subscription rights of the shareholders may be excluded. The share capital was thereby increased on a contingent basis by up to € 19,979,118.08. Details are included in the **'Contingent Capital 2008/II'** segment of Section 3 (8) of the Articles of Association.

'Change of Control' provisions: 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 45. 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 ownership structure of the Company. Equally standard provisions granting the contracting parties the right of cancellation and 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 license agreement with a manufacturer and supplier of software products includes a 'Change of Control' provision that 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.

Otherwise, there are no compensation agreements that have been entered into by the Company that would affect members of the Company's Management Board or the employees in case of a takeover bid.

OUR INVESTOR RELATIONS TEAM WILL BE HAPPY TO ANSWER YOUR QUESTIONS AND RESPOND TO YOUR SUGGESTIONS!

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Underlying Conditions – Financial Market Crisis Severely Impacts Overall Economy and Our Industry

> **Global Economic Downturn in Second Half of the Year**
> **Printing Industry Hit with Full Force**
> **Suppliers Struggling Worldwide with Weak Demand**

What are the parameters influencing demand in the printing industry? In the commercial printing area, economic trends comprise the principal parameters. Political and legal uncertainties, customs restrictions, and scarce financing opportunities are putting the brakes on demand for printing presses.

The financial year clearly demonstrated the extent to which, for commercial printing, the printing press business depends on current and expected economic conditions. As it became evident that the global economy would fall into a deep-seated crisis, firms very quickly and extensively reduced their advertising budgets and severely reduced their orders with our customers for printed advertising material. In particular the overall uncertainty about when the crisis will reach its low point has resulted in a nearly complete freeze in investments in some markets. Moreover, the financing environment for our customers has considerably worsened as a consequence of the financial market crisis, primarily in emerging markets.

Global economic growth is a crucial factor in our business development, with overseas business accounting for approximately 85 percent of annual sales in the past. In the packaging printing sector, which is more robust with regard to cyclical fluctuations as well as in the virtually non-cyclical consumables area, our market share is still considerably lower than in the equipment sector for commercial print shops.

In such economically difficult times, we therefore only see a dim light at the end of the tunnel. Although the exchange rate structures of the euro against the Japanese yen and the US dollar shifted again slightly in favor of European suppliers, we were hardly able to benefit from this development because of print shops' extraordinarily low levels of investments. The presentations of our solutions at trade shows generated considerable interest. We can help our customers even during this crisis with our comprehensive services. We expanded our market shares in the consumables area during the financial year.

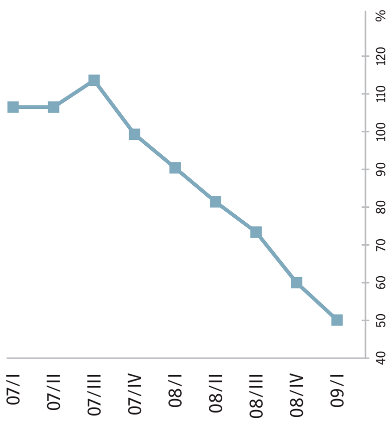
GROSS DOMESTIC PRODUCT[1]

Change from previous year in percent

	2006	2007	2008
World	4.1	3.9	2.0
US	2.8	2.0	1.1
EU	3.2	2.9	0.8
Germany	3.2	2.6	1.0
UK	2.8	3.0	0.7
Eastern Europe	6.5	5.5	3.5
Russia	7.7	8.1	5.6
Asia[2]	7.9	8.6	5.5
China	11.6	13.0	9.0
India	9.7	9.0	6.0
Japan	2.0	2.4	– 0.7
Latin America	5.5	6.4	5.1
Brazil	4.0	5.7	5.1

[1] Source: Global Insight: WMM; April 2009
[2] Excluding Japan

IFO WORLD ECONOMIC CLIMATE



Source: Ifo World Economic Survey (WES) I/2009; index basis 1995

Dramatic Economic Downswing Constrains Economic Activity

The GDP growth rates for 2008 in the table on the left veil the extent of the impact that the financial market crisis has had on the overall economies of our key markets. Especially in Europe, many economies were initially still continuing to develop favorably during the first half of the year. Following the collapse of the US banking sector, which in September had a domino effect throughout the world, even on those economies that had appeared to be strong, many markets slid into recession – and this despite fiscal policy measures and despite billions in economic stimulus packages. Entire branches of industry had to cut back production because their customers stopped investing. This development worsened further due to the extreme credit crunch. Demand declined so strongly that raw material and energy prices also fell noticeably.

For the first time in the history of the **US,** paralyzed by initially high energy prices, the real estate crisis, and rising unemployment, consumer spending declined four quarters in a row. The collapse of the banking sector then plunged the US economy into a state of shock, with historic lows recorded for all economic indexes.

Economic indexes of many markets in **Europe** also plunged. Especially affected were not only the economies of Spain, Italy, and the UK, but that of **Germany** as well, where putting on economic emergency brakes hit the engineering and export industries particularly hard.

Asia, which is heavily dependent on exports and in the past had always been spoiled by massive growth rates, was also severely battered by the impact of the financial market crisis. European and US sales markets collapsed, and the economy lost its momentum.

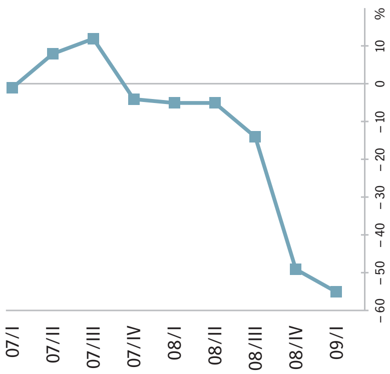
The financial market crisis resulted in a massive destruction of assets in **Eastern Europe.** Some markets virtually collapsed. The falling price of oil caused deterioration primarily in Russia, where the economy had benefited considerably from the worldwide high prices in the past.

Latin America was negatively impacted to a lesser extent than the other regions because growth there had been financed mostly internally in recent years. By contrast, the crisis had a direct impact on Mexico, which is intricately linked to the US economy.

Additional information on the development of individual markets can be found in the Regional Report.

BUSINESS EXPECTATIONS OF THE GERMAN PRINTING INDUSTRY

Percent responses



Source: Ifo-Konjunkturtest

Severe Crisis Paralyzes the Printing Industry's Propensity to Invest

Advertising products account for over 60 percent of the value of the average print shop's output. The printing industry is therefore highly dependent on the development of advertising, and thereby of the overall economy. During the first half of the year, print shops in many markets were still assessing the business outlook relatively favorably, although at the beginning of the year they were hardly able to pass on high raw material prices to their customers.

Nevertheless, along the lines of the development of the global economy and the Ifo World Economic Climate Index, the business climate subsequently and suddenly changed, with the business forecast rapidly worsening (as the graph on the left for Germany illustrates). The capacity utilization of print shops suffered enormously from unprecedented reductions in corporate expenditures for print ads due to the recession.

Plummeting Demand Burdens Machinery and Equipment Suppliers to the Printing Industry

The poor business forecast of print shops for the second half of the year impacted the business development of suppliers to the printing industry with full force.

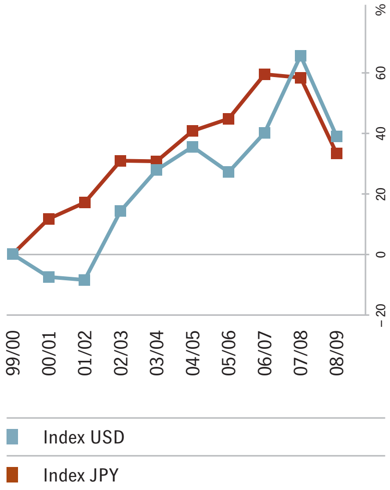
The drupa trade show – the printing industry's most important trade show, which takes place every four years – resulted in the generation of many orders in the 'still good times' in early June. Although customers' propensity to invest initially appeared to remain at favorable levels, orders subsequently collapsed, especially in light of the substantial decline in capacity utilization.

Like our competitors, we also cut back our production as quickly as possible and adjusted our capacities. Nevertheless, since printing presses are complex products with long manufacturing times, their 'braking distance' from a position of full production is relatively long.

All German printing press manufacturers applied for short-time work during the financial year and began reducing their capacities through job cutbacks. Our Japanese competitors also have had to struggle with excess capacities.

INCREASED VALUE OF THE EURO

Closing exchange rates at year-end



Source of exchange rates: Bloomberg

Although the **exchange rate structures** considerably favored our Japanese competitors in the past, thereby noticeably intensifying the competition, the situation has eased somewhat during the course of the financial year.

Please refer to the following pages for more information on the situation in the print media industry ?

Competitive Structure Shifts Slightly

We again successfully maintained our position as the world market leader in the sheetfed offset area during the financial year. A principal cause for this was our quick reaction to basic changes in the print media sector by means of offers of networked solutions early on. On pages 33 to 34 of this Annual Report, we describe our product strategy, which is unique in the market. We aim to make our customers more flexible and measurably reduce their costs. This has proven to be the best approach for print shops to take, especially in times of crisis.

In addition to our two principal competitors, König & Bauer and manroland, who also manufacture mainly in Germany, we also have a number of Japanese competitors such as Komori, Ryobi, and Mitsubishi. In the finishing area, the market comprises many small as well as three larger suppliers, including Heidelberg, each of which maintains a market share of over 10 percent.

In the past, the exchange rate structures had handicapped suppliers whose value processes occurred primarily in the euro zone. During the financial year, competitive conditions shifted slightly back in favor of European suppliers, as the graph on the left shows. Our industry as a whole is suffering from the impact of the crisis worldwide, with capacity utilization considerably reduced among all competitors.

Our strategy of consistently cooperating with leading finance companies in sales financing proved successful during the financial year. Due to the intensive relationships we maintain with the financing partners we do business with, we were successful in further expanding the share of sales financed by these partners. Against the background of the difficult credit sphere, the significance of this aspect of our approach to providing solutions thereby increased further in importance for our customers. Financing arrangements granted by one of our print finance companies consequently continued to decline.

Heidelberg's Portfolio of Products and Services: Top Quality for Customers Worldwide

> **Customer Requirements Determine Product Offerings and Overall Strategy**
> **Situation of Customers Necessitates Specially Tailored Offers for Various Target Groups**
> **High-Quality Solution for Offset Print Shops Worldwide**

SIZE OF PRINT SHOPS WORLDWIDE

Share in percent

■	up to 20 employees	73
■	from 21 to 50 employees	15
■	more than 50 employees	12

Source: Heidelberg

Heidelberg is the only firm in the print media industry to cover the entire process- and added-value chain with its own products and services in all important format categories: from printing presses and equipment for printing plate imaging and print finishing, all the way to software that links up all components, comprehensive services, as well as a wide range of consumables.

For a number of years, the market for printed products has been characterized by strong competition. Print shops can only establish customer loyalty if they satisfy their needs in full. They must be in a position to ensure consistently high-quality printed matter and on-time deliveries, to react flexibly to customer requests, and to simultaneously produce at low cost.

Focus of Our Product Strategy: the Situation of Our Target Groups

In simple terms, we can subdivide our customers, sheetfed offset print shops worldwide, into three target groups.

Almost three-quarters of all print shops worldwide are **medium-sized commercial print shops,** which also form the largest part of our customer base. Overall, smaller regional print shops differ considerably. Final customers in industrialized countries increasingly place via the Internet standard orders such as flyers and booklets with print shops that maintain a nationwide presence. It is therefore highly important for small commercial printing establishments, which traditionally acquire customers on a regional basis, 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 process many short print runs – and have relatively high staff costs – for these enterprises, the set-up time of printing presses is a crucial issue in generating appropriate income. Smaller commercial printing establishments in the emerging markets, where demand for printed materials is continuing to grow, usually require dependable, standard printing presses with which they can offer high-quality products if they are to grow with the market. Automation and personalized printing unit constellations with various coating units and ultraviolet drying has so far hardly played a role for these firms.

An overview of our modular portfolio is presented on pages 122 to 123

Larger print shops, or **industrial commercial printers,** also acquire customers on a nationwide basis. In some cases, they maintain branches in several countries. Although they also produce a wide range of printed products, in general these involve higher print runs. Important issues for them include: How efficiently and appropriately is each printing press being used? How high is the profit for each print run? The better the data and production workflows are organized, all the more positive the answers are. In other words, the better that orders are distributed among the various printing presses, the shorter the set-up times of the respective printing presses, the better is their productivity, and fewer bottlenecks among the prepress, printing, and finishing processes.

There are also huge differences in size and strategic alignment among the various pure **packaging printing shops.** Their only similarity is the fact that compared with commercial printers, their cost of materials accounts for an even higher share in the cost of manufacturing. It is therefore even more important for them than for other types of print shops to keep spoilage as low as possible. Packaging printers are subject to tough international competition, as the large-volume customers for packaging are large international corporations with considerable market power. As a consequence, each quality improvement, optimization of processes, and cost-reduction benefits them.

With all Speedmaster XL printing presses in all format categories, job changes are carried out on a fully automated basis using a single button, and thereby without fuss, on a low-cost basis, and completely reliable. This is made possible because **Prinect** uses prepress data and because we have integrated measuring instruments within the workflow, which immediately recognize minor color deviations and changes in color density, thereby triggering a wholly automatic correction.

Product and Marketing Strategy: Integrated Solutions Provide Crucial Value Added

Our goal is to be the preferred partner of the print media industry in each segment in which we are active. In recent years, we have specially tailored, differentiated, and expanded the overall range of our product portfolio with a view to the requirements of our various customer groups worldwide. This approach ensures that we can precisely meet the special requirements of each individual sheetfed offset print shop.

As a technology company with a long tradition, our focus is on innovative, leading-edge technology. Our high performance models stand out due to their productivity of up to 18,000 sheets an hour. Automatic plate changers shorten set-up times. But in addition to highly automated products and highly productive components, we also offer entry models, especially for customers in emerging markets. In the finishing area, whenever appropriate we offer OEM products sourced from other manufacturers, which we modify to precisely meet the individual requirements of our customers.

Only Heidelberg offers comprehensive solutions that include the entire production process for print products. And by digitally linking each step of the printing process, we provide our customers with considerable optimization potential in production and management. In this way, we ensure our customers production and investment security at the highest level, including the highly important factor of value added.

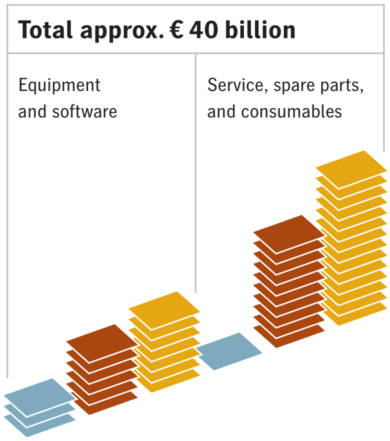
Moreover, we support our customers worldwide with the most tightly meshed service network of any in our industry, offering comprehensive services, a broad range of consumables that is precisely tuned to our systems, and highly qualified employees. We offer the fastest parts service, support in financing questions, as well as comprehensive and unique world-wide specialized and further training for the printing industry. 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 in this area. For example, our zoneless Anicolor inking unit reduces spoilage by up to 90 percent. Our 'Speedmaster Star' concept reduces the energy consumption of an individual machine by more than half; due to its low level of emissions this concept is even subsidized by the German government.

Strategy – Reducing Dependence on Cyclical Fluctuations

> **Priority: Expansion of Relatively Non-Cyclical Business**
> **Focus Continues on Emerging Markets**
> **Heidelberg 2010: Improving Cost Structure**

MARKET POTENTIAL

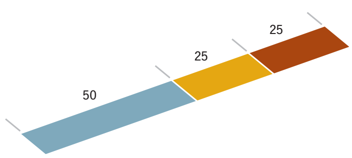


- Heidelberg
- Other addressable markets
- Other technologies

Source: Heidelberg

TARGET STRUCTURE CONSOLIDATED SALES

Share in percent



Commercial printing	50 %
Packaging printing	25 %
Consumables and Services	25 %

Since the financial market crisis is burdening economies throughout the world, our broad regional diversification is unable to compensate for its impact on our business development. In all regions, our strategic focus addresses those business areas that are developing relatively autonomously of current economic conditions. Moreover, we intend to vigorously improve the earnings position of the Heidelberg Group.

Even in the current crisis, we continue to strengthen our position as the world market leader in sheetfed offset printing. We are pursuing our proven product strategy, and during these extremely difficult times we continue to support our customers around the globe with our local presence as well as our comprehensive service and consulting assistance. As in the past, for print shops worldwide the 'Heidelberg' brand name stands for reliability, production security, and precision engineering in perfection.

Strategic Priority: Reducing Dependence on Cyclical Fluctuations

Demand for **consumables** remains stable, even during periods of economic weakness worldwide. We intend to expand our hitherto modest market share in this segment, among others by means of cooperation agreements and self-generated growth. We offer consumables that are proven and optimized for our systems under the brand name 'Saphira', from whose production guarantees our customers benefit.

Service is becoming an increasingly important factor for the business success of print shops. We help our customers to considerably reduce the operating costs of their printing presses over their entire life cycle and to prevent equipment failures. This serves to strengthen customer loyalty.

The **packaging printing market** is also growing relatively independently of economic overall developments. We have developed integrated, digitally entirely interlinked production solutions for large-format printing, which is an important segment of this market. These solutions ensure optimized processes ranging from prepress and the printing process itself all the way to delivery of the printed material. The formats of our highly efficient sheet offset printing presses Speedmaster XL 145 and Speedmaster XL 162 encompass nearly three-quarters of large format categories.

Continuing Strong Potential in the Emerging Markets

We are consistently implementing our strategy of rapidly expanding our business volume in promising markets, primarily China and India. The prerequisites are excellent for us as soon as an economic upswing occurs. We are the first, and so far only, European printing press manufacturer to establish its own manufacturing plant in China, where we produce printing presses that satisfy in particular local requirements. We are thereby laying the cornerstone for long-term customer relationships. Despite the economic downturn in China, demand for our standard equipment manufactured in Qingpu for printing and finishing, which offer high quality and production reliability with a modest degree of automation, remained stable.

Heidelberg 2010 Program: Considerably Reducing Structural Costs

In order to be in a position to better come to terms with economic periods of weakness in the future, in addition to our above-mentioned strategic thrust, we have established our **Heidelberg 2010 program,** which focuses primarily on costs. We considerably expanded this package of measures and are thereby striving for annual savings of approximately € 400 million. This program also includes an adjustment in our human resource capacities by up to 5,000 jobs.

> We intend to reduce structural costs in central functional areas by consolidating functions, optimizing processes, and reducing the number of employees.
> By merging functions, streamlining processes, and thereby cutting back on the number of jobs, we will also reduce structural costs in the regions.
> We intend to reduce research and development costs through additional boosts in efficiency.
> We intend to eliminate some local administrative functions, optimize planning, management, and logistics processes, and reduce the number of external service providers.
> We are reorganizing the functions of the Postpress Division, thereby bundling and transferring some production functions in the Packaging area.
> Furthermore, we will increase production and purchasing volumes outside the euro zone and thereby reduce our overall foreign exchange risk.

We discuss in detail our comprehensive measures as well as the strategies of the individual divisions on pages 70 to 96, where we also report on how we are pursuing our strategy in the various functional areas.

Management and Control – Quick Implementation of Measures

- > **Organization: Members of the Management Board Advancing the Reorganization**
- > **Management System Makes Group-wide Management Possible in Times of Crisis**
- > **Focus on Risk Management**

We assume that the world economic situation will be subject to heavy fluctuations, even following the economic crisis. This makes it difficult to make reliable projections. Furthermore, the printing industry will continue to be subject to considerable structural adjustments – basic conditions for our customers have already significantly changed over the past decade.

Overall, this presents considerable challenges for our management and control system. We must ensure that all the Group's units worldwide vigorously pursue our strategic thrust and simultaneously promptly realize the cost-reduction goals while continuing to be in a position to respond quickly to changes in the markets. In addition, it is important to regularly and continuously monitor not only the risk environment, but the effectiveness of measures by which we counter individual risks as well.

Changes in Priorities and Responsibilities in Organization and Management; Realizing Substantial Administrative Savings

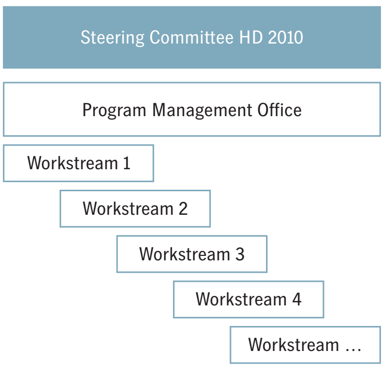
Our highest corporate goal at present is to absorb the impact of the world economic crisis on our business development to the greatest extent possible and to increase the Group's independence from cyclical fluctuations. The

ORGANIZATIONAL STRUCTURE

Bernhard Schreier Chairman	**Dirk Kaliebe** Finance	**Dr. Jürgen Rautert** Sales	**Stephan Plenz** Technology
• Corporate Development • Human Resources • Communications • Compliance	• Controlling • Finance • IT • Investor Relations • Sales Financing	• Sales • Consumables • Product Management • Marketing • Service	• Research & Development • Purchasing • Production • Postpress

Group's corporate organizational structure was reorganized at the beginning of the financial year in order to be in a position to best pursue the various strategic thrusts. In order to quickly put our program *Heidelberg 2010* into operation, this has been made the responsibility of, and put under the direct management of, the four members of the Management Board. They work closely with the 'Program Management Office', which is comprised, for example, of the head controller and the head strategist. This organizational unit coordinates and controls the implementation of 400 individual measures. A total of 130 members of senior management are participating in this program at present.

Please refer to pages 80 to 96 for more information concerning the Heidelberg 2010 program < [*Heidelberg 2010*] ?



This ensures a systematic and sustainable reduction in the Heidelberg Group's break-even point. We have begun to streamline the process organization throughout the Group and among all the regions and areas in order to reduce structural costs. We are cutting back the number of employees, especially among central units. We will also reduce costs by means of structural adjustments.

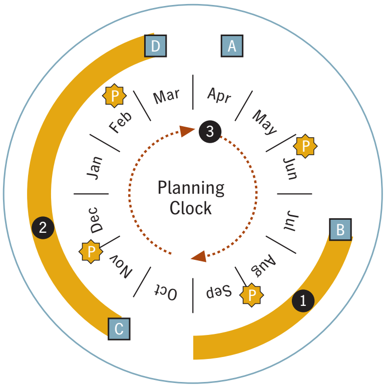
Value Management, Risk Management, and Opportunity Management: Solidly Integrated within Strategic Planning

Planning that is not entirely reliable, comprehensive changes, and structural adjustments: the management of risks is of enormous significance in times of crisis because the financial scope to take action is noticeably restricted. Nevertheless, also of importance are the questions of how strategic competitive advantages will develop in view of the crisis and changes within the Group and how we can make sure that we take advantage of opportunities when the economy picks up once again.

Early warning indicators help us secure our position in the market. These indicators include analyses of customer loyalty and of the quality of our products in daily use. Moreover, brand name and customer satisfaction studies, which we implement regularly, provide us with important indications of the potential for improvement.

The management of risks and opportunities is an integral part of our **strategic planning,** it is part of all annual controlling and reporting processes, as well as of our medium-term planning process. Heidelberg's controlling operation continuously generates up-to-the-minute quantitative and monetary information based on internal sources of information. As the graph on the right shows, comparisons of targets vs. the actual performance of all developments of significance for the development of business are pursued continually. We have shortened the planning cycles of our control system. At least on a monthly basis, we compare target figures with the actual values of all developments that are significant for our business development. We place the highest value on the flexibility and adaptability of our planning systems to ensure our ability to react immediately to changed under-

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

Risks 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.

lying conditions or current developments. Based on the figures obtained as well as a wide range of data from the corporate environment, we continually generate various **scenarios** in order to undertake countermeasures against risks and take advantage of opportunities. We subject this scenario information to sensitivity analyses, thereby determining a range of expectations for our future business development.

Both our risk and opportunity management take advantage of our **'dual-track approach'**, under which concrete risks and opportunities are directly recorded, quantified, and reported onwards on a local basis. Nevertheless, of equal importance for us is to frankly and proactively address risks and opportunities in all management bodies and meetings at all management levels.

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. Risks and opportunities are also regularly discussed in all cross-sector units, even apart from the formal process. 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.

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.** The potential impact on the result of operating activities of the individual units forms the basis for ranking in risk categories. Reporting thresholds are set on a uniform basis. All the risks that are collected in this manner are reported to the Group and then summarized at the Group level by Risk Controlling each quarter. Risk Controlling then determines the 'Top 30 Risks', which in turn are categorized into five risk groups and reported to the Management Board and to the Audit Committee of the Supervisory Board. To ensure adherence to our requirements for uniformly dealing with risks and opportunities, 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 management system for the early detection of risks satisfies the legal requirements of the Corporate Sector Supervision and Transparency Act (KonTraG).

Our exceptionally close monitoring of **financial risks** occurs not only in connection with the financial market crisis. The centralized Corporate Treasury unit manages and secures the Group's financing and liquidity. 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 rolling liquidity planning system that is generated every second week. 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 on page 193 ff. The **functional separation** of trading, processing, and risk controlling in the corporate treasury area is ensured, as is their physical separation. Furthermore, this area is regularly monitored by our internal auditors. We also systematically reduce risks arising from **sales financing.** Close cooperation with external financing partners have made it possible for us to considerably reduce the financing arrangements that are taken on by Heidelberg in recent years. Moreover, we only grant our own credits following a comprehensive examination that includes the customer's business model and credit standing. We regularly monitor our sales financing commitments on the basis of internal rating processes. Similarly to the current Basel II standard, these include both debt-specific and transaction-specific components.

Our integrated environmental philosophy at all production sites also includes our suppliers: They must adhere to similar environmental standards as Heidelberg and support the Company in the implementation of its **environmental strategy.**

Environmental Protection as a Corporate Goal

As a matter of principle, the overall Group is managed on the basis of target agreements – a principle that we also apply to relationships with our suppliers and to our environmental management. Environmental protection has been a corporate goal since 1992. Environmental management systems based first on EMAS and then later on ISO 14001 have been established at most of Heidelberg's development and manufacturing facilities since that time. Independent consulting experts monitor adherence to statutory performance targets and voluntary, self-imposed obligations. Local units register a considerable volume of environmental data such as the consumption of electricity, gas, and water, as well as the volume of waste. This data is monitored on a regular basis, both externally and internally. Moreover, a management review is undertaken once a year covering these interrelated topics, at which time additional potential for improvement and savings are brought up.

Heidelberg Leadership and Management Systems (HLMS): Binding Performance Targets and Procedures at All Levels

We make use of HLMS in order to further enhance the efficiency of the Group's management. For example, 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 range all the way from the Company's general values and principles to binding guidelines such as the content of the annual job performance review. This reliable framework assigns responsibilities in a clear manner, thereby ensuring effectiveness and making it possible to precisely monitor the fulfillment of target agreements. Together with various guiding principles and guidelines that are applicable to relationships with employees worldwide, the HLMS ensures adherence to high standards of security, environmental protection, and social responsibility.

Value Management: Financial Goals an Integral Part of Strategic Planning

As in the past, our medium term target is to increase Heidelberg's corporate value by means of a positive annual value contribution. Our financial goals are an integral part of the Group's strategic planning and are thus included as targets 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. Please refer to page 69 for more detailed information. Due to the extremely adverse underlying conditions we fell far short of our financial goals.

Heidelberg's key strategic factors for success include our wholly network-capable product portfolio, our manufacturing expertise, our good relationships with suppliers, our employees, and our tightly meshed global service and sales network. We discuss these points in more detail on pages 80 to 99.

Remuneration Report – Management Board and Supervisory Board[1]

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:

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

Fixed and Variable Remuneration; Remuneration in Kind

The members of the Management Board receive 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 benchmarks. 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).

The members of the Company's Management Board have stated that they have meanwhile forgone half of the **bonuses** to which they are entitled for financial year 2009/2010 under the terms of their contracts.

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

Design of the 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 following 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, 2001, and 2002 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; no additional PSUs were issued during the reporting year. 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 achieved EBIT percentage (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 receive an allocation of 100 percent of the conditionally committed PSUs, or 4,500 PSUs. The PSUs of the LTI 2006 expired on March 31, 2009, and those of the LTI 2007 will expire on March 31, 2010. Since the targets of the LTI 2006 were not attained, no disbursement was made. Within the framework of the presentation of the remuneration, the fair value is shown at the time the PSUs are granted.

Detailed Remuneration of the Members of the Management Board

BERNHARD SCHREIER

Figures in € thousands

	2007/2008	**2008/2009**
Performance-neutral components		
Base salary	500	500
Remuneration in kind	8	30
Performance-based remuneration		
Bonus for the financial year	375	150
Cash remuneration	883	680
Components with long-term incentive effects		
Fair value at the time the LTI 2007 was granted with 100 percent target attainment	136	–
Remunerations	1,019	680
Number of PSUs granted during the financial year under the LTI	4,500	–
Number of PSUs under the LTI	9,000	9,000
Number of PSUs under the stock option program	42,000	31,500
Pension plan		
Expected pension per annum at retirement age[1)]	371	371
Defined benefit obligation	3,137	3,380
Pension plan according to IFRS[2)]	304	291

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

	2007/2008	2008/2009
Performance-neutral components		
Base salary	275	292
Remuneration in kind	18	18
Performance-based remuneration		
Bonus for the financial year	206	88
Cash remuneration	499	398
Components with long-term incentive effects		
Fair value at the time the LTI 2007 was granted with 100 percent target attainment	136	–
Remunerations	635	398
Number of PSUs granted during the financial year under the LTI	4,500	–
Number of PSUs under the LTI	9,000	9,000
Number of PSUs under the stock option program	27,000	20,250
Pension plan		
Accrued pension capital at financial year-end	167	262
Pension contribution for the reporting year [1]	85	88
Defined benefit obligation	255	371
Pension plan according to IFRS [2]	98	103

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

2) Service cost and interest cost

Dirk Kaliebe’s 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 pension commitment based on a defined contribution that is largely in line with the pension provisions based on a defined contribution 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

	2007/2008	**2008/2009**
Performance-neutral components		
Base salary	325	344
Remuneration in kind	11	11
Performance-based remuneration		
Bonus for the financial year	244	103
Cash remuneration	580	458
Components with long-term incentive effects		
Fair value at the time the LTI 2007 was granted with 100 percent target attainment	136	–
Remunerations	716	458
Number of PSUs granted during the financial year under the LTI	4,500	–
Number of PSUs under the LTI	9,000	9,000
Number of PSUs under the stock option program	–	–
Pension plan		
Expected pension per annum at retirement age [1]	190	205
Defined benefit obligation	1,493	1,790
Pension plan according to IFRS [2]	192	177

[1] In accordance with the situation for pension-capable remuneration as of March 31
[2] Service cost and interest cost

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

Pension plan: Pension commitments provide for a pension that is contingent on the amount of the last basic remuneration and survivors' benefits, thereby deviating from the pension commitments for most employees, whose benefits result from a table based on income groups that 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 the age of 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.

STEPHAN PLENZ

Figures in € thousands	(1-Jul-08 – 31-Mar-09) 2008/2009
Performance-neutral components [1]	
Base salary	225
Remuneration in kind	7
Performance-based remuneration [1]	
Bonus for the financial year	68
Cash remuneration	300
Components with long-term incentive effects	–
Remunerations	300
Number of PSUs granted during the financial year under the LTI	–
Number of PSUs under the LTI	3,600
Number of PSUs under the stock option program	20,250
Pension plan	
Accrued pension capital at financial year-end	178
Pension contribution for the reporting year [2]	76
Defined benefit obligation	299
Pension plan according to IFRS [3]	82

1) For the period active on the Management Board from July 1, 2008 to March 31, 2009
2) In accordance with the situation for pension-capable remuneration as of March 31, excluding the yet-to-be-determined profit-related share
3) Service cost and interest cost

Stephan Plenz has been a member of the Management Board since July 1, 2008. His term of office as a regular member of the Management Board runs for three years.

Pension plan: The pension contract for Stephan Plenz provides for a pension commitment based on a defined contribution that is largely in line with the pension provisions based on a defined contribution for executive staff (BVR). Each year, on July 1 the Company deposits into an investment fund 33 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.

Basic Characteristics of the Supervisory Board's Remuneration

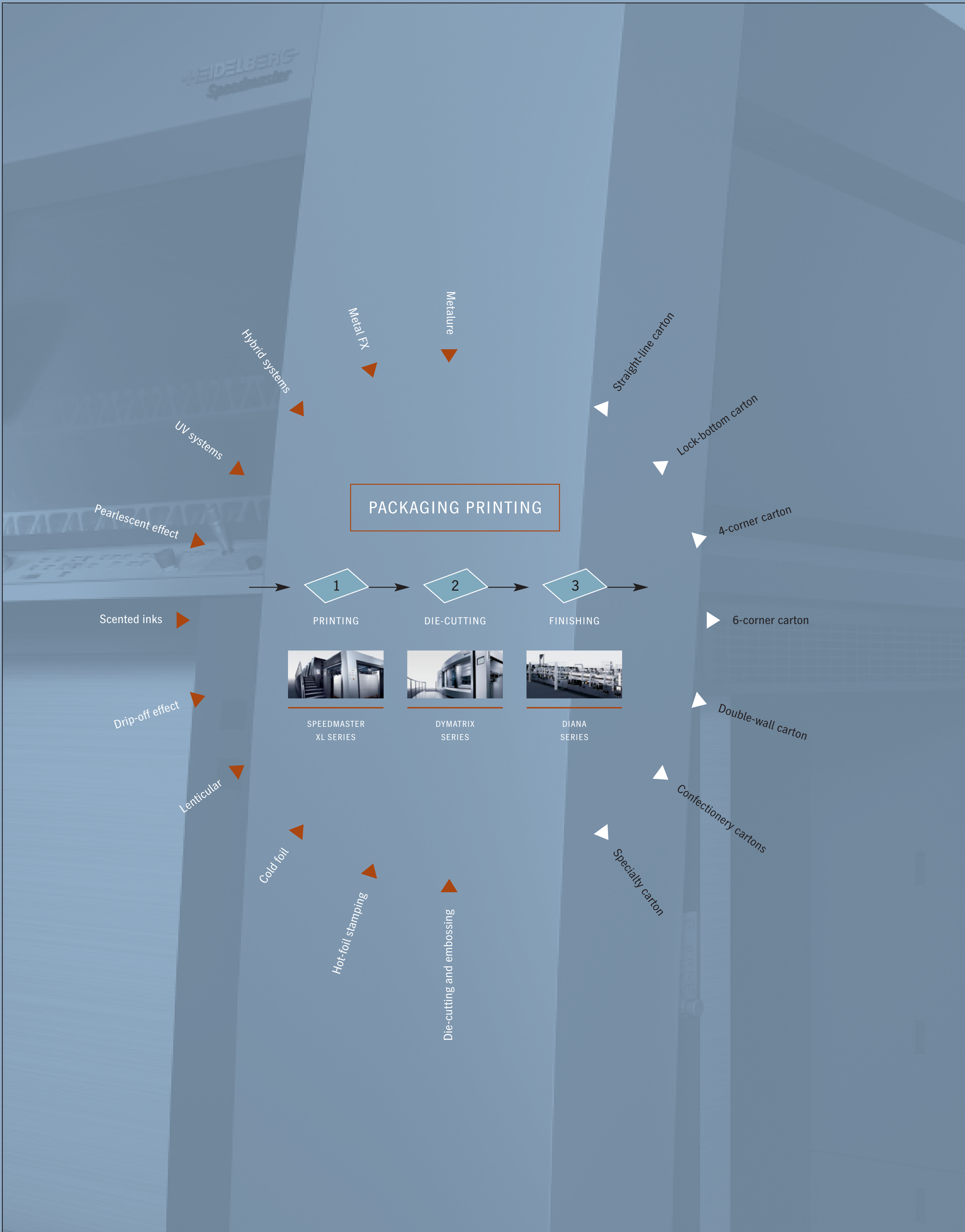
The remuneration of the Supervisory Board is regulated in the Articles of Association and approved by the Annual General Meeting. It comprises two components: an annual remuneration of € 18,000, and a variable component that depends on the dividend. The variable remuneration amounts to € 750 for each € 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 or her 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 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 the 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 for which he or she is entitled to increased remuneration. The members of the Supervisory Board also receive a lump-sum payment of € 500 for each meeting day as reimbursement for expenses during the exercise of their responsibilities unless proof is supplied for higher outlays. In addition, any sales tax levied against the remuneration of the Members of the Supervisory Board shall be reimbursed.

The remuneration of the Supervisory Board (excluding sales tax) is as follows:

Figures in €

	2007/2008			2008/2009		
	Fixed remuneration	Variable remuneration	Total	Fixed remuneration	Variable remuneration	Total
Dr. Mark Wössner[1)]	38,000	15,000	53,000	39,493	–	39,493
Rainer Wagner[2)]	30,500	11,250	41,750	31,000	–	31,000
Martin Blessing[3)]	23,500	9,375	32,875	8,000	–	8,000
Dr. Werner Brandt[4)]	–	–	–	19,375	–	19,375
Edwin Eichler[4)]	–	–	–	14,500	–	14,500
Wolfgang Flörchinger	19,500	7,500	27,000	20,000	–	20,000
Martin Gauß	24,500	9,375	33,875	24,500	–	24,500
Mirko Geiger	25,500	9,375	34,875	26,500	–	26,500
Gunther Heller	20,000	7,500	27,500	20,000	–	20,000
Dr. Jürgen Heraeus[3)]	25,000	9,375	34,375	9,000	–	9,000
Jörg Hofmann	20,000	7,500	27,500	19,509	–	19,509
Dr. Siegfried Jaschinski[5)]	20,000	7,500	27,500	19,500	–	19,500
Robert J. Koehler	20,000	7,500	27,500	20,000	–	20,000
Uwe Lüders[3)]	20,000	7,500	27,500	7,000	–	7,000
Dr. Gerhard Rupprecht	24,500	9,375	33,875	23,500	–	23,500
Beate Schmitt	20,000	7,500	27,500	20,000	–	20,000
Prof. Dr.-Ing. Günther Schuh[4)]	–	–	–	15,000	–	15,000
Dr. Klaus Sturany	31,182	11,250	42,432	31,879	–	31,879
Peter Sudadse	20,000	7,500	27,500	20,000	–	20,000
Total	382,182	144,375	526,557	388,756	–	388,756

1) Chairman of the Supervisory Board
2) Deputy Chairman of the Supervisory Board
3) On the Supervisory Board until July 18, 2008
4) On the Supervisory Board since July 18, 2008
5) On the Supervisory Board since April 1, 2007


PACKAGING PRINTING
Metalure
Metal FX
Hybrid systems
UV systems
Pearlescent effect
Scented inks
Drip-off effect
Lenticular
Cold foil
Hot-foil stamping
Die-cutting and embossing
1
PRINTING
2
DIE-CUTTING
3
FINISHING
SPEEDMASTER
XL SERIES
DYMATRIX
SERIES
DIANA
SERIES
Straight-line carton
Lock-bottom carton
4-corner carton
6-corner carton
Double-wall carton
Confectionery cartons
Specialty carton

STRATEGIC FOCUS: PROVIDING CUSTOMERS WITH OPTIMAL PROCESSES 2

SOLUTIONS

COMPETITIVE ADVANTAGE IN PACKAGING AND COMMERCIAL PRINTING

Our solutions provider approach is unique in our industry. We offer appropriate systems from prepress all the way to finishing and can digitally link up all the stages of the printing process for each of our target groups. We thereby offer customers considerable potential for optimizing processes and reducing costs, and have achieved a strong position in commercial printing. But that is also a crucial advantage in the competition for industrial packaging print shops. We will therefore defend our market share in commercial printing and further expand our share in packaging printing, which is quite non-cyclical.

BUSINESS DEVELOPMENT

Incoming orders of the heavily export-oriented German engineering industry suffered considerably from the continually worsening economic environment worldwide.

Heidelberg's international share of sales has always been just under 85 percent. In the course of the world economic crisis, this share fell to 81 percent during the financial year. Contributing to this is the fact that demand initially remained stable in Germany – our principal market, in which we benefited from the drupa trade show that was held in Duesseldorf from the end of May through early June 2008.

Overview of Business Development

KEY PERFORMANCE DATA OF THE HEIDELBERG GROUP FINANCIAL YEAR 2008/2009

Figures in € millions

	1 HY	2 HY	Financial year
Sales	1,461	1,538	2,999
Incoming orders	1,872	1,034	2,906
Result of operating activities [1)]	– 45	– 4	– 49
Special items	40	139	179
Free cash flow	– 273	72	– 201

1) Excluding special items

SPREADING OF INCOMING ORDERS DURING REPORTING YEAR

Share in € millions

1 HY	1,872
2 HY	1,034
Financial year	**2,906**

In our previous Annual Report, we refrained from making a concrete **sales** forecast for the financial year. We believed that the further development of the global economy and the exchange rate structures were – and still are – too uncertain. Nevertheless, at drupa, the major trade show, we felt that based on our customers' orders, we were able to make reliable assertions concerning our industry's propensity to invest and its further business development. However, unlike at other times, the trade show held during the financial year proved to be an unreliable industry indicator. Although it presented us with a high level of **incoming orders,** economic prospects following the trade show worsened and the subsequent volume of orders plummeted. In addition, it became ever more difficult for customers in the emerging markets to finance investment projects. Overall, as a consequence incoming orders fell off considerably during the second half of the year. The orders generated at drupa contributed to preventing an even greater falloff in sales during the second half of the year.

Although we had already based our planning on assessments of subsequent economic developments that were regarded as pessimistic at the time, during the course of the financial year all assumptions turned out to be overly optimistic. We had previously indicated that the **result of operating activities** would fall short of our projections. We had assumed there would be considerable charges due to our presence at trade shows, to the startups of series production for new products, and due to the strong euro. There was no way to foresee that sales would fall off so sharply during the financial year. This resulted in a considerable decline in profit contributions. In order to lessen the impact of the economic environment on the result, we undertook cost-reduction measures early on – which we twice expanded as soon as the magnitude of the economic crisis and the downturn in sales became evident. Our Heidelberg 2010 program contributed to the nearly break-even result of € –4 million, after adjusting for special items, for the second half of the year. The result for the first half of the year of € –45 million had been deeper in the red.

The high levels of expenses for **special items** of € 179 million for the above-mentioned program were mostly booked on a one-time basis during the fourth quarter.

Our financing requirements grew, as a result of which our **financial result** worsened. We had originally projected a repeat of the previous year's result. Overall, we suffered a marked net loss for the financial year. The negative result resulted, among other things, in a considerable decline in our equity ratio as well.

Our inventory, and consequently the commitment of funds, rose at a strong pace during the year because of the incoming orders at drupa we had expected a significantly greater business volume. At the onset of the crisis, we cut back our production. Our measures had a positive impact during the fourth quarter and during the current financial year as a whole they will take hold to an even greater extent. The impact was perceptible with free cash flow, which developed favorably through the end of the financial year. Following negative **free cash flow** during the first half of the year, we successfully generated an inflow of funds during the second half of the year. We thereby succeeded in reducing financial liabilities from € 822 million at the end of the third quarter to € 760 million at financial year-end.

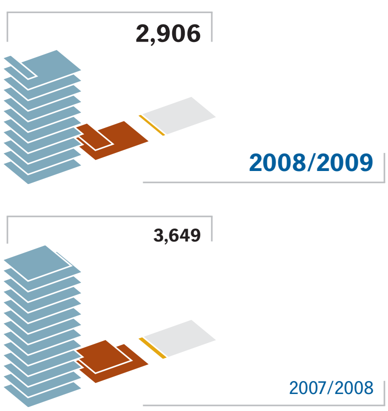
Business Development – Financial Market Crisis Freezes Print Media Industry's Propensity to Invest

> **Incoming Orders Plunge During the Second Half of the Year**
> **Sales Down in All Divisions and Regions**
> **Current Financial Year Starts Out with Low Order Backlog**

The drupa trade show in May-June 2008 provided a favorable start in the financial year. Our innovations – among others in packaging printing, which we introduced in Duesseldorf – generated considerable buying interest among our customers and ensured a high volume of orders. Our customers' propensity to invest already began falling in the middle of the second quarter of the financial year. Extremely poor business prospects slowed down our business development, consequently putting a brake on it completely in the second half of the financial year.

INCOMING ORDERS BY DIVISION

Figures in € millions



Press	2,546	– 20 %
Postpress	335	– 20 %
Financial Services	25	– 17 %
Heidelberg Group	**2,906**	**– 20 %**

Incoming Orders: Very Low Volume in the Second Half of the Year

The success at drupa generated very favorable incoming orders of € 1,151 million during the first quarter. The volume of orders subsequently fell due to the financial market crisis. Our incoming orders during the first half of the year were almost double the volume of the second half of the year, and during the fourth quarter we only received orders amounting to € 474 million. The low incoming orders of the second half of the year even fell below the orders volume of the first quarter! Incoming orders amounted to € 2,906 million during the financial year – 20 percent below the previous year's figure.

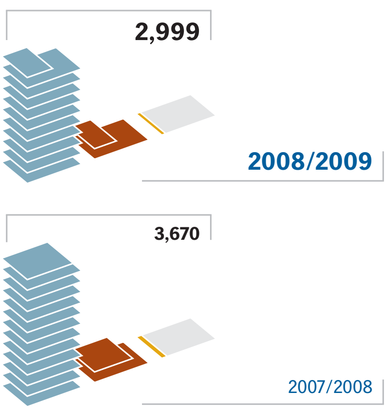
The **Press** Division suffered a decline of 20 percent. Although no format category escaped the negative trend, we view the initial orders for our newly introduced large format printing presses as a favorable development. The **Postpress** Division recorded an overall decline of 20 percent. Among others, demand for folders fell off sharply. Only incoming orders of the product areas 'Packaging' and 'Binding' posted growth. As planned, the order figures decreased in the **Financial Services** Division. The volume of financing granted by Heidelberg, and thus interest income, declined from the previous year.

In nearly all **markets and regions,** customers put their investment projects on the back burner in the second half of the year. Our biggest and most important markets were especially strongly affected. In the US, the UK, and China, we suffered declines in order volumes of up to 35 percent from the previous year. The decline in Germany was only a moderate 6 percent because here we were able to benefit to a greater extent from the orders at the drupa trade show. A few smaller markets such as Switzerland, Turkey, and the Czech Republic developed favorably, thereby softening the overall decline somewhat.

Contrary to the general trend, we were successful in boosting our business in the **'Services and Consumables'** product area during the financial year. This business area's share in the overall volume of orders increased rapidly, with incoming orders and sales rising to nearly € 740 million. This reflects the lower level of dependence of this area on the current economic situation than the business with new printing presses and confirms that we are moving in the right direction with our strategy.

SALES BY DIVISION

Figures in € millions



■	Press	2,621	– 18 %
■	Postpress	353	– 17 %
■	Financial Services	25	– 17 %
	Heidelberg Group	**2,999**	**– 18 %**

Sales: Overall Decline of 18 Percent

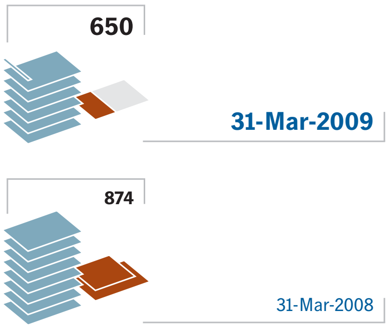
Traditionally, higher volumes of sales are generated by the Heidelberg Group during the second half of each financial year. Since underlying conditions worsened dramatically during the year, only a very modest increase was posted during the financial year. We generated sales of € 1,461 million during the first half of the year. During the second half-year, the corresponding figure of € 1,538 million was 24 percent below the previous year's figure. Overall, sales were down by 18 percent from the previous year, and at € 2,999 million were the lowest sales figure in the past five years.

Similar to the decline in incoming orders, the **Press** Division suffered declines in sales in all format categories. By contrast, we are pleased to report favorable developments for our new large format models. Already during the financial year, we installed with customers the first 30-meter Speedmaster XL 145 and Speedmaster XL 162 printing presses! The sales volume declined by 17 percent in the **Postpress** Division. The declining sales of the **Financial Services** Division result from the drop in interest income due to the reduced size of the financing portfolio.

The share of sales accounted for by the **emerging markets** of just under 35 percent stagnated. Worldwide, the various economies followed the generally negative trend. Moreover, credit is becoming increasingly tight in these countries due to the massive flight of capital from the emerging markets as a result of the financial market crisis. We nevertheless continue to emphasize our strategic alignment. In the medium term, we intend to benefit from the potential of the emerging markets, in which we continue to be confident, to a greater extent than our competitors.

ORDER BACKLOG BY DIVISION

Figures in € millions



Press		609	– 24 %
Postpress		41	– 44 %
Heidelberg Group		**650**	**– 26 %**

Order Backlog: Very Low Level

Thanks to the volume of orders generated at the drupa trade show, at the end of the first quarter our order backlog matched the record level for the financial year as a whole. Because customers postponed their investment projects, as a result of which incoming orders plummeted, the volume subsequently declined rapidly. As of March 31, 2009, the order backlog of the Heidelberg Group amounted to € 650 million – 26 percent below the previous year's level and the lowest figure in a number of years. Consequently, sales for the first quarter of the current financial year will be considerably lower that in the same quarter the previous year. The length of our order backlog amounted to 2.6 months as of the reporting date.

FIVE-YEAR OVERVIEW – BUSINESS DEVELOPMENT

Figures in € millions

	2004/2005 [1]	2005/2006	2006/2007	2007/2008	**2008/2009**
Incoming orders	3,508	3,605	3,853	3,649	2,906
Sales	3,207	3,586	3,803	3,670	2,999
Order backlog (March 31)	1,046	1,017	1,018	874	650
Length of the order backlog [2]	3.9	3.4	3.2	2.9	2.6

[1] Continuing operations

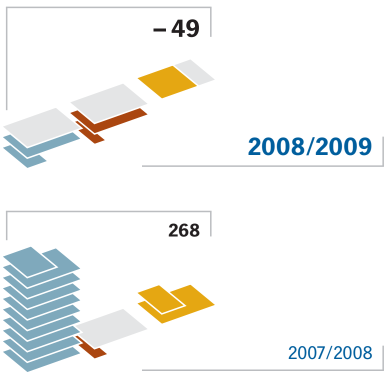
[2] Order backlog divided by average monthly sales

Results of Operations – Burdened by Substantial Decline in Sales

> **Negative Result of Operating Activities for the Financial Year**
> **Heidelberg 2010 Program Achieves Clear Initial Successes**
> **Net Loss at € – 249 Million**

RESULT OF OPERATING ACTIVITIES[1)]

Figures in € millions



	08/09	07/08
Press	– 35	239
Postpress	– 31	– 7
Financial Services	17	36
Heidelberg Group	**– 49**	**268**

1) Excluding special items

Following our attaining a result of operating activities of € 268 million the previous year, and thereby an operating return on sales of 7.3 percent, the plunge in sales during the financial year considerably burdened the Group's consolidated result. With the Heidelberg 2010 program, we launched countermeasures against the global economic downturn at an early stage. Clear initial successes have already been achieved during the financial year.

Income Statement: Excluding Special Items, Result of Operating Activities at € – 49 million

Following marked losses in the first two quarters of the financial year, excluding special items the Group posted a nearly break-even result of operating activities during the second half of the year. Overall, excluding special items arising from expenses for the Heidelberg 2010 program, the Heidelberg Group generated a **result of operating activities** of € – 49 million. The result was unfavorably influenced mainly by the lack of profit contributions due to a sharp decline in sales, which fell by € 670 million against the previous year; by very high energy and raw material prices early in the reporting year; by the expenses for our presence at the drupa trade show; by charges resulting from startups of series production; and by exchange rate structures.

With our package of measures, which had been introduced in July 2008 and further expanded in October 2008 and again in March 2009, we reacted early on to the worsening economic crisis and our customers' resulting restrained investment activity. As a consequence, we were successful in preventing an even greater slide into the red through a reduction in our staff and material costs in connection with our Heidelberg 2010 program. Moreover, outlays for research and development were cut back during the financial year.

Our largest division, 'Press', recorded modest profits during the second half of the year following considerable losses in the first half-year. By contrast, our Postpress Division continued operating in the red, as it was especially impacted by overall economic conditions as well as strong competition. This division's result of operating activities was negative in every

SPECIAL ITEMS BY DIVISION

Figures in € millions

	2008/2009
Press	159
Postpress	20
Financial Services	–
Heidelberg Group	179

quarter, closing out the year with an overall loss of € –31 million. Heidelberg 2010 therefore includes the goal of undertaking an extensive restructuring of this division. Despite the decline in financing volume during the financial year, our Financial Services Division earned a favorable result of € 17 million. Since outlays for the provision for risk increased, as expected, the result fell below the previous year's figure here as well.

Special items of € 179 million were posted for the Heidelberg 2010 program during the financial year. Of this, € 163 million were accrued within the framework of the job reduction measures, with the remainder comprising consulting expenses and losses from deconsolidations.

INCOME STATEMENT

Figures in € millions

	2007/2008	2008/2009
Net sales	3,670	2,999
Change in inventories/Other own work capitalized	147	79
Total operating performance	3,817	3,078
Other operating income	219	190
Cost of materials	– 1,669	– 1,403
Personnel expenses	– 1,180	– 1,066
Depreciation and amortization	– 124	– 99
Other operating expenses	– 796	– 749
Special items	–	– 179
Result of operating activities	268	– 228
– in percent of sales	7.3	– 7.6
Financial result	– 69	– 119
Income before taxes	199	– 347
Taxes on income	57	– 98
– tax rate in percent	28.6	28.2
Net profit/loss	142	– 249
– in percent of sales	3.9	– 8.3

Income Statement: Negative Operating Result; Special Items and Worsened Financial Result Lead to Net Loss

Due to the strong sales decline, the **cost of materials** fell. In terms of the total operating performance, however, the ratio of the cost of materials to total operating performance rose from 43.7 percent the previous year to 45.6 percent because the price level of raw materials during the financial year as a whole was noticeably higher than in the previous year. We will expand our international purchasing operations under Heidelberg 2010 –

on the one hand, in order to benefit from lower wage levels in other countries, while on the other hand, in order to reduce our dependence on exchange rate fluctuations.

Staff costs declined by a total of 10 percent from the previous year. We were successful in cutting back staff costs by approximately € 80 million during the second half of the year. This was the result of various measures, including the cancellation of remuneration for overtime as well as the introduction of short-time work throughout Germany in order to adjust capacity in the short term. Moreover, we vigorously pursued our Heidelberg 2010 program and thereby began to reduce the workforce. Including the temporary hirings, in the course of the financial year we reduced our human resource capacity by more than 1,400 jobs on a comparable basis.

We adjusted the useful life of intangible assets, tangible assets and investment property during the financial year, thereby extending the useful life in line with the reduction in investments. **Depreciation and amortization** therefore declined substantially from the previous year because of the extension in the overall expected useful life. Furthermore, despite the costs for the drupa trade show, the balance of **other operating income** less **other operating expenses** declined slightly. Thanks to our comprehensive measures, we were successful in reducing the charge accrued from these items.

The **financial result** worsened noticeably, declining by € 50 million to € –119 million. This was a reflection of the considerably higher refinancing requirements. Moreover, net interest was burdened by the changed fair values that were assigned to hedging transactions.

We posted tax income during the financial year. Deferred tax assets were recognized in an appropriate amount to cover loss carryforwards. The **tax rate** of 28 percent was at about the previous year's level.

Overall, we consequently suffered a **net loss** of € –249 million, which resulted in a loss per share of € –3.20 compared with **earnings per share** of € 1.81 the previous year.

FIVE-YEAR OVERVIEW OF THE RESULTS OF OPERATIONS

Figures in € millions

	04/05	05/06	06/07	07/08	**08/09**
Result of operating activities [1]	171	277	362	268	– 49
– in percent of sales	5.1	7.7	9.5	7.3	– 1.6
Financial result	– 53	– 48	– 62	– 69	– 119
Net profit/loss	59	135	263	142	– 249
– in percent of sales	1.8	3.8	6.9	3.9	– 8.3

[1] Before restructuring expenses/special items

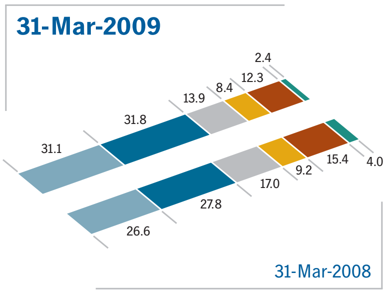
Net Assets – Higher Commitment of Funds

> **Reduced Investments in Tangible Assets**
> **Commitment of Funds Reduced in the Second Half of the Financial Year**
> **Active Asset Management Frees Up Financial Resources during the Second Half of the Year**

Working capital increased rapidly during the first half of the financial year. We had anticipated a considerably stronger development of business during the second half of the year due to the successful drupa trade show. With the onset of the economic crisis, we cut back our production. The various measures for short-term and sustained capacity adjustment had a delayed impact of approximately four months. Inventories decreased along the entire added value chain. These measures will have their full impact and result in further successes during the upcoming quarters.

ASSETS

Share in total assets in percent



	31-Mar-09	31-Mar-08
Fixed assets	**998**	923
Inventories	**1,034**	974
Trade receivables	**451**	596
Receivables from sales financing	**273**	323
Other assets	**406**	549
Cash and cash equivalents	**79**	142
	3,241	3,507

Assets: Reduced Volume of Investment

On March 31, 2009 the Heidelberg Group's **total assets** amounted to € 3,241 million, compared with € 3,507 million at the previous financial year-end – down by € 266 million over the past twelve months.

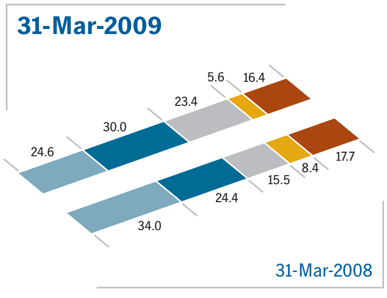
As the table on the left shows, **fixed assets** increased from the previous year. We reduced our **investments** in tangible and intangible assets from the previous year by approximately 9 percent to € 198 million. Our capacities were not fully utilized particularly in the second half of the financial year, as a result of which we undertook only necessary replacement capital investments. Capacity-related new investments almost exclusively played a role in China alone. One focus of investment was the expansion of the production infrastructure at our Qingpu plant in Shanghai. In Germany, we limited our investments to necessary replacement projects and the ongoing enhancement of our competitiveness by means of the Heidelberg Production System. When it makes sense economically, we continue to make use of leasing as a form of financing. This contributes to limiting our capital commitment, especially in real estate, for our car fleet, and in the IT area.

As we indicated in our introduction, due to the interest shown by our customers at the drupa trade show at the beginning of the financial year, we had assumed that overall demand for our products would be considerably stronger. Yet nonetheless, orders plummeted severely worldwide, especially during the second half of the year. We were therefore initially unable to undertake the planned reduction in **inventories** that we had built up. Following our noticeable production cutback in the second half of the year, inventory again decreased considerably through March 31.

Trade receivables fell on the one hand due to declining sales, and on the other hand due to the success of our receivables management in further reducing trade receivables from the previous year. With the aid of our financing partners, we succeeded in further cutting back our **receivables from sales financing** through the financial year-end by € 50 million to € 273 million despite the distortions in the financial market. **Other assets** declined considerably, with the surplus coverage by the employee pension funds reduced because of the developments of the capital market with nearly unchanged pension obligations. Moreover, the fair value of hedging transactions fell.

EQUITY AND LIABILITIES

Share of total assets in percent



	31-Mar-09	31-Mar-08
Shareholders' equity	**796**	1,193
Provisions	**973**	855
Financial liabilities	**760**	544
Trade payables	**182**	295
Other liabilities	**530**	620
	3,241	**3,507**

Equity and Liabilities: Greater Financing Requirements

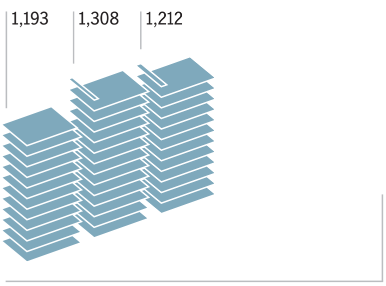
The consolidated shareholders' equity of the Heidelberg Group declined from € 1,193 million to € 796 million during the financial year. Although the principal cause was the high net loss, other contributing factors were the dividend payment of € 74 million following the Annual General Meeting in July 2008 as well as actuarial losses in the pension obligations. Relative to total assets, the equity ratio thereby fell from 34.0 percent in the previous year to 24.6 percent.

Provisions were up considerably over the previous year. Due to the Heidelberg 2010 program, there was a greater need to establish provisions, which was only partially compensated for by opposing effects in the provisions from sales and service activity and warranties. **Trade payables** fell by € 113 million due to the considerably lower business volume. Caused by the unfavorable business development and the charges arising from operating activities, our **financial liabilities** increased substantially, amounting to € 760 million as of March 31, 2009, compared with € 544 million at the end of the previous financial year. Our net financial debt as the balance of financial liabilities as well as cash and cash equivalents thereby also increased, amounting to € 681 million as of March 31, 2008.

Our **contingent liabilities** under guarantees and warranties are at about the low volumes of the previous year of € 17 million. **Other financial commitments,** comprising leasing and rental liabilities as well as investment commitments, were down by a considerable € 89 million during the financial year and amounted to € 366 million at financial year-end.

DEVELOPMENT OF NET WORKING CAPITAL

Figures in € millions



Net Working Capital: Underlying Conditions Cause Slight Increase

One of Heidelberg's declared goals is to reduce the volume of working capital and thereby limit the commitment of funds. The graph on the left shows the development of net working capital during the financial year. Due to the unfavorable underlying conditions, the commitment of funds grew considerably through December 31, 2008. Our measures began perceptibly taking hold during the fourth quarter of the financial year, during which time we succeeded in reducing net working capital by nearly € 100 million.

FIVE-YEAR OVERVIEW – NET ASSETS[1)]

Figures in € millions

	2004/2005	2005/2006	2006/2007	2007/2008	**2008/2009**
Total assets	3,660	3,281	3,339	3,507	3,241
Shareholders' equity	1,166	1,138	1,202	1,193	796
– in percent of sales	31.9	34.7	36.0	34.0	24.6
Net working capital	1,091	1,199	1,276	1,193	1,212
– in percent of sales	32.5	33.4	33.6	32.5	40.4
Net financial debt[2)]	484	491	467	402	681

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

2) The balance of financial liabilities and cash and cash equivalents

Financial Position – Negative Free Cash Flow

> **Internal Financing Strength Suffers Greatly from Underlying Conditions**
> **Heidelberg 2010 Program Bears Initial Fruit**
> **Inflow of Funds during the Second Half-Year**

The highest priority of our financial policy is to ensure the solvency of the Heidelberg Group at all times and to maintain its financial independence. We describe how we control financial risk and ensure the Group's liquidity in the section 'Management and Control' beginning on page 39.

Cash Flow Statement: Still High Funding Needs for Investments

The extremely unfavorable underlying conditions during the financial year resulted in a heavy net loss, which is the principal cause of the considerable decline in Heidelberg's **cash flow** from the previous year to € –238 million. The net loss includes special items of € 179 million for our Heidelberg 2010 program. With the help of this program, we undertook immediate counter-measures when it became evident that orders and sales were rapidly declining.

CASH FLOW STATEMENT OF THE HEIDELBERG GROUP

Figures in € millions

	2007/2008	**2008/2009**
Cash flow	290	– 238
Net working capital	32	43
Receivables from sales financing	80	63
Other	15	128
Other operating changes	127	234
Outflow of funds from investment activity	– 202	– 197
– of which: Hi-Tech Coatings	–	– 31
Free cash flow	215	– 201

In the area of **other operating changes,** we were successful in generating an inflow of € 234 million, with € 43 million flowing to net working capital – caused in particular by our reduction in the commitment of funds in trade receivables. Our inventories increased substantially during the first half of the year due to the massive downturn in sales. We already cut back inventories from their record levels during the third quarter, and we will continue reducing them further. We were successful in further reducing the commitment of funds in receivables from sales financing.

We reduced investments in tangible and intangible assets during the financial year and limited them to necessary replacement capital investments and urgent projects. We were thereby able to noticeably reduce **cash used in investing activities** from the previous year after adjusting for the acquisition of Hi-Tech Coatings. This item will again be considerably lower in the current financial year.

Overall, our internal financing strength suffered considerably from the extremely difficult development of business. No funds were generated in the operating area that could cover the funding needs for investments. **Free cash flow** of € –201 million thereby fell deeply into the red. By comparison, in the previous year we had still generated an excellent free cash flow of € 215 million! Nevertheless, thanks to our measures we succeeded in generating an inflow of funds during the second half of the year, thereby reducing the impact of the high outflow of funds during the first half of the financial year.

Central Financial Management

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

Greater Financial Liabilities

The impact of the world economic crisis resulted in a considerable worsening of our result, and our equity is reduced from the previous year. Heidelberg's **financial liabilities** rose considerably during the reporting year, compared with the ongoing reduction in liabilities we successfully undertook in recent years. We made partial use of our available credit lines. Our long-term financial liabilities as of the financial year-end largely comprised three borrower's note loans as well as the convertible bond that is due in 2012. However, bondholders have the option of demanding accelerated repayment as early as February 2010. Due to the development of the share price, we assume that the option will be exercised. Additionally, we took up a long-term credit of € 75 million in the previous year and committed ourselves to granting usufractory rights on three developed plots of land to the lender.

Financing Structure: Liquidity Secured

Comprehensive discussions were held with the banks that are providing the financing based on a detailed financing concept that is largely in agreement with the previous financing structure in type, scope, and term. The banks providing the financing granted their fundamental credit approval late in May through early June 2009, however under the condition that in accordance with the second package of measures, i.e., the 'Pact for Employment and Stability in Germany' (the so-called Economic Stimulus Package II), and for the loan granted by KfW collateral be provided by the Federal Republic of Germany and the States of Baden-Württemberg and Brandenburg by the end of August 2009. Although the corresponding administrative units of the German Federal Government gave their fundamental consent to this, written confirmation is currently still pending. We anticipate a final decision from the Economic Committee of the State of Baden-Württemberg in the near future. Based on previous negotiations, the Management Board expects a positive decision here as well. For additional information on this topic, please refer to the details provided in the Risk and Opportunity Report beginning on page 108.

Additional information concerning our **credit conditions,** foreign currency liabilities, currency and interest rate hedging transactions, and the basic characteristics of our financial management are included in the Notes to the Financial Statements.

FIVE-YEAR OVERVIEW – FINANCIAL POSITION [1)]

Figures in € millions

	04/05	05/06	06/07	07/08	08/09
Cash flow	232	345	398	290	– 238
Other operating changes	29	61	– 73	127	234
Outflow of funds from investments	– 109	– 257	– 96	– 202	– 197
Free cash flow	152	149	229	215	– 201
– in percent of sales	4.5	4.2	6.0	5.9	– 6.7

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

ROCE and Value Contribution – Key Management Control Components

> **Clearly Negative Value Contribution during the Financial Year**
> **Average Cost of Capital Much Higher**

During the financial year, we failed by a wide margin to attain the goal of earning a positive value contribution throughout economic cycles and thereby increasing the corporate value of the Heidelberg Group.

The result of the financial year excluding special items was considerably below the previous year's figure as well as our forecast – a result in particular of the sales downturn. As a consequence, the **ROCE** of –3.6 percent was negative. We were able to reduce operating assets as a result of strong cutbacks in our investment activity beginning in the second half of the financial year and because of the introduction of additional measures to reduce the commitment of funds. The distortions in the capital markets resulted in a dramatic increase in refinancing costs. Thus, our average cost of capital – and thereby our actual cost of capital as well – grew, respectively, to 11.6 percent and € 206 million. As a result, as the five-year overview shows, below, the **value contribution** for the financial year was heavily in the red.

Details concerning our mathematical model and the derivation of the cost of capital are presented on page 121. The system of the calculation remained unchanged in the financial year.

FIVE-YEAR OVERVIEW – ROCE AND VALUE CONTRIBUTION

Figures in € millions

	04/05	05/06	06/07	07/08	08/09
Operating assets (average)	2,170	1,911	1,879	1,887	1,771
EBIT[1]	152	260	295[2]	254	– 63[3]
– ROCE in percent of operating assets	7.0	13.6	15.7	13.5	– 3.6
Cost of capital	199	176	185	183	206
– in percent of operating assets	9.2	9.2	9.9	9.7	11.6
Value contribution	– 47	84	110	71	– 269
– in percent of operating assets	– 2.2	4.4	5.8	3.8	– 15.2

[1] Includes the result of operating activities and income from investments
[2] Adjusted for positive one-time effects totaling € 60 million
[3] Excluding special items

Divisions – Press, Postpress, and Financial Services

> **Negative Results of the Press and Postpress Divisions**
> **Noticeable Initial Successes of the Heidelberg 2010 Program**
> **Strong Customer Interest in Fully Integrated Packaging Solutions**

PRESS	POSTPRESS
PREPRESS PRINTING	FINISHING

Prinect – comprehensive workflow management system

SERVICES AND CONSUMABLES

System-service	Business Consulting	Remarketed Equipment
Print Media Academy	Saphira	FINANCIAL SERVICES

We pursue comprehensive strategic goals for our three divisions. In order to maintain the Group's position as the world market leader in sheetfed offset printing and reduce our dependence on underlying cyclical conditions, we assign high priority to:

> providing solutions offered from prepress all the way to finishing – for packaging print shops as well – that can be comprehensively networked using our Prinect software; and
> establishing a comprehensive service partnership with our customers that covers the entire product life cycle all the way to resale, as well as satisfying requirements for spare parts and supplies.

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 potential for optimization. More details on this topic can be found on pages 32 to 34.

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: Demand Plunges in Second Half of the Year

The high point of the financial year was our industry's major trade show in Duesseldorf, drupa. Thanks to drupa, the Press Division was able to book **incoming orders** totaling € 1,030 million during the first quarter. For the year as a whole, we were only able to generate orders of € 2,546 million because the market fell off sharply during the second half of the financial year. This

PRESS

Figures in € millions

	07/08	08/09
Incoming orders	3,200	2,546
Net sales	3,213	2,621
Order backlog	801	609
Research and development costs	195	165
Investments	206	188
Employees [1]	17,468	17,040
Result of operating activities [2]	239	– 35
Special items	–	– 159

[1] Including 266 staff members of the newly consolidated companies Heidelberg Shanghai and Hi-Tech Coatings
[2] Excluding special items

We are happy to still welcome **a high number of visitors in Hall 11 at our Wiesloch-Walldorf site** every month. This Hall is primarily used for the assembly of our new large-format printing presses and for the presentation of our comprehensive solutions in packaging printing.

20 percent decline from the previous year was caused exclusively by underlying conditions, which were extremely unfavorable for our customers. We maintained our market share. Of importance for the large format market, which we have only been addressing since the reporting year, is that we are meanwhile represented in the most important target markets with reference printing press models, for which our customers are highly enthusiastic in their day-to-day application.

In line with the development of incoming orders, this division's trend of **sales** was also disappointing. Overall, sales of € 2,621 million were 18 percent below the previous year's figure. The only light at the end of the tunnel has been our business with consumables, where we were successful in generating gratifying growth rates – among others, due to our acquisitions during the financial year. In May 2008, we acquired the company Hi-Tech Coatings, a manufacturer of special printing coatings. We further expanded our offerings in this area with the acquisition of the printing ink specialist Ulrich Schweizer GmbH/IPS GmbH in the third quarter.

This division's order backlog of € 609 million was down considerably from the previous year's figure.

Our priority in **research and development** was on further product development and the series launch of the products that we introduced at drupa, most importantly the Speedmaster XL 105 with perfecting device and the large format printing presses. We also promoted this division's consumables business by more quickly qualifying new products and identifying potential new areas of application for our Saphira line of consumables. On pages 83 to 86 of this Annual Report, we describe both the results of our work as well as how we succeeded in reducing research and development costs by 15 percent to € 165 million.

From the moment when it became clear that we were heading into a deep crisis, we reduced or postponed our investments to the greatest possible extent. We cancelled several projects completely. Overall, during the financial year this division's **investments** were down 9 percent from the previous year, which had included investments for the new construction of Hall 11. One priority of our investment activity was on the additional streamlining of our Amstetten plant. We additionally undertook investments in our Chinese plant in order to be in a position to quickly expand our production there as soon as local demand once again picks up noticeably.

The number of **employees** in the division fell from 17,468 to 17,040 during the financial year, despite the fact that we included our plant in China in the scope of the consolidation for the first time. Adjusted for initial consolidations and trainees, the total number of employees declined by 739.

The previous year, this division still generated a return on sales of 7.4 percent. By contrast, during the financial year, various factors heavily impacted the **result of operating activities,** which in the end totaled € –35 million excluding special items. The extremely weak sales trend resulted in a lack of profit contributions. We also had to bear the cost of our presence at the drupa trade show. We reacted quickly to the worsening underlying conditions by introducing comprehensive measures and subsequently twice expanding these measures. Our outlays for special items in connection with Heidelberg 2010 totaled € 159 million. We were gratified that the program resulted in initial successes already during the reporting year, with the result of operating activities excluding special items moderately in the black in both the third and fourth quarters!

POSTPRESS

Figures in € millions

	07/08	08/09
Incoming orders	419	335
Net sales	427	353
Order backlog	73	41
Research and development costs	27	21
Investments	11	10
Employees	2,050	1,818
Result of operating activities[1]	– 7	– 31
Special items	–	– 20

[1] Excluding special items

Postpress: Disappointing Result

The business development of the Postpress Division was also decisively negatively impacted by the economic environment. Following the favorable volume of **incoming orders** that was posted during the first quarter compared with the previous year, which was due to drupa, orders plummeted beginning in the middle of the second quarter and in particular during the second half of the financial year. Overall, incoming orders of € 335 million were 20 percent below the previous year's figure. By contrast, we were gratified by the relatively strong demand by packaging print shops for our die cutters. Incoming orders increased in the 'Adhesive Binding' product area as well, where we benefited from our introduction of new and improved products.

This division's **sales** fell a further 17 percent from the previous year. The US, whose economy was especially hard hit during the financial year, is the most important market for the finishing area. The propensity to invest also was extremely weak in the Asian markets. The **order backlog** fell from € 73 million the previous year to € 41 million.

Our **research and development** activity focused on preparing products that we introduced at drupa to series production. One focus of our activity in this area was the launch of new products in the packaging area. We offer customers outstanding solutions, especially in the area of folding carton finishing.

We curtailed this division's **investments** during the course of the financial year. We invested among others in the Ludwigsburg plant. Similarly to the situation with the Heidelberg Production System (HPS), we will achieve across-the-board efficient manufacturing in this area based on an integrated approach. Additional information concerning HPS can be found on page 95.

Because we failed to attain this division's projections the previous year, at the beginning of the financial year we decided to restructure the Postpress Packaging area. We subsequently expanded these restructuring plans to cover the entire division and thereby further expanded our cost-reduction goals. As a consequence, the number of **employees** in the Postpress Division declined by 232 people to 1,818. Contributing to this development, among others, was our sale of the mailroom supplier IDAB WAMAC in December. Moreover, we reacted quickly to the deterioration of the order backlog and called a halt to temporary hirings.

Our measures for restructuring in this division included outlays for special items totaling € 20 million, which include the loss from the sale of IDAB WAMAC. The improvements in the cost structure of this division will begin taking effect beginning in the current financial year. This division's **result of operating activities** for the financial year totaling € –31 million, excluding special items, was disappointing. As in the Press Division, primarily responsible for this development is the lack of profit contributions due to the steep decline in sales. This division was additionally burdened by the costs for the presence at the drupa trade show.

FINANCIAL SERVICES

Figures in € millions

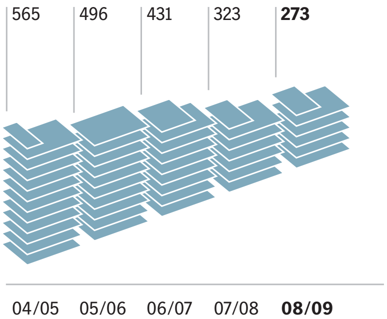
	07/08	08/09
Net sales (interest revenue)	30	25
Cost of materials (interest expense)	1	1
Result of operating activities	36	17
Receivables from customer financing	323	273
Employees	78	68

Financial Services: Benefitting from the Division's Strategy

In order to improve our financial service offerings and simultaneously reduce the Group's commitment of funds, in recent years we organized close cooperation with financial service providers worldwide. We also worked increasingly closely 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. For this purpose, we have built up a network of Group-owned Print Finance companies in various currency zones. Since our finance companies have focused primarily on emerging markets, these markets account for over 60 percent of our direct financing portfolio.

RECEIVABLES FROM SALES FINANCING

Balance sheet values in € millions



Our strategy in this division was successful: We were able to severely reduce the volume of receivables from sales financing and capital tied up primarily in the developed markets.

The intensive relationships with our companies in the financing area benefited us during the financial year, even in the face of the difficult credit environment. We continued to be in a position to mediate credit, largely through partners providing the financing. Since the business environment has worsened considerably and it has become increasingly difficult to arrange financing, especially in the emerging markets, we assume that the direct financing requirements of our customers will temporarily increase. Nevertheless, during the financial year we were able to noticeably reduce our **receivables from sales financing** by € 50 million to € 273 million. Our **acquired counter-liabilities** also fell. Due to the lower volume of receivables, interest income and net interest decreased as expected. The number of **employees** in the division fell by 10 to 68 people.

Strongly recessionary trends in our principal financing markets as well as the weakness of the Ukrainian hryvnia, Mexican peso, and Brazilian real contributed to the considerable growth of past due receivables in our portfolio. As a consequence, we increased the provision for risks in order to cover the higher portfolio risks. The creation of provisions burdened this division's **result of operating activities,** which nevertheless were a positive € 17 million.

Regions – World Economic Crisis Hits All Markets

> **Broad Regional Diversification Only Able to Moderate Downswing in Second Half-Year**
> **Cost Reduction Measures Begin Taking Hold Worldwide**
> **Sales of Services and Consumables Up**

The effects of the financial market crisis impacted the order situation of the print media industry throughout the world, thereby freezing up the industry's investment activity in numerous markets. The considerable weakness of local currencies proved to be an additional investment obstacle, especially in the emerging markets. During the financial year we began adjusting the numbers of employees in the regions to the volume of business. We will implement a number of measures aimed at considerably reducing our structural costs in the various markets during the current financial year.

In addition, we will focus our worldwide sales activities to an even greater extent on the consumables business and other strategic business units. In order to increase our future sales of consumables, among other measures we will intensify customer contacts and in consulting discussions, provide customers with access to our comprehensive application knowledge. The successes we achieved during the financial year are attributable not only to the high level of consulting expertise of Heidelberg's employees, but also to the fact that in contrast to our competitors, we are represented in all markets with our own sales outlets or independent dealers.

We address internationally active packaging printing groups at various levels, maintaining contacts with their local branches through our own local agencies. We have also established a team of specialists who advise customers globally.

Our focus continues to be on promising emerging markets. As soon as an economic recovery begins, we intend to, and will, benefit from the growth in these countries. In the medium term, the emerging markets are expected to attain more than 40 percent of sales, compared with their current share of approximately 35 percent. In support of this strategy, among other things we are shifting the manufacture of fully developed products with a modest degree of automation to China.

EUROPE, MIDDLE EAST AND AFRICA

Figures in € millions

	07/08	08/09	
Incoming orders	1,611	1,382	– 14.2 %
Net sales	1,624	1,439	– 11.4 %
Employees[1]	14,324	13,668	– 4.6 %

[1] Excluding trainees

Verband Direkte Wirtschaftskommunikation e.V., a trade association for marketing communications, presented Heidelberg with an award for its presentation at the drupa 2008 trade show in view of Heidelberg's demonstration of the Company's problem-solving offerings as well as the cooperative nature of Heidelberg's presence.

'Europe, Middle East and Africa': Difficult Year Despite drupa

The drupa trade show at the beginning of the financial year was a major milestone in implementing our strategy of expanding the share of sales accounted for by packaging printing solutions as well as service and the consumables business. We dedicated approximately 40 percent of our overall exhibition space to the packaging printing area, and we highlighted the significance of our services, our consumables, and our environmentally friendly production. The additional sales presentations in **Germany** also proved to be magnets that attracted audiences. Our business development in this market benefited from our presentations, with business declining only slightly during the financial year compared with the previous year's very high level. Some **smaller markets** also either developed favorably or, as in the case of the markets of the Middle East, at least remained stable. In Switzerland, we acquired our largest single order so far – over 33 printing units in three format categories – and increased our sales over the previous year. Our acquisition of Scandinavia's biggest consumables dealer Stielund & Taekker during financial year 2007/2008, turned out to be particularly advantageous for the consumables sales of the 'Nordic/Baltic' management unit.

It is anticipated that the economies that were the first to suffer an economic downswing will also be the first to rise out of the crisis. The **UK** and **Spain** had especially difficult times during the financial year. These countries' real estate bubble burst and the financial market crisis put a brake on developments in other branches of industry. Our business development was correspondingly unfavorable in both of these countries. Although we were very well positioned in the industrially oriented British printing market with our long perfecting presses, the new Speedmaster XL 105 with perfecting device, and our solutions for large format printing, we suffered a marked drop in the incoming orders in these countries. In addition to the economic environment, a further intensification of competition in **France** caused us difficulties. However, we saw light at the end of the tunnel in our installation of a Speedmaster XL 162 in that country. France is a country with a tradition of very high-quality packaging.

Overall, the favorable development in many markets in the first half of the financial year and the higher level of consumables sales were not enough to prevent the region's incoming orders and sales from falling, respectively, by 14 percent and 11 percent. Following the heavy downswing at the beginning of the third quarter, we began adjusting the numbers of employees to the market volume.

EASTERN EUROPE

Figures in € millions

	07/08	08/09	
Incoming orders	449	336	– 25.2 %
Net sales	428	347	– 18.9 %
Employees	779	753	– 3.3 %

'Eastern Europe': Firmly in the Grip of the World Economic Crisis

The 'Eastern Europe' region continued the trend of the previous favorable year during the first half of the financial year. Following massive growth, during which time the level of quality of printed products and the degree of automation of the printing process had grown visibly, nearly all markets fell into the downward spiral of the world economic crisis. The situation worsened further at the end of the financial year, with some economies plunging into double-digit percentage declines and some currencies into a nosedive. New credits were hardly available or only at unfavorable terms.

Our business development reflects the underlying conditions in the markets. The massive declines in incoming orders from Poland, Russia, and many smaller markets could by far not be compensated for by the few markets that developed favorably, such as the Czech Republic or Turkey. The success in Turkey was based primarily on the consumables business, which has been the focus of this market for years. We were successful in noticeably expanding our consumables business in other markets as well. This represents at least a dim light at the end of the tunnel for this region, where we suffered a 25 percent decline in incoming orders and 19 percent drop in sales during the financial year.

Following the optimization of our organization in recent years, we now reduced the number of employees by 26. Additional adjustments are planned for the current financial year. However, we intend and will maintain our presence in all markets, as this region continues to promise considerable potential.

NORTH AMERICA

Figures in € millions

	07/08	08/09	
Incoming orders	538	359	– 33.3 %
Net sales	576	374	– 35.1 %
Employees [1]	1,341	1,176	– 12.3 %

[1] Excluding trainees

'North America': The Region Most Strongly Subject to Decline

The economic crisis, which originated in the US and neighboring Canada, has had these countries in its tight grip for almost two years now. Business in this region was already disappointing for us in the previous year, with incoming orders and sales further declining, respectively, by 33 percent and by 35 percent during the financial year in the North America region – thereby to an even greater extent than in the other regions. We had already adjusted the number of employees to the lower volume of business in the previous year, and during the financial year we further reduced our staff by 165 employees.

We suffered a 35 percent decline in incoming orders and sales in the **US!** At least we were able to install a reference printing press, a Speedmaster XL 145, in this market, which is of such great importance for packaging printing. Overall, our large format printing presses stimulated favorable interest on the part of packaging printing firms.

In **Canada,** we had acquired several small consumables dealers some years ago, and since then we have maintained a high market share of over 35 percent in this area. Whereas business with consumables remained largely stable, the new printing press business declined considerably during the financial year.

LATIN AMERICA

Figures in € millions

	07/08	08/09	
Incoming orders	202	174	– 13.9 %
Net sales	197	174	– 11.7 %
Employees	408	396	– 2.9 %

'Latin America': The Magnitude of the Crisis in Mexico Drags down the Region's Numbers

The impact of the world economic crisis on some markets in the Latin America region was relatively modest, as a result of which our overall business development was gratifying. By contrast, **Mexico,** whose economy is heavily intertwined with the US, felt the full force of the crisis. In addition, the weak peso considerably increased the cost of investments. All in all, as a consequence, both our incoming orders and our sales in Mexico plunged by over 40 percent.

In **Brazil,** our principal market in this region, printing press sales grew at a more rapid pace than the country's gross national product. The economic climate cooled slightly at the end of the financial year. Nevertheless, we matched the high previous year's level of sales, with incoming orders falling off slightly by 4 percent.

The magnitude of the crisis in Mexico caused the region's incoming orders as a whole to decline by 14 percent and sales by 12 percent from the previous year's level. We had already reduced the number of our employees in Mexico, as a result of which our staff declined slightly in the region. Starting out from a very low level, we nevertheless succeeded in generating favorable growth in consumables not only in Mexico, but in Brazil as well.

ASIA/PACIFIC

Figures in € millions

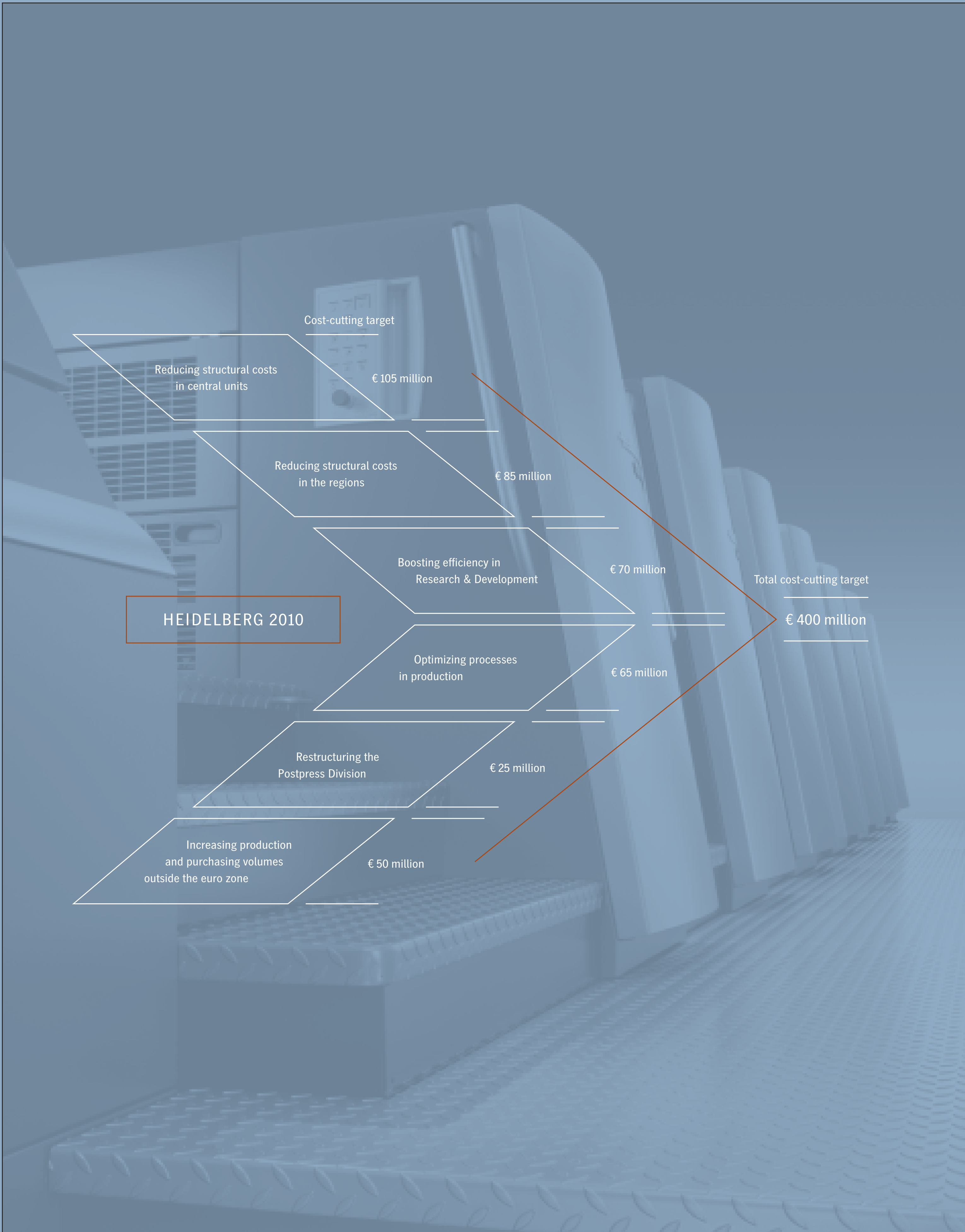
	07/08	08/09	
Incoming orders	849	655	– 22.9 %
Net sales	845	665	– 21.3 %
Employees [1]	2,087	2,226	6.7 %

[1] Including 250 staff members of the newly consolidated production site in Qingpu, China in the reporting year

'Asia/Pacific': Development Slows in Key Markets

Following a strong start in the financial year, with the Asia/Pacific region also experiencing a noticeable impact from drupa on the region's incoming orders during the first quarter, in subsequent quarters we faced increasing difficulties in view of the world economic crisis. In **China,** where many of Heidelberg's customers focus strongly on exports, print shops suffered from the downturn in demand in the UK and US, their principal foreign markets. Nevertheless, we were able to already install the first large format packaging printing press. Due among other things to the successful course of the economic stimulus package that was launched by the Chinese government, local demand for print products did not weaken to the same extent as exports. As a result, orders for our printing presses manufactured in Qingpu, near Shanghai, even increased over the previous year. As in nearly all emerging markets, the financing of investment projects in China as well became ever more difficult, especially at the time of our financial year-end. By contrast, in Australia, where we suffered a severe drop in incoming orders and sales, the weak Australian dollar thwarted the investment plans of print shops. Moreover, this sector was subject to additional consolidation during the financial year. Because **Japan's** economy is in a deep crisis, our business deteriorated in that country, especially at financial year-end. Only some **smaller markets** such as Thailand, the Philippines, and Indonesia as well as the sales of consumables developed favorably. We successfully boosted this unit's business throughout the region.

Nevertheless, the modest increases in this area were only able to moderately counter the considerable declines in the printing press business, with overall incoming orders and sales in the region falling, respectively, by 23 percent and 21 percent. We consequently introduced comprehensive cost reduction measures at an early stage. The increase in the number of employees in the region nevertheless is due to the first-time consolidation of our manufacturing facility in Qingpu. We expect to considerably expand local production in the future. The Chinese and Indian markets offer enormous opportunities, among others in view of the Chinese government's economic stimulus packages. This region possesses all the prerequisites for an upswing and sustained growth in the medium term.


Cost-cutting target
Reducing structural costs in central units
€ 105 million
Reducing structural costs in the regions
€ 85 million
Boosting efficiency in Research & Development
€ 70 million
HEIDELBERG 2010
Total cost-cutting target
€ 400 million
Optimizing processes in production
€ 65 million
Restructuring the Postpress Division
€ 25 million
Increasing production and purchasing volumes outside the euro zone
€ 50 million

ACTIONS

HEIDELBERG 2010 PROGRAM

Our sales plunged dramatically due to the financial and economic crisis. We expect considerable fluctuations to occur in the global economy in the future as well. We are therefore considerably reducing the Group's structural costs in order to make Heidelberg more crisis-proof. Our Heidelberg 2010 program, which we formulated during the financial year, covers all divisions. With this program we will generate savings of between 350 and 380 million euros during the current financial year.

STEPS TAKEN, PRIORITIES, AND INVESTMENTS

How will we attain our high cost-cutting goal of approximately € 400 million per annum, of which € 350 to € 380 million already during the current financial year? How exactly are we pursuing our strategic thrusts of expanding our sales in the service and consumables areas as well as our market shares in packaging printing? And how will we attain all of this with noticeably fewer employees and without neglecting our principal target group: commercial print shops? More detailed information is provided on the following pages. We have marked all those text passages that refer directly to the Heidelberg 2010 program throughout this Annual Report.

HEIDELBERG 2010

- **Status of the program in the overall strategy: page 36**
- **Implementation of the program: page 37 ff.**
- **Costs of the program and the impact on the earnings position for the financial year: page 61**
- **Postpress: pages 73 and 96**
- **Structural adjustments to markets: pages 75 to 79**
- **Research and development: pages 83 to 86**
- **Employees: pages 87 to 89**
- **Production and purchasing: pages 94 to 96**

Research and Development – Completion of Major Projects

> **Innovations Convince Customers at drupa**
> **All Format Categories Developed Further**
> **R&D Down Following Completion of Major Projects**

It is a goal of our research and development to secure crucial competitive advantages for our customers. We have developed the best comprehensive solution in the industry for each of our target groups, whose situation we describe in detail on beginning on page 32. In this way we intend to ensure the loyalty of existing customers and acquire promising new customer groups, like industrial packaging printers. Our solutions are especially of help to our customers in a difficult market environment because on the one hand they guarantee maximum performance in terms of print quality, speed, and reliability, while on the other hand measurably reducing the production cost of print shops. For our customers, we are developing uses for our consumables and examining potential applications in our labs as well as in demonstration print shops and in cooperation with concept customers. Customers can further stand out in the market with special effects. In this manner, we generate an impetus for the consumables business.

All information concerning the innovations introduced by Heidelberg during the financial year, their value added for customers, and examples of applications can be found in the Internet at www.heidelberg.com.

drupa 2008 Trade Show: High Point Following Years of Research and Development Activity

The innovations that we introduced at drupa 2008 were convincing for visitors to the trade show. In addition to our proven offerings in commercial printing, our comprehensive solutions for packaging printing are meanwhile also proving their considerable potential in day-to-day operations for optimization and cost reduction. This is based, among others, on our complete networking of all components, ranging from the processing of data all the way to the creation of the final folding carton. At the heart of our packaging printing solutions are the Speedmaster XL models, ranging from the Speedmaster XL 75 and the XL 105 all the way to the Speedmaster XL 145 and XL 162. Thanks among others to extremely short set-up times and high plate throughput as well as synchronous wash-up processes, customers can boost their productivity by up to 20 percent over that of comparable printing presses available from the competition.

Moreover, we launched the Speedmaster XL 105 with perfecting device in the market. We now provide our industry's most comprehensive range of products in the high performance sector. We also introduced new, innovative components for our Prinect software.

HEIDELBERG 2010

Due to the currently heavy pressure on costs, we invested much less than five percent of R&D expenses in basic research during the financial year. On page 97, we describe how we nevertheless build up expertise in the latest technologies by means of cooperation with external service providers.

R&D Costs Fall Following Completion of Large Projects and by Boosting Efficiency

Within the framework of our Heidelberg 2010 program, we are restructuring research and development activities in the plants, thereby further reducing both human resource as well as material costs in this area. R&D outlays were naturally high in the past, when we were rounding out our product portfolio at all levels of the printing process and in all format categories. Moreover, we have implemented more efficient processes, from development all the way to the series production, and we have launched our platform strategy – which initially entailed a considerable outlay for investments and specialized training. By means of total cost of ownership analyses, we ensure that we only further develop innovations ourselves if we can achieve this on a more cost-effective basis and better than external service providers could on a long-term basis. Otherwise, we either purchase outright expertise from outside suppliers or develop it in cooperation with suppliers.

We are thereby in a position to considerably reduce our expenses for further developments. Our R&D rate in terms of the sales will be between 5 and 6 percent in the medium term. During the financial year, this figure rose slightly due to the decline in sales, despite the fact that R&D expenses fell from € 222 million the previous year to € 186 million.

HIGHLIGHTS

SPEEDMASTER XL 162

More than just a size bigger

Innovations combined with sophisticated technology ensure that our new printing presses outshine comparable printing presses from the competition by a wide margin.

Focus Continues on Market-Oriented Innovations; Priorities: Automation, Networking, and Dependability

Material and staff costs are important instruments for customers who want to improve their profit situation. This can be clearly seen in the expenses

Please refer to page 99 for more information on how we reduce the material and staff costs of our customers based on the control of all printing presses using **Prinect.**

of an average commercial printing establishment. We are consequently still working on reducing spoilage to the greatest possible extent for all customer groups. This includes the rapid set-up of color for a printing press, with the color fidelity of a print run assured from the first to the last printed sheet. We are hereby also making an important contribution to environmental protection, for in the overall consideration of CO_2 emissions, paper consumption is responsible for 80 to 90 percent of overall emissions resulting from the production of printed products. A second priority is placed on noticeably reducing set-up times and streamlining the operation of the equipment. This is a factor that additionally makes our solutions highly productive.

Whereas our principal focus in the past was on the systematic expansion of our product and service portfolio, we are now increasingly responding to feedback from customers in various segments and regions and pinpointing additional optimization potential. In this way, we further improve the quality and reliability of our solutions.

We develop scalable and modular products in all formats, whenever possible making use of identical solutions – both for various format categories as well as for individual components. This approach to standardization has extensive favorable consequences because it streamlines processes from purchasing all the way to service.

Results of Developments During the Financial Year

During the reporting year, on the one hand we focused on preparing printing presses for series production and developing additional variations of all the innovations that we introduced at drupa. And on the other hand, we copied innovations to other format categories, thereby also making important advantages accessible to customer groups that do not require printing presses in the highest productivity class. For example, we streamline the operation of our solutions all the way down to the entry segment, and we are now able to offer our customers even further improved productivity in smaller format categories as well.

We registered 148 new inventions for patents during the financial year. At the end of March, Heidelberg held over 5,400 registered and granted patents worldwide.

R&D Organization: Retaining the Tried and True

During the financial year, we consolidated our R&D operations, merged development activities, and focused our R&D activities on new products. We thereby reduced costs and further shortened the time required for the market introduction of new products and variations. We have basically retained the proven organization of our research and development activities in a matrix form in line with format categories. As in the past, functions such as management and design, which are of significance for all product lines, are combined. We accelerate our pace of innovation through the early and purposeful integration of our systems partners in our processes and by working together with concept customers in all phases of product development. Please refer to page 111 in the Risk Report for information on how we reduce risks from undesirable developments.

KEY FIGURES – RESEARCH AND DEVELOPMENT

Figures in € millions

	2004/2005[1]	2005/2006	2006/2007	2007/2008	**2008/2009**
Research and development costs					
Press	173	192	213	195	165
Postpress	23	22	24	27	21
Heidelberg Group	196	214	237	222	186
– in percent of sales	6.1	6.0	6.2	6.0	6.2
R&D employees	1,524	1,524	1,577	1,582	1,511

[1] Continuing operations

Employees – Job Cutbacks Unavoidable

> **Agreement on Safeguarding the Future Terminated**
> **Short-time Work Expanded**
> **Continuing to Secure Employee Qualifications**

HEIDELBERG 2010

By consolidating functions, streamlining processes, and cutting back jobs, we will considerably reduce structural costs both in the centralized units as well as in the regions.

Following the hefty decline of incoming orders, during the financial year we adjusted our capacities at an early stage. Since our customers' propensity to invest fell to an extremely low level due to the global economic and financial crisis – and will not increase noticeably at least in the short term – we undertook comprehensive job cutbacks. Thus, we are creating structures on the basis of which the Group will be able to rise above the break-even point in the future even with a low volume of incoming orders. We make sure that we maintain existing expertise for Heidelberg to the greatest possible extent. This is because we are aware that our employees in production and development as well as in sales and administration are the most important prerequisite for the successful implementation of our strategy around the globe, especially under difficult underlying conditions, and for always providing our customers with the quality that they expect from Heidelberg.

HEIDELBERG 2010

EMPLOYEES BY DIVISION

Number of employees

	31-Mar-08	31-Mar-09
Press	17,468	17,040
Postpress	2,050	1,818
Financial Services	78	68
Heidelberg Group	19,596	18,926
Excluding trainees and companies newly consolidated during the reporting year	18,939	17,943

World Economic Crisis: Group Cuts Back up to 5,000 Jobs Worldwide

During the financial year, we made use of all means available to us to enhance the flexibility of working times. We cut back staff costs in the short term primarily by reducing time balances and through short-time work. Despite these measures and even though we expanded short-time work, the reduction of up to 5,000 jobs including temporary hirings, of which up to 4,000 in Germany, was inevitable. Measures we had already made use of, such as normal employee turnover, partial retirement regulations, letting temporary work contracts expire, and halting temporary hirings, are no longer adequate to cope with this extent of job cutbacks. We were therefore forced to terminate the agreement on safeguarding the future, which had been signed in 2007. This step was necessary in order to undertake business-related terminations. In the first quarter of the current financial year, we inaugurated negotiations with staff representatives and the union concerning the necessary human resource adjustments.

On page 40, we describe how the **Heidelberg Leadership and Management Systems** together with various principles and guidelines contribute to maintaining high standards of security, environmental protection, and social responsibility throughout the Group.

Staff Training Focuses on the Essentials

As already in the past few years, in the area of specialized further training we continued to focus on internally organized staff training. We offer varied e-Learning modules as well as carefully tailored specialized training approaches for the various areas. At all our German locations, both cross-departmental and special qualifying opportunities and programs are offered during phases of short-time work, predominantly on the Company's premises. We promote the further development of our employees in order to secure Heidelberg's competitiveness.

High priority is given to the training of our employees in service and sales, among others especially in view of our growing business in consumables. In addition, we offer a comprehensive Intranet-based training program for the service and sales team, thereby providing employees worldwide access to up-to-date information on products, technologies, and services. At the same time, we promote the in-house exchange of knowledge among our employees via international networks.

We also systematically promote staff training at our production facility in China. Our bringing of Chinese specialists to Germany and their several month's long intensive training at the Wiesloch-Walldorf assembly plant during the buildup phase of our plant at Qingpu is now benefitting us more than ever, for these specialists are now training employees in China in optimizing assembly procedures, while adhering to all guidelines and quality requirements. We provide details concerning the development of employees at individual plants and projects in the Sustainability Report, which can either be ordered or downloaded in the Internet.

Employees in Research and Development: Close Cooperation

Although we will also reduce the number of employees in research and development, we assume that our technological leadership will remain secure. The working priorities of the nearly 8 percent of staff still active in research and development are divided relatively evenly between mechanical engineering, electrical engineering, the software area, and supporting activities. Experts from various sectors and with varied educational backgrounds who are working together make it possible for us to achieve optimal results for our customers. At the same time, we have intensified our *cooperation* with universities, with whom we have already been working together for some time now as development partners.

More information concerning our cooperation agreements – in the area of training as well – can be found on pages 97 and 98. < [*Cooperation*] ?

Training Quota Remains High at Heidelberg

At the beginning of our training year, a total of 726 young people were being trained throughout Germany in twelve apprenticeship-based trades at Heidelberg, with the main focus on the job areas industrial mechanics and mechatronic specialists. A further seven dual courses of study are also on offer, all of which culminate in a bachelor's degree. In addition to technically excellent training, we place considerable value on the further development of personal expertise. We intend to maintain training at a high level in the future as well – also in view of demographic developments – in order to meet our demand for skilled workers.

Promoting the Compatibility of One's Professional and Family Life

We view the compatibility of one's family and professional life as an important factor in the competition for highly qualified and committed employees. We have succeeded in recent years in increasing the part-time quota of our employees in Germany, excluding employees in partial retirement, to 4.0 percent, with the share of staff working on the basis of alternating telecommuting growing to 0.7 percent. We will continue to pursue this approach in the future as well.

Idea Management: Greatest Savings Resulting From Individual Suggestion So Far

The top prize of € 100 thousand was paid during the financial year for the first time in the over 50-year history of idea management at Heidelberg. Heidelberg has now reduced its costs by € 266 thousand per annum, thanks to the idea of two employees on changing the way a metering roller is constructed. The new metering roller is already being used in series production after field tests had convinced customers as well.

A total of 5,602 suggestions for improvements were submitted during the financial year, compared with 5,772 the previous year. The savings realized, which amounted to € 4.2 million, again considerably surpassed the previous year's figure, which had totaled € 3.5 million.

Consumables and Services – Non-Cyclical Growth

> **Comprehensive Service Offering**
> **Heidelberg's Market Shares in Consumables Still Modest**
> **'Saphira' Brand Name: High Quality That is Acknowledged in the Market**

General and consulting services as well as high-quality consumables play an increasingly important role for print shops' investment and production security.

Our sales in the service and consumables area help us compensate to some extent for the cyclically sensitive investment behavior of commercial printing establishments. This is because the sales of services and consumables depend almost exclusively on the installed base rather than on economic trends – as well as on this base's capacity utilization, of course.

The service and consumables business is to account for an approximately 25 percent share of our overall sales in the future – even should our printing press sales experience a considerable upswing.

Strategic Focus: Expanding the Consumables Business

During the financial year, our market share reached nearly 4 percent in the consumables area, with sales totaling approximately € 300 million. We see considerable potential of expanding our market share. We intend to virtually double our sales in this segment over the next five years.

Two factors for success play a central role in our planned future growth. On the one hand is our **expertise in applications technology** as an all-around supplier covering the entire print processing chain. We know what material functions optimally with our printing presses. On the other hand, the **tested quality of our materials** offers our customers absolute security in production, which we ensure through ongoing tests in our labs and demonstration print shops and together with field test and concept customers.

We currently sell approximately 5,000 various consumables articles worldwide. We are currently expanding our portfolio, thereby assigning priority to profitable consumables with above-average market potential, especially in the coating, ink, and pressroom chemicals segments.

We also systematically promote **cooperation** in order to increase the sales of certain product groups in the consumables area. Moreover, we accelerated the expansion of the product portfolio in inks and coatings through two strategic acquisitions during the financial year. We acquired Hi-Tech Coatings, a manufacturer of high-performance coatings, which puts us in a position to offer a comprehensive range of highly innovative coatings for the increasing number of printing presses with coating units. During the third quarter, we acquired the printing ink specialist Ulrich Schweizer GmbH/IPS

Worldwide, print shops spent more than € 8 billion on consumables during the financial year. Heidelberg offers tested consumables under the brand name **'Saphira'** that are optimized for Heidelberg solutions. Saphira products satisfy all industrial quality standards for environmental protection.

GmbH in Waiblingen, Germany. This firm has been offering sheetfed offset consumables for over 35 years and is one of Germany's biggest providers of Pantone and special ink services.

We purposefully utilize **cross-selling potential** by offering as a matter of principle either 'starter kits' or 'performance kits' at point of sale of a printing press. These 'kits' are complete packages that have been developed for special Heidelberg technologies and applications.

Services: Support throughout the Product's Life Cycle

Print shops' requirements for optimal service are increasing continually. In recent years we have therefore rapidly expanded our service offerings. Our services include the complete process of the added-value chain and cover the entire product life cycle. In general, through our global **replacement service network** our customers are assured of direct access to supplies within a few hours' time.

HIGHLIGHTS

SAPHIRA

Tested consumables

Print shops obtain everything they need from Heidelberg – from a single source: consumables, printing presses, software, and services. This way they can provide their customers with top-quality print products.

Our **systemservice 36plus** service contract is an integral solution component that is provided with new printing presses. It includes insurance for all required service parts and service as well as basic maintenance work for the first three years of operation. For already installed printing presses – and over and above systemservice 36plus – we offer additional modules within the framework of the **partner program** as well.

Our Internet-based **remote services** noticeably reduce the service costs for our customers and for Heidelberg. Among others, they make it possible for our service technicians to correct disturbances externally via a data linkup – ideally even during the production process.

To enable print shops to benefit from the full potential of our offerings and implement especially successful business models, we make available to them general and specialized further training through our **Print Media Academy network,** which is unique in our industry. We also expanded the network to its current number of 19 locations worldwide during the financial year.

Moreover, we offer our customers comprehensive **financial services,** because the basis for our success is providing our customers with the possibility of financing our solutions at appropriate terms worldwide.

Packaging Printing – a Promising Future Market

> **Heidelberg's Packaging Solutions Have Crucial Competitive Advantages in All Format Categories**
> **New Customer Group: Large-Format Packaging Printers**

In contrast to advertising material, demand for packaging remains relatively stable during economic downturns. In addition, the market potential of packaging printing is greater than traditional commercial or advertising printing, for the brand name strategy of many manufacturers entails increasingly elaborate packaging. Furthermore, brand name piracy increases the need for forgery-proof packaging, and products and food in emerging markets are increasingly being sold prepackaged rather than loose. Nevertheless, the global economic crisis is currently noticeably dampening the pace of this development.

In the medium term, we intend to increase the share of packaging printing solutions in our overall sales from currently around 15 percent to 25 percent. We took an important step in this direction during the financial year. We now satisfy the overall demand from packaging print shops in every order of magnitude, covering the entire range of products from simple all the way to premium finished folding cartons. Our newly developed large format solutions, which are utilized primarily by industrial packaging printers, make it possible for us to penetrate this new customer group.

The improved productivity not only of our printing presses and finishing equipment, but also of the coating options that are available contribute to the superiority of our offerings in all format categories compared with comparable offerings from the competition.

HIGHLIGHTS

INTEGRATED SOLUTIONS

Speedmaster XL 162 with feeder

Because our solutions are optimized, ranging from material delivery all the way to removal, they are looked on favorably by industrial packaging print shops.

Friedrich Freund GmbH was the first customer to install an **integrated, large format packaging solution** from Heidelberg. The closely coordinated flow of material makes numerous transportation and processing steps superfluous, which makes possible quicker production throughputs at lower cost. Moreover, the Prinect linkup of all components with industry-specific software reduces set-up times and increases the transparency of processes.

Nevertheless, the potential for optimization that we make possible with our integrated solutions are of crucial importance. In packaging printing, these factors have an even larger impact on the cost of production and the quality of the final products. For example, the reduction of spoilage is of even greater significance here because the material used is relatively expensive. Moreover, packaging print shops satisfy their customers with our sophisticated color management system, because they can thereby realize absolute color fidelity on a cost-effective basis. After all, it is important for the brand-name strategies of these firms, which are often globally active, that all print runs look completely identical.

Production and Purchasing – Highest Quality of All Products Worldwide

> **Fully Utilizing Streamlining Potential in Production**
> **Expanding Purchasing and Production Outside the Euro Zone**
> **Shift of the Postpress Division's Production**

One of the greatest challenges we faced during the financial year was adapting production to the changed underlying conditions and the sudden downturn in orders as quickly as possible.

We had heavily invested in our manufacturing equipment in the past, primarily in order to lay the groundwork for the production of our new format category and other new products. On the other hand, to the greatest extent possible, during the financial year we reduced or delayed investments for the current year to future years as much as possible – with the exception of replacement capital investments that were required to maintain production as well as investments within the framework of the Heidelberg 2010 program. Additional information about our investment policy can be found in the section Net Assets on page 63.

HEIDELBERG 2010

In the material-intensive area of printing press construction, boosting the efficiency of production and of procurement measures are important levers for reducing the cost of manufacturing. An overview of the entire program can be found on page 36.

Within the framework of Heidelberg 2010, we will cut back overall structural costs of production by reducing administrative functions, further optimizing the planning, management and logistics processes, and making less use of external service providers.

Optimizing Heidelberg's Own Production and Vertical Integration

Quality is an extremely important criterion in the perception of the 'Heidelberg' brand by our target group of customers. We thus pursue a **'zero error' strategy** throughout the added-value chain.

In manufacturing, we focus on quality-critical parts and products that ensure us competitive advantages through our specialization. The number of parts we require in production has grown considerably over the past ten years. Based on a total cost of ownership analyses, we have significantly boosted the share of 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.

HEIDELBERG 2010

During the financial year we were successful in nearly doubling the share of the procurement volume purchased in currencies other than euros. In the future, we will benefit to a greater extent from the cost advantages resulting from purchasing outside the euro zone.

Major Importance of the Supplier Base; Qualifying Suppliers Outside the Euro Zone

Our expansion of global procurement lessens the Group's dependence on exchange rate effects while on the other hand making it possible for us to benefit from differences in wage levels. In doing so, under no circumstances do we make any concessions to the quality of supplied parts. Moreover, our suppliers worldwide must adhere to our standards of environmental protection and operate in a socially responsible manner.

In view of the large number of various parts that we buy, our supplier base obviously represents an important factor for Heidelberg's success. We are accordingly careful in our selection of suppliers. The criteria for selection include, among others, the innovative power and performance of suppliers. In the Risk Report on page 114, we address how we continuously monitor and assess the risks in connection with suppliers in order to be in a position to undertake countermeasures vis-à-vis delivery and quality problems early on. We integrate suppliers within projects at the earliest possible point in time, and together with them develop opportunities to optimize products and processes. Specific supply approaches make it possible to deliver parts and components for synchronous production that exactly correspond to requirements, even in case of short-term fluctuations in demand.

HIGHLIGHTS

QUALITY BEGINS WITH THE SMALLEST DETAILS

The highest standards in purchasing and production

Our enormously heavy printing presses operate with the precision of a high-quality timepiece. The key to this: expertise and perfect workmanship.

HEIDELBERG 2010

With the help of the Heidelberg Production System, we intend to reduce our cost of manufacturing by approximately 5 percent annually.

By 2012 we will have completed a program in our Amstetten foundry, with which processes will be optimized, quality will be improved and output boosted while maintaining the present level of fixed costs.

The Comprehensive Heidelberg Production System (HPS)

We reduce our cost of manufacturing by continually tracking down optimization opportunities in all orders of magnitude in the production and assembly processes. In doing so, we make use among others of benchmarks based on especially successful companies and intensively exchange information with other engineering companies that have also implemented a comprehensive manufacturing system. Our investments in HPS during the financial year were lower than the previous year and amounted to approximately € 3 million. This figure contrasts with savings double this amount.

HEIDELBERG 2010

Restructuring the Postpress Area; Strengthening Several Foreign Locations

We are reorganizing our Postpress Division within the framework of Heidelberg 2010. We are continuing to adapt capacities to the economic environment. We have consolidated production capacities in Germany and centralized the development activities of high-tech areas located in Heidelberg. We are also bundling further functions. In December, we sold all our shares in the Swedish mailroom supplier IDAB WAMAC.

We are strengthening the foreign manufacturing facilities of the Postpress Division and Press Division and are shifting production to these facilities. Not only cost advantages for us play a role here, but strategic considerations to ensure greater penetration of markets and the desire to compensate for exchange rate effects in production as well.

Nové Město Plant in Slovakia: In the course of the restructuring measures, we transferred some of our Postpress Division's manufacturing to our plant in Slovakia.

Qingpu Plant in China: We laid the cornerstone for this manufacturing facility in 2005. Since we have meanwhile built up a human relations base with the necessary expertise as well as a supplier base, we can now rapidly expand the plant at any time – as well as local procurement. Since the previous year, KHC-type folders have been produced completely in China. This type of printing press has been developed for customers who can do without automation components but who require the production quality of Heidelberg printing presses as an assurance of quality for their customers, many of whom are in the US or Europe. Up through the reporting year, we have been gradually transferring the production of small and medium-sized format printing presses to China. These printing presses are also precisely tailored to local market requirements. We will furthermore transfer a standardized, large-format printing press to China as soon as it is clear that local demand is increasing once again.

Plant in Sydney, Ohio in the US: Up to now we have produced smaller folders in this plant. In the future we will also produce the Speedmaster QM 46 here. Since this plant is already rebuilding used printing presses of this type, the change will be undertaken quickly and is expected to be completed during the current calendar year.

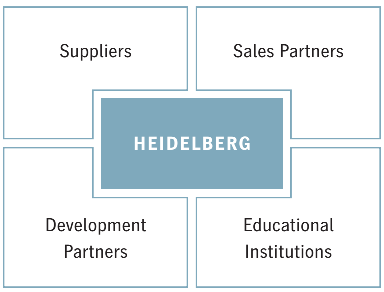
DEVELOPMENT AND PRODUCTION LOCATIONS

Detailed information concerning the various local operations can be found in our Sustainability Report.

< [*Production locations*] ?

Cooperation – an Important Factor for Future Success

> **Partnerships in All Divisions**
> **Expansion of Cooperative Sales Agreements**
> **Close Partnerships with Suppliers**



We organized cooperative agreements with various strategies and consequences along the entire added value chain. In many cases, we will further expand cooperation with other companies and institutes and enter into new partnerships in order to preserve resources as well as to better and more quickly achieve strategic objectives.

Development Partnerships with Institutions and Suppliers

In the area of research and development, we collaborate with a number of partners, among others in laser technology and the printing press assemblies. Through an exchange of expertise, together we advance new developments and can best focus them on satisfying customers' requirements. Since we are working very closely with our systems partners on a long-term basis and include these suppliers early on in development processes, we also benefit from their experience and expertise.

In the area of organic electronics, the 'Forum Organic Electronics', in which Heidelberg is active, is a unique joining of high-ranking protagonists in this area. The partners bring together comprehensive expertise, especially in the areas of automation systems, print technologies, and electrical engineering, which interlink them throughout the entire added value chain – from research into and development of new materials as well as the design of construction components all the way to the production and the sale of applications and services.

Closely networking science and business bears fruit – and is subsidized by the government. The winners of the top clusters competition, who also include **Forum Organic Electronics,** receive € 40 million in subsidies. This competition addresses pressing challenges in the areas of energy and the environment worldwide.

Partnerships with universities and banks also augment our internal basic research. Since the previous year, we have increasingly focused on basic research on electronic printing. We are working in this area not only with the Darmstadt Polytechnic University and the Institute for Printing Technology (Institut für Drucktechnik), but with Heidelberg University and partners in our industry as well. Functional layers could play an important role, especially in packaging printing – for example, by having a package issue a signal on the expiration date of the packed commodity.

In general, for competitive reasons our partners as well as Heidelberg do not disclose information concerning the current status and the exact content of joint projects.

Cooperative Marketing Agreements – Expanding the Consumables Business in Particular

We have maintained our cooperative marketing agreement with Polar-Mohr, the leading manufacturer of cutting installations, for several decades. For a number of decades, we have also established strong partnerships in various regions where we do not maintain our own agencies, such as in the Benelux countries and in the Middle East.

We will further expand our numerous supply and OEM relationships, primarily in the Postpress and consumables areas. We are increasingly cooperating with dealers and manufacturers in order to expand our consumables business. Moreover, we are working more closely with ink manufacturers in order to further improve printing results.

Cooperation in Education and Ecology

The production of printed products is unavoidably associated with the output of the greenhouse gas CO_2. More than 50 Heidelberg customers are meanwhile compensating for this environmental burden with **adequate climate protection measures.**

The wide variety of social projects in which we are engaged range from local and short-term projects all the way to long-term commitments and sponsoring. One of our priorities focuses on educational facilities. We equipped universities with complete technical printing solutions and work together with numerous institutions internationally. 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. Since the previous year, we have also been supporting the 'KiTec' project, whose pedagogic approach for elementary school students originated at 'Wissensfabrik – Unternehmen für Deutschland e.V.' This association of 60 leading German companies has set itself the goal of making Germany more future-oriented as a base for business operations.

We also cooperate with universities and associations in the area of ecology. More information on this topic is provided in the Sustainability Report.

Sustainability – Fully Utilizing Available Potential

> **Prinect Ensures Considerably Better Environmental Balance Sheet for Print Shops**
> **Systematically Utilizing All Opportunities for Unburdening the Environment**

KEY ECOLOGY DATA[1]

	2007	2008
Production and development sites altogether	15	16
Production and development sites with a certified environmental management system	9	9
CO_2 emissions in thousand tons	141	128
Waste recovery rate in percent[2]	94	94

1) Figures for the calendar year
2) Share of processed waste to total waste

For nearly 20 years, in our production processes we have reduced to the greatest possible extent the consumption of resources as well as waste and emissions. Through our consistent environmental management, all processes are designed to be energy-efficient and environmentally friendly. More information on this topic can be found in our Sustainability Report.

Furthermore, our developers are vigorously working on reducing environmental pollution from printing to an unavoidable minimum. Some half of all print shops now view environmental protection as an important issue – also in the marketing of their products, because demand for printed products that are produced in an environmentally friendly manner is rising.

Our various measures for environmentally friendly production and their impact as reflected in the example of the Speedmaster XL 105 were thus well received at trade shows held during the financial year. Material consumption and the CO_2 emissions resulting from the printing process can be reduced by over five percent, spoilage is cut back by up to 80 percent, energy consumption is shrunk by more than 15 percent, and waste is down by up to five percent.

The most important factor in the environmental balance of sheetfed offset printing is startup spoilage. Our Prinect Workflow modules reduce the number of flats required in setting up a printing press from approximately 600 to just one or two! The Prinect Prepress Interface adjusts the color zones of the printing press, the Prinect Color Assistant stores characteristic curves for inks and paper, and the spectral-photometric Prinect Inpress Control measures and regulates the flow of ink supplied during the production process. As far as our printing presses are concerned, our Anicolor inking unit technology is the most innovative approach to reducing spoilage.

We support customers in their launching of environmentally friendly production methods. In addition, with Saphira we make available to them an environmentally friendly range of consumables products.

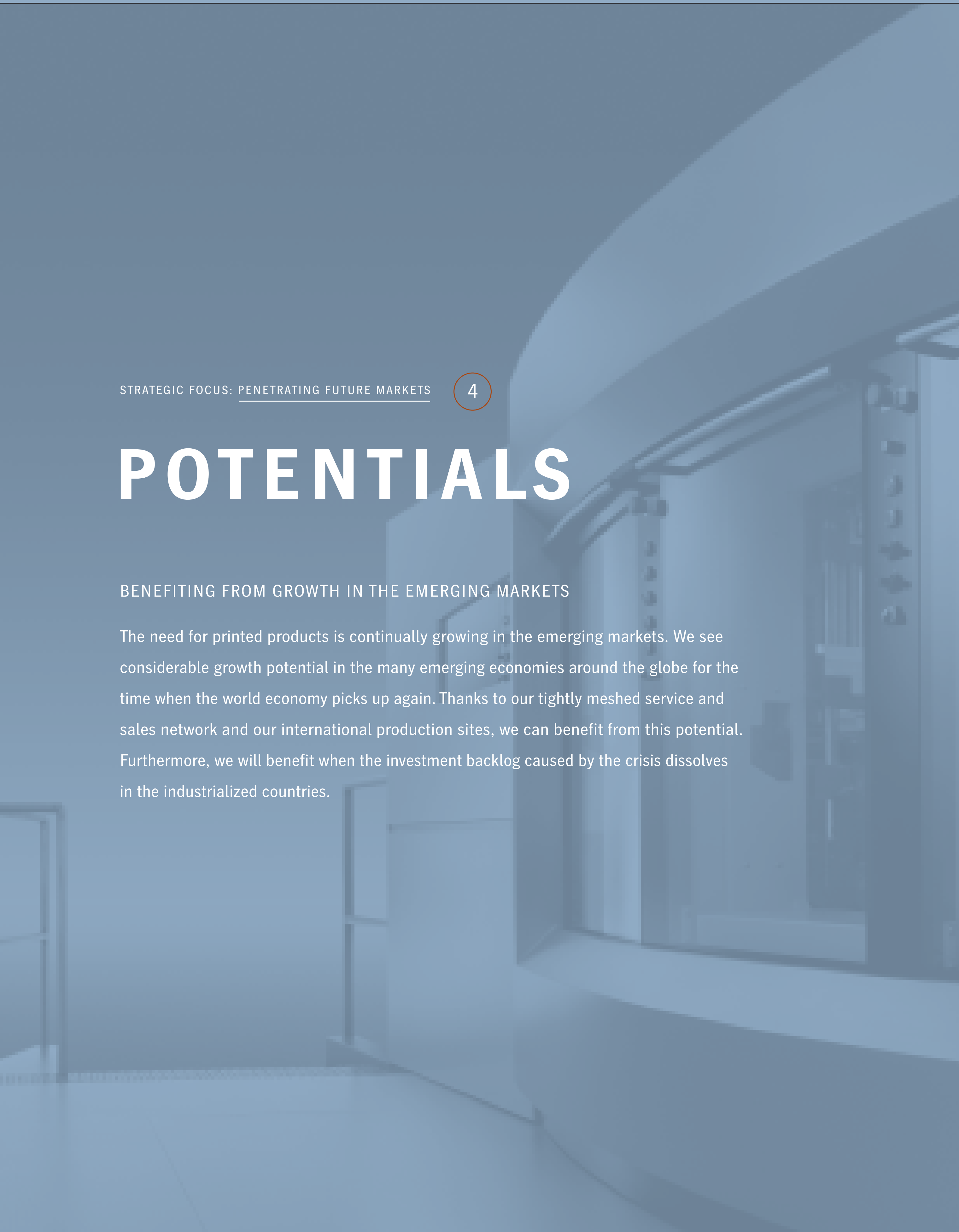
HIGHLIGHTS

ANICOLOR

Unique principle of construction

The Anicolor zoneless short inking unit only needs an extremely short set-up time. It is also an environmentally friendly and low-cost response to declining print runs.

> Latin America
Brazil
Mexico
Argentina
Chile
Ecuador
Costa Rica
Peru
Colombia
Bolivia
Venezuela
> Middle East and Africa
United Arab Emirates
Saudi Arabia
South Africa
Iran
Nigeria
Egypt
Jordan
Tunisia
Kenya
Kuwait
> Eastern Europe
Russia
Poland
Czech Rebublic
Hungary
Turkey
Ukraine
Slovakia
Croatia
Bulgaria
Romania
> Asia/Pacific
China
India
South Korea
Thailand
Indonesia
Malaysia
Taiwan
Singapore
Philippines
Vietnam



STRATEGIC FOCUS: PENETRATING FUTURE MARKETS 4

POTENTIALS

BENEFITING FROM GROWTH IN THE EMERGING MARKETS

The need for printed products is continually growing in the emerging markets. We see considerable growth potential in the many emerging economies around the globe for the time when the world economy picks up again. Thanks to our tightly meshed service and sales network and our international production sites, we can benefit from this potential. Furthermore, we will benefit when the investment backlog caused by the crisis dissolves in the industrialized countries.

FORECAST, OPPORTUNITIES, AND RISKS

Our extensive service and sales network spans the globe. Worldwide, we employ over 7,000 service, sales, and marketing specialists and we are active ourselves in 170 countries. We generate approximately 85 percent of our sales with our own marketing organization. This approach makes it possible for us to optimally support our customers in both our own industry as well as in the emerging markets.

Overall Picture – Prospects

The global economy is in the greatest crisis of the postwar era. All economic research institutes emphasize that their economic projections are subject to great uncertainties. The generally accepted view currently is that in overall economic development, risks outweigh opportunities.

Due to the development of incoming orders in recent months and the low order backlog at the beginning of the current financial year, we must assume that our **sales volume** in numerous markets will at first decline further, and that during the current financial year overall sales will fall below the very low level of the reporting year. A lack of profit contributions will consequently unfavorably influence the **result of operating activities.** Our Heidelberg 2010 program is serving to lower the Group's break-even point as quickly as possible. The scheduled implementation of this program will already begin producing perceptible savings during the current financial year. The enormously higher refinancing costs, which also include the costs of guarantees under the Economic Stimulus Package II, will considerably burden our financial result. For these reasons, we are projecting a **net loss** for the current financial year. Since our business development is highly dependent on economic trends on the one hand, while on the other hand exchange rate structures and raw material and energy prices are subject to a high degree of volatility, at the present time we are unable to issue a more specific sales and earnings forecast.

If the economy recovers by the end of calendar year 2009 or beginning in 2010 as a result of the numerous economic stimulus packages, this could already have a favorable impact on the development of our sales and the result during the current financial or at the latest in the following financial year. In the medium term, we see considerable opportunities for the Group as soon as the deep crisis of the global economy is overcome. Our solutions provider strategy precisely meets the requirements of the markets. Especially in the emerging markets, which promise high growth rates again in the future, we are further improving our already very solid market position.

Since our strategic focus is now on those business units that are growing relatively independently of cyclical trends, we will be in a much better position to absorb the impact on the Group's sales volumes during future periods of weakness or crises in the global economy.

Outlook: Underlying Conditions – Crisis Puts the Brakes on the Overall Economy and Our Industry

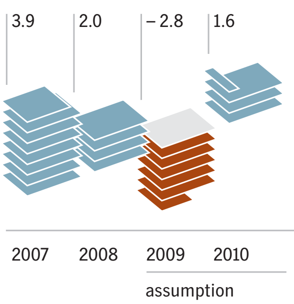
> **Worst Recession of the Postwar Era; Hope for Economic Upswing in Calendar Year 2010**
> **Growth Again Also Anticipated in the Commercial Printing Area in 2010**
> **Emerging Markets Offer Growth Potential**

On page 28 (Underlying Conditions), we describe the relationship between our customers' propensity to invest worldwide and current and expected economic growth. We list additional factors that hamper or could provide an impetus for our business development in individual markets.

The global economy has fallen into a sharp recession following what at first was an isolated crisis in the real estate sector but which subsequently became a global financial market crisis that in the end affected the real economy as well. This development gradually encompassed all regions and industries. Our biggest customer group – print shops in the commercial printing segment – is suffering massive declines in orders. Their propensity to invest has reached a low point. It is still not clear that the recession has bottomed out. Moreover, the economic crisis has assumed ever greater magnitudes. Banks are applying more restrictive lending guidelines as a consequence of the crisis, which serves to additionally weaken the economy and our business development. In order to revitalize the economy, the governments of almost all the larger industrialized countries introduced so-called economic stimulus packages. So far these packages have not yet had the desired effect on the real economy.

GLOBAL ECONOMIC PERFORMANCE

Change from previous year in percent



Source: Global Insight: WMM; April 2009

Negative or Extremely Low Growth Rates in Key Markets

Since February 2009, the decline in economic performance has slowed relative to the previous months, at least in some regions of the world. This supports hope that the downturn may be halted soon. Most economic research institutes expect a turnaround next year. Global Insight still anticipates a renewed decline of −2.8 percent in global economic performance for 2009 and an increase of 1.6 percent for the following year. However, all forecasts are fraught with considerable uncertainties.

Since the end of World War II, world trade has never fallen as drastically as it did early in 2009. The industrialized countries are feeling the full impact of the recession. Exports and investments plunged and falling total employment and the uncertain outlook are curbing consumer spending. The emerging markets have also been drawn into this downward spiral. Furthermore, several economies are still struggling with a credit crunch

GROSS DOMESTIC PRODUCT[1]

Change from previous year in percent

	2007	2008	**2009**	**2010**
World	3.9	2.0	– 2.8	1.6
US	2.0	1.1	– 3.5	1.4
EU	2.9	0.8	– 3.9	– 0.1
Germany	2.6	1.0	– 4.8	– 0.2
UK	3.0	0.7	– 3.8	– 0.2
Eastern Europe	5.5	3.5	– 0.5	1.5
Russia	8.1	5.6	– 3.8	2.6
Asia[2]	8.6	5.5	1.8	4.8
China	13.0	9.0	5.9	7.7
India	9.0	6.0	4.3	5.8
Japan	2.4	– 0.7	– 6.7	0.8
Latin America	6.4	5.1	0.3	3.6
Brazil	5.7	5.1	– 1.6	3.1

[1] Source: Global Insight: WMM; April 2009
[2] Excluding Japan

and considerable weakness of their currencies. Although the growth of GDP in our key markets has been accordingly low during the current year, as the table on the left shows, an upturn is expected next year almost everywhere.

In the **US,** unemployment is expected to rise even more above its historic record level. Asset deterioration among businesses and private households are currently blocking both investments and greater consumer spending. With its economic stimulus package, the new government aims, among others, to boost investor confidence in the financial markets.

In **Europe,** the economies of the exporting nations in particular must expect a considerable decline. As a consequence, many companies are threatened in their existence and the employment situation has worsened rapidly. With an impetus from the various economic stimulus packages, the situation should gradually improve here once again beginning in 2010. It can be expected that in countries such as the UK, which felt the effects of the crisis at an early stage, the economy will begin picking up sooner than in those countries that only later began suffering a downturn.

Since the development of the economies of **Eastern Europe** depends heavily on the demand for imports by that region's Western European trading partners, no impetus to growth is on the horizon here. Loss of the value of currencies, the credit crunch, and other factors are additionally holding back these economies.

Although raw material revenues will be lower in **Latin America** than in recent years, these economies are robust due to a solid financial condition. Economic conditions will noticeably worsen in this region as well, where a forecast of 0.3 percent growth in GDP for 2009 is only moderately in the black. Projections for 2010 of 3.6 percent growth are again more confident. Investments in this region are also being hampered by weak local currencies.

In **Asia,** the emerging markets have had to struggle with the lack of demand on the part of their major export partners. Considerably lower growth rates are anticipated for the current and coming year than in the past. **China's** GDP will nevertheless continue to grow. By contrast, the situation in **Japan,** which was heavily impacted by the global economic crisis, is critical. The strengthening of the yen further reinforced this downward spiral. The enormously comprehensive economic stimulus packages in China and Japan provide a glimmer of hope. The government in Tokyo alone announced in March its intention to support the economy with a package of measures totaling more than € 150 billion.

Further Development of Heidelberg's Sales Markets

Similarly to the situation during the reporting year, during the current financial year the printing industry will continue to struggle with the enormously difficult underlying conditions in the various countries. Our **commercial printing** customers in the industrialized countries are being confronted with weak capacity utilization, heavy competition, and strong upward pressures on costs. Consolidations are commonplace. No improvement is expected for the current year in the US or Europe. The development of the propensity to invest next year largely depends on when companies will again invest more in marketing activities. We will benefit as soon as the demand for printed matter increases again. Our networked solutions, which make flexible, low-cost, and environmentally friendly production possible, precisely satisfy market requirements.

Detailed information on market potential as well as our offerings in packaging printing and consumables are presented on pages 90 to 93.

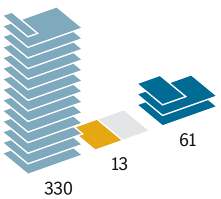
According to economic experts, lower energy prices and falling inflation rates will revive consumer spending. This will provide incentives to invest in the **packaging printing area.** Our focus is particularly on the segment of folding carton packaging printing, where we intend to considerably expand our market share. Our integrated solutions will help us in all format categories because, with these solutions, customers are able to optimize production and final products. Our new large format solutions systematically address globally active packaging print shops. Packaging printing shows considerable growth potential in the medium term, especially in the emerging markets. Due to ongoing urbanization, we are projecting a strong growth in demand for high-quality packaging. This trend is being further boosted by changed consumer spending and a changed awareness of hygiene by consumers. The importance of packaging as a high-quality advertising medium is increasing rapidly in the emerging markets as well.

The **Consumables and Services** area is subject to considerably less cyclical influence than the printing press business. Moreover, the changed requirements of final customers is contributing to the need for increased ink and printing plates per metric ton of paper output. We intend to expand our market shares by widening our portfolio and by means of cooperative agreements. In this manner, despite the crisis we succeeded in increasing our sales in this area during the financial year.

A number of **emerging markets** are continuing to grow despite the world economic crisis. Market saturation with printed products is still very low in these countries, as the graph on the left makes clear. In the medium term, these emerging markets present considerable opportunities, especially

PER CAPITA PRINTING VOLUMES (STATUS 2008)

Figures in €



- Average industrialized nations
- Average emerging countries
- Average world

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

China and India. We have therefore systematically expanded our local activities in recent years. We offer high-quality standard printing presses that are furthermore produced in China, and we augment our product portfolio by means of services and selected consumables. With our strong presence in the market, we have close and direct contact with customers. Over 800 people are employed by Heidelberg in China, working at our sales branches as well as our own manufacturing facility in Qingpu. The Hong Kong Logistics Center supplies the customers in the region with service parts in the shortest possible time. We cover India with five branches distributed throughout the country. We offer practical training programs in both countries through our Print Media Academies for our employees as well as for our customers. The trend towards demand for high-quality print products and technologies in the emerging markets will pick up again when the world economic crisis is overcome.

In all our key markets and market segments, we closely monitor all the changes in underlying conditions, follow general **trends and special developments in individual markets,** and react quickly to all these factors. The importance of environmentally friendly production has increased noticeably in the print media industry. We will benefit from this development in the medium term since we have been pioneers in environmentally friendly printing. Linoprint, our innovative special inkjet printer that we introduced for the first time during the financial year, represents a niche product that addresses new challenges in the packaging area. Linoprint can be integrated in packaging printing presses and is suitable for variable printing in even the smallest batches and lot sizes.

In the Risk Report on the following pages, we address trends and developments and the risks they entail for our business as well as changes in the procurement market. We also describe here the longer-term prospects for sheetfed offset printing, our core area of business.

Risk and Opportunity Report – Economic Crisis Exacerbates Risks

> **Danger of a Further Business Downturn – Opportunity for an Economic Upswing**
> **Credit Approval Granted in Principle by Banks and Collateral Approved by Federal and State Governments**

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: Liquidity and financing 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 describe our risk and opportunity management system in the section 'Management and Control' on pages 37 to 41, where we also report on our risk management with respect to financial instruments. Details on how we deal with interest, foreign currency, and liquidity risks can be found in the Notes to the Financial Statements.

General Statement on Risks and Opportunities: Increased Overall Risk Due to the Financial Market Crisis

The **economic and financial market crisis** affected the Group in a number of ways. Our customers' propensity to invest, which fell, was additionally hampered by worsened lending conditions. Risks from sales financing as well as risks of suppliers' insolvencies have grown.

The overall risk situation worsened from the previous year due to the deep-seated crisis. Comprehensive discussions were held with the banks that are providing the financing based on a detailed financing concept that is largely in agreement with the previous financing structure in type, scope, and term. The banks providing the financing granted their fundamental credit approval late in May through early June 2009, however under the condition that in accordance with the second package of measures, i.e., the 'Pact for Employment and Stability in Germany' (the so-called Economic Stimulus Package II), and for the loan granted by KfW collateral be provided by the Federal Republic of Germany and the States of Baden-Wuerttemberg and Brandenburg by the end of August 2009. Although the corresponding administrative units of the German Federal Government gave their fundamental consent to this, written confirmation is currently still pending. We anticipate a final decision from the Economic Committee of the State of Baden-Wuerttemberg in the near future. Based on previous negotiations,

DEVELOPMENT OF RISK GROUPS

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

the Management Board expects a positive decision here as well. Should a complete and legally binding agreement fail to occur, this would result in a risk endangering Heidelberg's existence. For background information and details please refer to pages 111 to 113. No other recognizable risk that could threaten the existence of the Heidelberg Group is currently foreseeable. 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.

In order to determine our overall risk, 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.

There is a currently significant risk that overall economic conditions could further worsen or fail to improve to the expected degree. Consequently, the risk included in the risk group 'Risks Arising from the Economy and the Market' has deteriorated further compared with the previous year, although we continue to maintain our conservative approach in our planning. The risks in the risk group 'Industry and Competitive Risks' are at about the previous year's level. The leading technological position of our printing presses alleviates a possible price risk. Moreover, our Japanese competitors no longer have the considerable foreign currency advantages that they did in the past. Financial risks rose due to the above-mentioned financing situation. Risks arising from the Performance Process also increased. Only the group Product Risks fell, as the market launch of the new products has been completed and the startup of series production is proceeding smoothly to a large extent.

We are currently continuously examining the **need to modify our overall strategy** as well as the strategies of the individual divisions. Current studies conclude that sheetfed offset printing, our core business area, will continue to be the prevalent printing process in the future as well. Through greater flexibility and high speed, we are succeeding in the competition with digital printing, and through higher productivity we are also tackling large-volume web offset printing. In particular the emerging markets are contributing to a further increase in the volume of printed matter each year. In the industrialized countries, customers are using our technology to acquire orders via the Internet and then produce them on a cost-effective basis on sheetfed printing presses.

The print technologies offset and digital will continue to coexist. Offset printing will still cover the majority of the most common orders. Digital printing is only in direct competition with offset printing for very small print runs.

Considerably Greater Risks from the Economy and the Market; Higher Country Risks

Global economic development has a major impact to our own business development. It is still possible that credit for the corporate sector could become even scarcer. Together with the negative business forecast for the corporate sector, this could result in a continuation of the global economy's negative trend.

We view our presence in 170 countries as a tremendous opportunity for the Group. We minimize **country risks** in some emerging markets, especially risks that result from economic or political instability, by closely monitoring current developments on-the-spot in order to undertake countermeasures early on if necessary. Government intervention, tougher customs regulations, and changes in legislation could hamper our business development in some markets. Thanks to our own manufacturing facility in China, which is one of our strategically most important markets, we reduce the risk that new import duties or tougher market regulations could hamper our business. Moreover, we thereby ensure that we will be in a position to take full advantage of the opportunities offered by the market. It is still unclear how the new provisions concerning the value added tax and the deduction of input VAT will impact the investments of Chinese print shops.

We see an opportunity that, due to the measures that have been implemented by many governments, the economic situation could recover more quickly and on a more sustained basis than is broadly assumed, and that confidence will return in the economy. In addition, various markets could relax their import and customs regulations and provide increased incentives to invest through tax-related changes.

Industry and Competition: More Favorable Exchange Rate Structures

The 'Risks of Industry and Competition' are at about the previous year's level. The leading technological position of our solutions alleviates a possible price risk resulting from weak demand. At the moment, there no longer seems to be a risk that Japanese competitors could have a competitive advantage due to a weak yen. Following the considerable advantages they had for many years due to the exchange rate structures, these structures again shifted substantially in favor of European suppliers. German suppliers will have new opportunities once print shops' propensity to invest recovers. A renewed unfavorable change in exchange rates would weaken our market position – as well as that of our European competitors. Our measures to strengthen purchasing and production outside the euro zone lessens the risks arising from this development in the medium term.

Whereas, at least in the sheetfed offset area, the market structure among equipment suppliers to the print media industry has been robust for a number of years, the competitive structure could change if the crisis is prolonged. If competitors fall by the wayside or merge, this could result in not only risks, but in opportunities for us as well, because we could then expand our market position. Moreover, we also see an opportunity that our principal competitors in the finishing area will cease their extremely aggressive market defense strategy due to the crisis.

We are improving our opportunities of acquiring increased market share following the economic crisis by:

> supporting customers worldwide with comprehensive services;
> highlighting the measurable advantages of our integrated solutions for potential customers throughout the world; and
> maintaining our leading technological position vis-à-vis the competition.

Product Risks Down from the Previous Year

We introduced our new product portfolio and presented our significant new developments to customers at drupa 2008. Since these new products proved themselves in day-to-day operation following their market launch, the risks in the area of products has fallen.

In order to avoid undesirable developments, our priority in all R&D projects is by necessity on the customer's benefit. We work closely together with concept customers in all phases of product development. A panel of experts from the areas R&D, product management, controlling, manufacturing, and service determine in advance the direction of further product development. Among other things, the panel members make decisions based on market analyses as well as economic viability considerations from the Group's point of view and based on our technology roadmap, which we utilize to describe the long-term development goals that we need to attain in order to satisfy future customer requirements. We secure the results of our research and development activity with the Group's own proprietary rights.

Financial Environment Risks Increase

'Financial Environment Risks' have increased over the previous year. Contributing to this development was the fact that so far, Heidelberg has only received credit approval from the banks in principle. We discuss the background of this development in the next five paragraphs:

Potential refinancing risks could arise should a company no longer be in a position to obtain the financial means necessary to pay its financial liabilities.

During the period 2004 to 2006, the € 280 million convertible bond, the € 550 million syndicated credit facility, and three borrower's note loans totaling approximately € 150 million were all successfully placed. Heidelberg additionally has access to various bilateral credit lines from banks. The syndicated credit facility, which totals € 550 million, is largely for the purpose of financing seasonally higher financing requirements. By contrast, long-term financing requirements are covered by the convertible bond, the three borrower's note loans, and a € 500 million long-term sale (usufruct) and leaseback agreement that was implemented the previous year covering improved land. Our overall credit facilities, with the core elements convertible bond, borrower's note loans, syndicated credit, and bilateral credit lines have so far ensured a stable financing structure with a well-balanced maturity profile. These facilities always adequately covered the debt that arose regularly as a result of fluctuations arising during the year compared with the outstanding amounts at the financial year-end.

With the current financial market crisis and its impact on the real economy, the basic financial conditions for all companies, and therefore for Heidelberg as well, have changed fundamentally. Due to the development of the price of the Heidelberg share, it must be assumed that from now on, investors holding the convertible bond will exercise their right to accelerated repayment of the bond in February 2010, as a consequence of which repayment will occur prior to February 2012. Because of the marked decline in Heidelberg's sales, it must be assumed that the originally agreed upon financial covenants under the terms of the syndicated credit can no longer be met over the remaining term to maturity of the credit in July 2012. As a precaution, Heidelberg therefore obtained an agreement to an 'amendment request' (adjustment of the originally agreed upon financial covenant) in December 2008 from the relevant banks.

The situation is currently as follows for Heidelberg: Comprehensive discussions were held with the banks that are providing the financing based on a detailed financing concept that is largely in agreement with the previous financing structure in type, scope, and term. The banks providing the financing granted their fundamental credit approval late in May through early June 2009, however under the condition that in accordance with the second package of measures, i.e., the 'Pact for Employment and Stability in Germany' (the so-called Economic Stimulus Package II), and for the loan granted by KfW collateral be provided by the Federal Republic of Germany and the States of Baden-Wuerttemberg and Brandenburg by the end of August 2009. Although the corresponding administrative units of the German Federal Government gave their fundamental consent to this, written confirmation is currently still pending. We anticipate a final decision from the Economic Committee of the State of Baden-Wuerttemberg in the near future. Based on previous negotiations, the Management Board expects a positive decision here as well. If, however, completion of the complete, legally binding agreements should fail to occur, this would result in a risk endangering Heidelberg's existence.

The Management Board currently believes that the reorientation of the financing structure can be implemented successfully in the near future. Based on this, the annual financial statements have been drawn up under the assumption that the Company will continue to exist.

The other financial environment risks have also increased in the area of sales financing. The crisis has resulted in an increase in the volume of receivables from our sales financing that are past due. The risk of payment losses under financing contracts with customers therefore rose. The risks from counter-liabilities that we took over were also up. The portion of our portfolio that consists of claims against customers in emerging markets has grown. The currency devaluations in some countries are enormously encumbering our customers from repaying their installments denominated in euros or US dollars. The Ukraine, Mexico, and Brazil, for example, are especially affected by this development.

We form an appropriate provision to cover recognizable risks under our policy on risk provision, which is generally conservative. We systematically monitor foreign currency 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 are striving to reduce the foreign currency exposure of the Heidelberg Group and thereby also our dependency on exchange rate structures. We have hedged in the medium term the risk that the exchange rates of our principal foreign currencies might fall. Nevertheless, although risks exist in this area, we would also have opportunities should the exchange rate situation improve.

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.

Economic Performance Risks Up Slightly

Substantial job cutbacks that also entail numerous business-related job terminations are always difficult – not only for the concerned employees, but for the entire Group. Important expertise could be lost, highly experienced teams are subject to change, processes and procedures need to be redesigned – and a degree of flexibility in case of a sudden economic upswing could be lost. Nevertheless, we strive to reduce the risks in the **human resources area** to the greatest possible extent based on modern human resources approaches and training opportunities.

For our new format category, there is a risk that the start-up costs of **production** and the general cost of manufacturing could be higher than planned. Overall, in the production area we have an opportunity to realize considerable cost reductions through the enhancement of processes within the framework of our Heidelberg Production Systems.

We minimize **environmental risks** through an efficient environmental management system – both in the area of product design and 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. 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. The risk of losses consequently rose only slightly despite the difficult underlying conditions, although insolvencies of firms, especially in the engineering industry, will continue to be widespread. The price level of raw materials, metals, and energy is lower than in the past. A sudden and hefty price resurgence would entail a risk to our cost of manufacturing.

We reduce the risk from bad investments by including all planned **investments** in our worldwide uniform planning system. This system forms the basis for our focused financial management. Before each capital goods investment, we implement a make-or-buy analysis, which a team of engineers and financial specialists monitor. Our system proved its helpfulness during the financial year, as a result of which we have been able to quickly reduce planned investments – with no increase in our risks from production!

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 thanks to suitable security measures. Through comprehensive preventive measures, we have considerably reduced the danger of cyber attacks.

Future Prospects – No Short-Term Upswing in View

- > **Falling Incoming Orders and Reduced Order Backlog Result in a Further Decline in Sales**
- > **Sustained Cost Reductions through Heidelberg 2010 Program**
- > **Short-Term Reduction in Personnel Expense through Short-Time Work**
- > **Considerable Strains on the Financial Result**

We assume that the economic research institutes will be correct in their forecasts that the world economy will recover beginning in 2010. Nevertheless, economic uncertainties are currently making any reliable forecast impossible. During the current financial year, numerous economies will pass through the low point of the economic downturn. Other markets, where the economic downturn appeared later, can expect an upswing at the earliest next year. Due to the currently high degree of volatility, an assessment of the future exchange rate structures as well as raw material and energy prices is extremely difficult at present.

We continue to enjoy considerable competitive advantages – especially in the emerging markets, which will again grow at an above-average pace. In the section 'Outlook – Underlying Conditions' we explain how we ensure that we will be in a position to take full advantage of opportunities in the various markets. On pages 83 to 86 we describe in detail how we intend to further improve our leading market position, among others by means of our research and development work.

Sales Decline in the Current Financial Year; Medium-Term Forecast Remains Difficult

In some industrialized countries, we do not expect print shops' propensity to invest to improve in the coming months. As a result, our incoming orders will initially remain at the low level of the last two quarters. With regard to the generally less favorable credit environment, little is also expected to change in the short term. Due to this assessment and the low order backlog, we must assume that **sales will decline** further during the current financial year. If the growth anticipated by economic research institutes occurs in the markets – favored by various economic stimulus packages – we will benefit from it. In the subsequent year, we could then again expect an increase in sales in both the Press Division and the Postpress Division.

In both the industrialized countries as well as in the emerging markets, the currently growing investment backlog will result in growing demand for our new products when the economy recovers, including our highly productive large format solutions, our Speedmaster XL 105 with perfecting device, and our very economic Anicolor inking unit for small print runs.

In the medium term, we will continue to boost our sales in the service and consumables areas in order to better compensate for the declines in equipment sales. We will increase this product area's share of sales in the total of the Heidelberg Group by expanding our market shares through cooperative agreements and the continual growth in our portfolio.

Result of Operating Activities: Burden from a Lack of Profit Contributions; Favorable Impact of Heidelberg 2010

This year, the further decline in sales will again result in a lack of profit contributions and will thereby burden the **result of operating activities.** The effects of our Heidelberg 2010 program, whose implementation is proceeding according to plan, are alleviating this situation. Overall, we intend to realize structural savings of € 400 million compared to financial year 2007/2008, including € 350 to € 380 million already during the current financial year. We will additionally make use of the instrument of short-time work throughout Germany, which will result in short-term savings in the human resources area. Only modest additional special expenses will accrue in connection with the Heidelberg 2010 program. We have rapidly attacked our target of eliminating up to 5,000 jobs worldwide in a socially responsible manner. We will considerably reduce our investments in tangible assets for the current and subsequent financial year compared with the reporting year. Research and development outlays will further decline significantly. By expanding our purchasing activities outside the euro zone, we reduce the influence of currency fluctuations, reduce our cost of materials, and take advantage of differences in wage levels.

Due to the considerably lower order backlog, which amounted to € 650 million at financial year-end, we anticipate a marked decline in sales for the **first quarter** of the current financial year 2009/2010 – both relative to the last two quarters of the reporting year and with respect to the same quarter the previous year. Since we can only partially compensate for the lack of profit contributions for this reason through savings under our Heidelberg 2010 program, we are projecting a substantial negative result of operating activities for the current first quarter of financial year 2009/2010.

If the economy picks up by the end of calendar year 2009 or beginning in 2010, we also expect an increase in our sales volume and a corresponding improvement in the result of operating activities. We will benefit here from the full volume of savings through Heidelberg 2010 on a long-term basis, on the basis of which we will optimize the Heidelberg Group's structures.

Higher Financing Requirements Burden the Financial Result; Marked Net Loss Again This Year

Whereas in past years we were always able to continuously reduce financial liabilities, our financing requirements were greater during the reporting year. Furthermore, financial terms are considerably less favorable than in the past. The enormously higher refinancing costs, which also include the costs for the guarantee under the Economic Stimulus Package II, result on balance in our accruing a high level of expenses burdening the financial result during the current financial year. Primarily due to this burden, we are again projecting a considerable net loss for the current year.

Heidelberg Prepared for Future Challenges

We have adapted our Company to expected business developments and are purposefully implementing our Heidelberg 2010 program. Pending the expected credit approvals from our banks, the German Federal Government, and the States, we have access to a solid credit facility.

Our strategic approach of offering comprehensive solutions for commercial printing and packaging printers and maintaining a local presence worldwide fully prepares us for the future challenges confronting the print media industry. Moreover, the expansion of our market share in the service and consumables areas helps us compensate to some extent for the currently deteriorating market conditions in the business with new printing presses.

Supplementary Report

Comprehensive discussions were held with the banks that are providing the financing based on a detailed financing concept that is largely in agreement with the previous financing structure in type, scope, and term. The banks providing the financing granted their fundamental credit approval late in May through early June 2009, however under the condition that in accordance with the second package of measures, i.e., the 'Pact for Employment and Stability in Germany' (the so-called Economic Stimulus Package II), and for the loan granted by KfW collateral be provided by the Federal Republic of Germany and the States of Baden-Wuerttemberg and Brandenburg by the end of August 2009. Although the corresponding administrative units of the German Federal Government gave their fundamental consent to this, written confirmation is currently still pending. We anticipate a final decision from the Economic Committee of the State of Baden-Wuerttemberg in the near future. Based on previous negotiations, the Management Board expects a positive decision here as well. For additional information on this topic, please refer to the details provided in the Risk and Opportunity Report beginning on page 108.

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.

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* Cover

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 € –15 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 4.00 percent, a market risk premium of 5.00 percent, and a so-called beta factor of 1.40. The aftertax borrowing cost rate is 5.57 percent. We apply a flat tax rate for the transition to pre-tax consideration. In the reporting year we lowered this tax rate from 30 to 28 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

	2007/2008	**2008/2009**
Gross assets according to balance sheet	3,507	3,241
– Marketable securities/ cash and cash equivalents	144	80
– Financial receivables/loans	59	63
– Tax refund claims	122	116
– Deferred tax assets	77	92
Operating assets (gross)	3,105	2,890
Gross debt according to balance sheet[1)]	2,314	2,445
– Provisions for pensions and taxes	410	434
– Tax liabilities	58	38
– Non-operating financial liabilities[2)]	490	689
– Deferred tax liabilities	145	38
Operating non-interest bearing liabilities	1,211	1,246
Operating assets (net)	1,894	1,644
Annual average	1,887	1,769

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

	2007/2008	**2008/2009**
Shareholders' equity	1,193	796
– Net deferred taxes	– 67	– 54
Adjusted shareholders' equity	1,260	742
Annual average	1,238	1,001
Pension provisions	116	154
+ Tax provisions	295	280
+ Net tax receivables/liabilities	– 64	– 78
+ Non-operating financial liabilities	490	689
Liabilities	837	1,046
Annual average	825	941
Adjusted total capital	2,097	1,787
Annual average	2,063	1,942

HEIDELBERG PRODUCTS

AT A GLANCE

PRESS

PREPRESS

Platesetters

Prosetter
Violet plates

Suprasetter
Thermal plates

PRESS

Sheetfed Offset

Speedmaster
35 × 50 format

Speedmaster
50 × 70 format

Speedmaster
70 × 100 format

Speedmaster
106 × 145 format
121 × 162 format

Flexo Printing

Label printing
Folding carton printing

Web Offset

Goss products

Prinect

The print shop workflow – integrates and optimizes management, prepress, production, …

POSTPRESS

Folding

Stahlfolder, Baumfolder

Die-Cutting

Varimatrix, Dymatrix

Saddlestitching

Stitchmaster

Folder Glueing

Easygluer, Diana

Adhesive Binding / Thread-Sealing

Eurobind, thread-sealing machine

Cutting

POLAR/Mohr products

… and postpress processes in print shops

SERVICES AND CONSUMABLES

Heidelberg Systemservice

Heidelberg Partner Program
Service programs
Remote Services
Original Heidelberg service parts

Print Media Academy

Trainings and seminars
Professional training
Communication

Business Consulting

Consulting
Business optimization
Print shop management

Consumables

Saphira

Consumables for Prepress, Press, and Postpress (e.g. plates, inks, coats, stitching wire)

Financial Services

Sales financing

Remarketed Equipment

THE FIGURES

CONTENTS

> CONSOLIDATED INCOME STATEMENT 2008/2009

Figures in € thousands

	Note	1-Apr-2007 to 31-Mar-2008	**1-Apr-2008 to 31-Mar-2009**
Net sales	8	3,670,314	2,999,469
Change in inventories		68,819	619
Other own work capitalized		78,410	78,278
Total operating performance		3,817,543	3,078,366
Other operating income	9	218,837	189,683
Cost of materials	10	1,669,059	1,402,883
Personnel expenses	11	1,179,681	1,065,767
Depreciation and amortization	12	123,603	99,302
Other operating expenses	13	796,197	748,687
Special items	14	–	178,987
Result of operating activities		267,840	– 227,577
Financial income	16	19,598	20,594
Financial expenses	17	88,483	139,730
Financial result	15	– 68,885	– 119,136
Income before taxes		198,955	– 346,713
Taxes on income	18	57,412	– 98,006
Consolidated net profit/loss		141,543	– 248,707
Minority interests		– 227	–
Consolidated net profit/loss attributable to Heidelberg		141,770	– 248,707
Undiluted earnings per share according to IAS 33 (in € per share)	35	1.81	– 3.20
Diluted earnings per share according to IAS 33 (in € per share)	35	1.77	– 3.20

Consolidated balance sheet of the Heidelberg Group as of March 31, 2009

> ASSETS

Figures in € thousands

	Note	31-Mar-2008	**31-Mar-2009**
Non-current assets			
Intangible assets	19	273,152	322,246
Tangible assets	20	580,187	645,615
Investment property	20	1,782	1,766
Financial assets	21	68,049	28,857
Receivables from sales financing	22	194,839	150,976
Other receivables and other assets	22	178,846	40,019
Income tax assets		76,045	70,862
Deferred tax assets	23	77,288	92,126
		1,450,188	1,352,467
Current assets			
Inventories	24	973,714	1,034,126
Receivables from sales financing	22	128,205	122,218
Trade receivables	22	596,473	450,866
Other receivables and other assets	22	171,153	157,660
Income tax assets		26,836	27,995
Securities	25	2,075	889
Cash and cash equivalents	25	141,868	79,117
		2,040,324	1,872,871
Assets held for sale	20	16,645	15,824
Total assets		3,507,157	3,241,162

> EQUITY AND LIABILITIES

Figures in € thousands

	Note	31-Mar-2008	31-Mar-2009
Shareholders' equity	26		
Subscribed capital		198,767	198,767
Capital reserves and retained earnings		852,298	846,066
Consolidated net profit/loss attributable to Heidelberg		141,770	– 248,707
		1,192,835	796,126
Non-current liabilities			
Provisions for pensions and similar obligations	27	115,969	154,162
Other provisions	28	360,374	349,055
Financial liabilities	29	493,512	127,094
Other liabilities	31	114,390	148,592
Deferred tax liabilities	23	144,661	37,753
		1,228,906	816,656
Current liabilities			
Other provisions	28	378,386	469,499
Financial liabilities	29	50,636	632,824
Trade payables	30	294,955	181,920
Income tax liabilities		3,546	1,962
Other liabilities	31	357,893	342,175
		1,085,416	1,628,380
Total equity and liabilities		3,507,157	3,241,162

> CONSOLIDATED CASH FLOW STATEMENT 2008/2009[1)]

Figures in € thousands

	1-Apr-2007 to 31-Mar-2008	**1-Apr-2008 to 31-Mar-2009**
Consolidated net profit/loss	141,543	– 248,707
Depreciation and amortization[2)]	123,970	111,392
Change in pension provisions	1,143	10,585
Change in deferred tax assets/ deferred tax liabilities/tax provisions	36,988	– 112,580
Result from disposals[2)]	– 14,010	1,756
Cash flow	289,634	– 237,554
Change in inventories	– 92,187	– 20,730
Change in sales financing	79,938	62,516
Change in trade receivables/liabilities	117,500	54,444
Change in other provisions	30,126	98,737
Change in other balance sheet items	– 8,139	38,707
Other operating changes	127,238	233,674
Inflow/outflow of funds from operating activities[3)]	416,872	– 3,880
Intangible assets/tangible assets/investment property		
Investments	– 216,785	– 197,857
Proceeds from disposals	42,451	32,022
Business acquisitions	–	– 31,014
Financial assets		
Investments	– 29,691	– 803
Proceeds from disposals	2,395	180
Outflow of funds from investment activity	– 201,630	– 197,472
Free cash flow	215,242	– 201,352
Treasury stock	– 57,082	–
Dividend payment	– 74,801	– 73,761
Borrowing of financial liabilities	109,607	238,902
Repayment of financial liabilities	– 124,145	– 33,814
Outflow/inflow of funds from financing activity	– 146,421	131,327
Net change in cash and cash equivalents	68,821	– 70,025
Cash and cash equivalents at the beginning of the year	79,247	143,943
Changes in the scope of the consolidation	492	1,277
Currency adjustments	– 4,617	4,811
Net change in cash and cash equivalents	68,821	– 70,025
Cash and cash equivalents at year-end	143,943	80,006

1) For further details please refer to note 36

2) Relates to intangible assets, tangible assets, investment property, and financial assets

3) Including income tax paid and refunded of € 21,977 thousand (previous year: € 35,660 thousand) and € 19,932 thousand (previous year: € 258 thousand) respectively. Interest expense and interest income amount to € 36,565 thousand (previous year: € 29,437 thousand) and € 35,861 thousand (previous year: € 38,727 thousand) respectively

> STATEMENT OF RECOGNIZED INCOME AND EXPENSE 2008/2009

Figures in € thousands

	1-Apr-2007 to 31-Mar-2008	**1-Apr-2008 to 31-Mar-2009**
Consolidated net profit/loss	141,543	– 248,707
Pension obligations[1]	82,155	– 119,591
Currency translation	– 81,530	62,182
Financial assets		
Fair value of financial assets	– 378	– 1,039
Cash flow hedges		
Fair value of cash flow hedges recognized in equity	77,988	– 27,976
Cash flow hedges recognized in income	– 49,058	– 19,416
Deferred income taxes	– 42,975	26,705
Total income and expense recognized in equity	– 13,798	– 79,135
Total recognized income and expense	127,745	– 327,842
– of which: Heidelberg Group	128,023	– 327,842
– of which: minority interests	– 278	–

[1] Changes in actuarial gains and losses and in adjustment amount due to IAS 19.58b)

Notes to the Consolidated Financial Statements for the Financial Year April 1, 2008 to March 31, 2009

> STATEMENT OF CHANGES IN EQUITY[1)]

Figures in € thousands

			Retained earnings					
	Subscribed capital	Capital reserve	Pension obligations[2)]	Currency translation	Fair value of other financial assets	Fair value of cash flow hedges	Other retained earnings	Total retained earnings
April 1, 2007	203,080	25,520	– 48,051	– 200,845	323	7,921	948,404	707,752
Total income and expenses recognized in equity	–	–	44,959	– 81,479	– 222	22,995	–	– 13,747
Consolidated net profit	–	–	–	–	–	–	188,192	188,192
Total recognized income and expenses	–	–	44,959	– 81,479	– 222	22,995	188,192	174,445
Dividend payment	–	–	–	–	–	–	–	–
Stock options	–	172	–	–	–	–	–	–
Treasury stock	– 4,313	4,313	–	–	–	–	– 56,798	– 56,798
Consolidation adjustments / other changes	–	–	–	–	–	–	– 3,106	– 3,106
March 31, 2008	198,767	30,005	– 3,092	– 282,324	101	30,916	1,076,692	822,293
April 1, 2008	198,767	30,005	– 3,092	– 282,324	101	30,916	1,076,692	822,293
Total income and expenses recognized in equity	–	–	– 106,482	62,182	– 618	– 34,217	–	– 79,135
Consolidated net loss	–	–	–	–	–	–	68,009	68,009
Total recognized income and expenses	–	–	– 106,482	62,182	– 618	– 34,217	68,009	– 11,126
Dividend payment	–	–	–	–	–	–	–	–
Consolidation adjustments / other changes	–	–	–	–	–	–	4,894	4,894
March 31, 2009	198,767	30,005	– 109,574	– 220,142	– 517	– 3,301	1,149,595	816,061

1) For further details please refer to note 26

2) Actuarial gains and losses and adjustment amount due to IAS 19.58b)

Total capital reserves and retained earnings	Consolidated net profit/ loss attributable to Heidelberg	Shares of the Heidelberg Group	Minority interests	Total
733,272	262,993	1,199,345	2,326	1,201,671
– 13,747	–	– 13,747	– 51	– 13,798
188,192	– 46,422	141,770	– 227	141,543
174,445	– 46,422	128,023	– 278	127,745
–	– 74,801	– 74,801	–	– 74,801
172	–	172	–	172
– 52,485	–	– 56,798	–	– 56,798
– 3,106	–	– 3,106	– 2,048	– 5,154
852,298	141,770	1,192,835	–	1,192,835
852,298	141,770	1,192,835	–	1,192,835
– 79,135	–	– 79,135	–	– 79,135
68,009	– 316,716	– 248,707	–	– 248,707
– 11,126	– 316,716	– 327,842	–	– 327,842
–	– 73,761	– 73,761	–	– 73,761
4,894	–	4,894	–	4,894
846,066	– 248,707	796,126	–	796,126

> DEVELOPMENT OF INTANGIBLE ASSETS, TANGIBLE ASSETS AND INVESTMENT PROPERTY

Figures in € thousands

	Cost						
	As of the start of the financial year	Change in the scope of consolidation	Additions	Reclassification[1]	Currency adjustments	Disposals	**As of the end of the financial year**
2007/2008							
Intangible assets							
Goodwill	109,721	–	–	–	– 24	–	109,697
Development costs	220,139	–	39,464	–	–	–	259,603
Software/other rights	107,144	43	7,705	317	– 405	7,631	107,173
Advance payments	389	–	38	– 317	– 22	26	62
	437,393	43	47,207	–	– 451	7,657	476,535
Tangible assets							
Land and buildings	604,165	201	26,885	13,261	– 4,100	5,130	635,282
Technical equipment and machinery	605,670	137	37,408	1,851	– 905	24,821	619,340
Other equipment, operating and office equipment	775,051	255	89,450	10,930	– 10,222	102,000	763,464
Advance payments and assets under construction	27,410	–	21,018	– 27,906	– 64	53	20,405
	2,012,296	593	174,761	– 1,864	– 15,291	132,004	2,038,491
Investment property	60,926	–	–	– 53,369	–	907	6,650
2008/2009							
Intangible assets							
Goodwill	109,697	15,203	1,914	–	– 1,255	–	125,559
Development costs	259,603	–	28,632	–	–	–	288,235
Software/other rights	107,173	18,215	5,429	–	– 9	4,034	126,774
Advance payments	62	–	63	–	–	39	86
	476,535	33,418	36,038	–	– 1,264	4,073	540,654
Tangible assets							
Land and buildings	635,282	859	24,271	1,667	2,453	5,115	659,417
Technical equipment and machinery	619,340	261	31,310	11,336	– 162	46,915	615,170
Other equipment, operating and office equipment	763,464	2,431	80,503	46	5,957	69,110	783,291
Advance payments and assets under construction	20,405	–	27,131	– 13,410	10	1,400	32,736
	2,038,491	3,551	163,215	– 361	8,258	122,540	2,090,614
Investment property	6,650	–	–	–	–	–	6,650

[1] Including reclassifications of the assets held for sale

[2] Including impairment loss of € 2,062 thousand (previous year: € 758 thousand), see note 12

Cumulative depreciation and amortization								Carrying amounts
As of the start of the financial year	Change in the scope of consolidation	Depreciation and amortization [2]	Reclassification [1]	Currency adjustments	Disposals	Reversals of depreciation and amortization	**As of the end of the financial year**	**As of the end of the financial year**
6,492	–	–	–	–	–	–	6,492	103,205
93,591	–	24,875	–	–	–	–	118,466	141,137
76,286	–	10,131	–	– 362	7,630	–	78,425	28,748
–	–	–	–	–	–	–	–	62
176,369	–	35,006	–	– 362	7,630	–	203,383	273,152
392,467	–	15,585	– 471	– 1,464	3,772	–	402,345	232,937
489,895	–	20,595	–	– 414	24,775	–	485,301	134,039
601,693	–	50,943	–	– 5,569	76,409	–	570,658	192,806
–	–	–	–	–	–	–	–	20,405
1,484,055	–	87,123	– 471	– 7,447	104,956	–	1,458,304	580,187
39,380	–	1,474	– 35,726	–	260	–	4,868	1,782
6,492	– 6,492	–	–	–	–	–	–	125,559
118,466	–	15,308	–	–	–	–	133,774	154,461
78,425	– 106	9,385	–	582	3,652	–	84,634	42,140
–	–	–	–	–	–	–	–	86
203,383	– 6,598	24,693	–	582	3,652	–	218,408	322,246
402,345	– 54	10,803	–	790	3,073	–	410,811	248,606
485,301	– 172	20,955	–	171	41,129	–	465,126	150,044
570,658	– 66	42,835	–	2,387	46,752	–	569,062	214,229
–	–	–	–	–	–	–	–	32,736
1,458,304	– 292	74,593	–	3,348	90,954	–	1,444,999	645,615
4,868	–	16	–	–	–	–	4,884	1,766

Consolidated Segment Report 2008/2009[1)]

> SEGMENT INFORMATION BY DIVISION

Figures in € thousands

	Press		Postpress		Financial Services	
	1-Apr-2007 to 31-Mar-2008	**1-Apr-2008 to 31-Mar-2009**	1-Apr-2007 to 31-Mar-2008	**1-Apr-2008 to 31-Mar-2009**	1-Apr-2007 to 31-Mar-2008	**1-Apr-2008 to 31-Mar-2009**
External sales	3,213,287	2,621,434	426,968	352,830	30,059	25,205
Depreciation and amortization[2)]	115,942	93,074	6,708	6,219	953	9
Non-cash expenses	373,521	499,678	39,085	50,526	24,908	26,728
Research and development costs	194,346	165,077	27,317	21,157	–	–
Special items[3)]	–	– 158,323	–	– 20,273	–	– 391
Result of operating activities (segment result)	239,043	– 192,951	– 7,208	– 51,010	36,005	16,384
Investments	206,093	187,842	10,689	10,010	3	5
Segment assets	2,601,739	2,428,793	247,936	230,835	328,952	280,363
Segment liabilities	1,148,455	1,214,171	100,172	91,472	77,834	94,047
Number of employees	17,468	17,040	2,050	1,818	78	68

> SEGMENT INFORMATION BY REGION

Figures in € thousands

	Europe, Middle East and Africa		Eastern Europe		North America	
	1-Apr-2007 to 31-Mar-2008	**1-Apr-2008 to 31-Mar-2009**	1-Apr-2007 to 31-Mar-2008	**1-Apr-2008 to 31-Mar-2009**	1-Apr-2007 to 31-Mar-2008	**1-Apr-2008 to 31-Mar-2009**
External sales by customer location	1,624,187	1,439,039	427,458	347,144	576,400	373,894
Investments	197,058	174,317	2,282	2,961	9,044	6,119
Segment assets	2,208,753	2,028,825	168,449	148,201	230,070	195,520

1) For further details please see note 37

2) Including impairment losses in income of € 2,062 thousand (previous year: € 758 thousand), see note 12

3) See note 14 for further information

Heidelberg Group	
1-Apr-2007 to 31-Mar-2008	**1-Apr-2008 to 31-Mar-2009**
3,670,314	2,999,469
123,603	99,302
437,514	576,932
221,663	186,234
–	– 178,987
267,840	– 227,577
216,785	197,857
3,178,627	2,939,991
1,326,461	1,399,690
19,596	18,926

Latin America		Asia/Pacific		**Heidelberg Group**	
1-Apr-2007 to 31-Mar-2008	**1-Apr-2008 to 31-Mar-2009**	1-Apr-2007 to 31-Mar-2008	**1-Apr-2008 to 31-Mar-2009**	1-Apr-2007 to 31-Mar-2008	**1-Apr-2008 to 31-Mar-2009**
197,223	174,254	845,046	665,138	3,670,314	2,999,469
1,554	779	6,847	13,681	216,785	197,857
192,078	153,818	379,277	413,627	3,178,627	2,939,991

General notes

1 Basis for the presentation of the consolidated financial statements

Heidelberger Druckmaschinen Aktiengesellschaft, based in Heidelberg, Kurfürsten-Anlage 52 – 60, is the highest parent company of the Heidelberg Group. The consolidated financial statements of Heidelberger Druckmaschinen Aktiengesellschaft were prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union and in accordance with the supplemental provisions of Section 315a (1) of the German Commercial Code (HGB). The consolidated financial statements also comply with the IFRS in force as of the balance sheet date.

Certain consolidated income statement and consolidated balance sheet items have been combined to improve the clarity of presentation. A breakdown of these items is presented in the notes to the consolidated financial statements. Contingent liabilities from counter-liability obligations were previously calculated on the basis of the maximum default risk. Since the year under review, contingent liabilities from counter-liability obligations have been reported on the basis of the provisions of IAS 37 (Provisions, Contingent Liabilities, and Contingent Assets). An adjustment became necessary as there is no longer any need to report a contingent liability, particularly in the case of circumstances for which risk provisioning on the liabilities side was shown in the form of a provision. The figure for the previous year has been restated accordingly (see note 33). The consolidated income statement has been prepared in line with the nature of expense method.

All amounts are stated in € thousand. For subsidiaries located in countries that are not members of the European Monetary Union, the annual financial statements prepared in local currency are translated into € (see note 5).

These consolidated financial statements relate to financial year 2008/2009 (April 1, 2008 to March 31, 2009). They were approved for publication by the Management Board of Heidelberger Druckmaschinen Aktiengesellschaft on June 4, 2009.

2 Application of changed or new standards

The Heidelberg Group applied all standards and interpretations that were mandatory in the reporting year.

The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) issued the following new standards and amendments to existing standards and interpretations, which were applied for the first time in financial year 2008/2009:

Standard	Publication by the IASB/IFRIC	Effective date	Adopted by the EU Commission	Effects
Amendments to standards				
'Amendments to IAS 39 and IFRS 7: Reclassification of Financial Assets'	October 13, 2008	Retroactively from July 1, 2008	October 16, 2008	No material effects
New interpretations				
IFRIC 12: 'Service concession arrangements'	November 30, 2008	January 1, 2008	March 26, 2009	None

New accounting provisions

The IASB and the IFRIC approved additional standards and interpretations, whose application during financial year 2008/2009 is not yet compulsory or which have not yet been approved by the European Union (EU). The effects on the Heidelberg Group of the initial application of those standards that apply to Heidelberg's financial figures are currently being examined. Heidelberg is not currently planning to apply these standards at an early date.

Standard	Publication by the IASB/IFRIC	Effective date[1]	Adopted by the EU Commission	Contents
Amendments to standards				
IAS 1: 'Presentation of Financial Statements'	September 6, 2007	January 1, 2009	December 18, 2008	> The amendments concern the statement of changes in equity, the statement of comprehensive income, the designation of components of the financial statements and required comparative information.
IAS 23: 'Borrowing costs'	March 29, 2007	January 1, 2009	December 17, 2008	> The option of recognizing borrowing costs for certain assets as an expense has been eliminated. > Borrowing costs that can be directly related to qualifying assets are capitalized as part of the cost.
IAS 27: 'Consolidated and Separate Financial Statements under IFRS'	January 10, 2008	July 1, 2009	open	> Purchases or sales of shares in subsidiaries that do not affect control are recognized in equity. > If there is a loss of control, the gain or loss on disposal must be recognized in income.

[1] For financial years beginning on or after this date

Standard	Publication by the IASB/IFRIC	Effective date[1]	Adopted by the EU Commission	Contents
Amendments to standards				
'Amendments to IAS 32 and IAS 1 Financial instruments with right of return and obligations in connection with liquidation'	February 14, 2008	January 1, 2009	January 22, 2009	> The amendments relate to regulations on distinguishing between equity and liabilities as well as relevant provisions. > Certain puttable instruments can be classified as equity and not liabilities if these instruments meet specific conditions.
IAS 39: 'Financial Instruments: Recognition and Measurement' – designated hedged items	July 31, 2008	July 1, 2009	open	> The amendments deal with the inflation risk of a financial hedged item and the one-sided risk of a hedged item.
'Amendments to IAS 39 and IFRS 7 Reclassification of financial assets: of coming into force and transitional regulations'	November 27, 2008	Retroactively from July 1, 2008	open	> The amendment clarifies when the amendments to IAS 39 and IFRS 7 become effective and the transition.
'Amendments to IFRS 1 and IAS 27 Cost of an interest in a subsidiary, jointly controlled entity, or associate'	May 22, 2008	January 1, 2009	January 24, 2009	> The amendments relate to the determination of acquisition costs for an investment when International Financial Reporting Standards are applied for the first time.
IFRS 1: 'First-time Adoption of International Financial Reporting Standards'	November 27, 2008	July 1, 2009	open	> The amendment to the structure of the standard is to make this more comprehensible for the reader.
IFRS 2: 'Share-based Payment'	January 17, 2008	January 1, 2009	December 17, 2008	> The definition of vesting conditions now solely comprises service conditions and performance conditions combined with a period of service requirement.
IFRS 3: 'Business Combinations'	January 10, 2008	July 1, 2009	open	> The changes relate to the determination of the purchase price, the measurement of minority interests, and the recognition of step acquisitions.
IFRS 7: 'Financial Instruments: Disclosures'	March 5, 2009	January 1, 2009	open	> The amendments include a three-step model for measurement at fair value and require additional disclosures.
'Improvements to International Financial Reporting Standards'	May 22, 2008	January 1, 2009	January 24, 2009	> As part of the IASB's annual improvement project, smaller and non-urgent improvements are made to IFRS.
Amendments to interpretations				
IFRIC 9 and IAS 39: 'Embedded Derivatives'	March 12, 2009	June 30, 2009[2]	open	> If reclassified out of the category 'financial instruments at fair value through profit or loss', all embedded derivatives must be examined and reported separately in the financial statements if necessary.

[1] For financial years beginning on or after this date
[2] For financial years ending on or after this date

Standard	Publication by the IASB/IFRIC	Effective date[1]	Adopted by the EU Commission	Contents
New standards				
IFRS 8: 'Operating Segments'	November 30, 2006	January 1, 2009	November 22, 2007	> IFRS 8 uses the management approach. > IFRS 8 requires the disclosure of information concerning management control figures used internally for resource allocation and the evaluation of segment performance.
New interpretations				
IFRIC 13: 'Customer Loyalty Programs'	June 28, 2007	July 1, 2008	December 17, 2008	> IFRIC 13 addresses the accounting of loyalty credit awards granted to customers when buying goods or services.
IFRIC 14: 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction'	July 5, 2007	January 1, 2009	December 17, 2008	> IFRIC 14 addresses the conditions under which the economic benefit of a pension plan is available to a company.
IFRIC 15: 'Agreements for the Construction of Real Estate'	July 3, 2008	January 1, 2009	open	> IFRIC 15 regulates accounting at construction companies with regard to the recognition of income from the sale of apartments or houses before construction is completed.
IFRIC 16: 'Hedges of a Net Investment in a Foreign Operation'	July 3, 2008	October 1, 2008	open	> IFRIC 16 deals with issues relating to the hedging of a foreign operation.
IFRIC 17: 'Distributions of Non-cash Assets to Owners'	November 27, 2008	July 1, 2009	open	> IFRIC 17 deals with the issue of when and in what amount a non-cash dividend is to be recognized.
IFRIC 18: 'Transfers of Assets from Customers'	January 29, 2009	July 1, 2009	open	> IFRIC 18 is of particular relevance to the energy sector. > The interpretation deals with issues in connection with the provision of a grid or access to a supply of goods or services.

[1] For financial years beginning on or after this date

3 Scope of the consolidation

The consolidated financial statements of Heidelberger Druckmaschinen Aktiengesellschaft include a total of 73 (previous year: 71) domestic and foreign companies in which Heidelberger Druckmaschinen Aktiengesellschaft has a controlling influence as defined by IAS 27. Of these companies, 65 (previous year: 64) are located outside Germany. Control as defined by IAS 27 exists if the financial and operating policy of a company can be influenced in order to derive benefits from its activities. Inclusion in the consolidated financial statements occurs at the time that control is established. Subsidiaries that are of minor importance are not included. The list of the shareholdings of Heidelberger Druckmaschinen Aktiengesellschaft is published in the electronic Bundesanzeiger (Federal Gazette). The material subsidiaries included in the consolidated financial statements are listed in the notes to the consolidated financial statements in the appendix 'Major shares in affiliated companies'.

The Heidelberg consolidated financial statements as of March 31 also include five companies whose balance sheet date is December 31. If these companies conduct material transactions between December 31 and March 31, they are included in the consolidated financial statements.

As against the previous year, the scope of the consolidation changed as follows:

> First-time consolidation:
In the first quarter of the 2008/2009 financial year, Heidelberg Graphic Equipment (Shanghai) Co. Ltd., Shanghai, China, and Heidelberg Consumables Holding GmbH, Heidelberg, Germany, were included in the scope of the consolidation for the first time.

Heidelberg took over the British-Dutch coating manufacturer 'Hi-Tech Coatings', a group consisting of four companies, on May 27, 2008. 100 percent of shares were acquired in each of the following companies: Hi-Tech Coatings Limited, Aylesbury Bucks, UK, Hi-Tech Coatings International Limited, Aylesbury Bucks, UK, Hi-Tech Coatings B.V., Zwaag, the Netherlands, and Hi-Tech Coatings International B.V., Zwaag, the Netherlands.

The provisional purchase price of € 42,177 thousand comprises a component of € 34,377 thousand that is not performance-related and two performance-related components (earn-out) totaling a maximum of € 7,800 thousand. The purchase price is to be paid in cash.

The performance-related parts of the purchase price are to be paid at the end of the first and second years after the acquisition date (first and second earn-out year), respectively, if the earnings before interest and income taxes (EBIT) exceed a certain value. The earn-out is also dependent on previous owners continuing to work for Hi-Tech Coatings until 2009 or 2010. Incidental costs of acquisition amount to € 1,172 thousand.

As at March 31, 2009, it is not anticipated that the full earn-out amount will have to be paid for the first earn-out year. Goodwill has been adjusted accordingly.

In particular, the goodwill amounting to € 21,695 thousand (previously: € 22,631 thousand) reflects the option for Heidelberg to strengthen its less cyclical business with consumables and its market position in this profitable growth market of Heidelberg.

The reduction of the goodwill by € 936 thousand is essentially due to the assumption that the earn-out payment for the current year will be lower than anticipated at the time of first consolidation. The reduction was carried out in equity against the liability created for the earn-out payments.

In the case of a complete acquisition at the beginning of the reporting year, the Group would have reported sales of € 3,003,222 thousand and a consolidated net loss of € −248,373 thousand for the 2008/2009 financial year.

Since first-time consolidation, the companies acquired have contributed a positive result of € 2,133 thousand to the consolidated net loss.

The present value of the provisional purchase price less goodwill is attributed to the assets and liabilities acquired as follows:

	Carrying amount in accordance with IFRS immediately before the business combination	Fair value of assets and liabilities acquired
Intangible assets	–	18,604
Tangible assets	1,810	1,810
Inventories	882	882
Trade receivables	4,916	4,916
Other receivables and other assets	39	39
Deferred tax assets	–	–
Cash and cash equivalents	3,896	3,896
Total assets	11,543	30,147
Other provisions	1,188	1,188
Trade payables	3,824	3,824
Deferred tax liabilities	–	4,869
Total liabilities	5,012	9,881

> Deconsolidation:
In the first quarter of 2008/2009, Heidelberg HDU, Inc., Wilmington, Delaware, USA, and Heidelberg HNA, Inc., Wilmington, Delaware, USA, were wound up.

In the third quarter of 2008/2009, IDAB WAMAC International AB, Eksjö, Sweden, and Heidelberg Postpress Sweden AB, Eksjö, Sweden, were deconsolidated owing to the sale of the shares. The selling price was € 136 thousand and was paid in cash. Cash and cash equivalents were not sold. The deconsolidation loss (following currency effects) of € 4,073 thousand resulting from the sale of the company is reported in the consolidated income statement under 'special items'.

The following assets and liabilities were involved in the sale of IDAB WAMAC International AB, Eksjö, Sweden, and Heidelberg Postpress Sweden AB, Eksjö, Sweden, which were attributed to the 'Postpress' segment:

	31-Mar-2008	**10-Dec-2008**
Non-current assets	3,587	1,555
Current assets	11,180	9,995
Total assets	14,767	11,550
Shareholders' equity	2,117	4,029
Liabilities	12,650	7,521
Total equity and liabilities	14,767	11,550

4 Principles of consolidation

In accordance with IFRS 3, all business combinations are recognized using the purchase method in the form of the full revaluation method.

Intra-Group sales, expenses and income, receivables, liabilities, and contingent liabilities are eliminated. Intra-Group transactions in goods and services are calculated both on the basis of market prices and on the basis of arm's length transfer prices. Assets from commercial transactions among consolidated companies included in inventories are adjusted to eliminate intercompany profits and losses. In consolidation processes affecting net income, income tax effects are taken into account and deferred taxes are recognized.

5 Currency translation

In the individual financial statements of the consolidated companies, which are prepared in local currencies, monetary items in foreign currencies (cash and cash equivalents, receivables, and liabilities) are measured at the reporting date exchange rate and recognized in profit or loss. Non-monetary items denominated in foreign currencies are posted at their historic exchange rates.

The financial statements of the companies included in consolidation that are prepared in foreign currency are translated on the basis of the functional currency concept (IAS 21) in accordance with the modified closing rate method. As our subsidiaries financially, economically, and organizationally effect their transactions on an independent basis, the functional currency is the same as each subsidiary's respective local currency. Assets and liabilities are therefore translated at the closing rates, and expenses and income at the average exchange rates, for the year. The difference resulting from the foreign currency translation is offset against retained earnings in equity.

Currency differences arising as against the previous year's translation in the Heidelberg Group are also offset against retained earnings in equity.

Accounting in line with IAS 29 was not required as the Heidelberg Group does not have any subsidiaries located in countries with hyperinflationary economies.

Currency translation is based on the following exchange rates:

	Average rates of the year		Reporting date rates	
	2007/2008	**2008/2009**	2007/2008	**2008/2009**
	€ 1 =	€ 1 =	€ 1 =	€ 1 =
AUD	1.6362	1.8267	1.7171	1.9386
CAD	1.4631	1.5884	1.6080	1.6533
CHF	1.6390	1.5565	1.5735	1.5159
GBP	0.7109	0.8404	0.7908	0.9291
HKD	11.1491	11.0093	12.2929	10.2250
JPY	162.3400	143.0442	157.8600	127.9300
USD	1.4306	1.4158	1.5796	1.3193

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

6 General accounting policies

The accounting policies applied in the consolidated financial statements are presented below. Further information on the individual items of the consolidated income statement and the consolidated balance sheet as well as corresponding figures are presented in note 8 ff.

General principles

In the view of the IASB, the annual financial statements present a true and fair view as well as a fair presentation (overriding principle) if the qualitative criteria of the presentation of accounts are met and the individual IFRS guidelines are complied with. Consequently, to achieve a fair presentation, it is imperative that there are no deviations from the individual regulations.

The consolidated financial statements were prepared based on the assumption of a going concern.

Uniform accounting policies

The consolidated financial statements are prepared on the basis of accounting policies that are applied uniformly throughout the Group.

Consistency of accounting policies

The accounting policies were retained with the exception of the change regarding contingent liabilities (see note 1).

Revenue recognition

Product sales are recognized when the material risks and rewards of ownership of the sold merchandise and products are transferred to the buyer. Neither a continuing managerial involvement nor effective control over the sold merchandise and products remain. The revenue amount can be reliably determined; the inflow of economic benefit from the sale is sufficiently probable.

Sales from **services** are recognized when the services are rendered provided that the amount of income can be reliably determined and the inflow of economic benefit arising from the transaction is probable. Sales from long-term service contracts are generally distributed on a straight-line basis.

Income from **operating and finance leases** is recognized based on the provisions of IAS 17.

Intangible assets

With the exception of goodwill, all intangible assets have a limited useful life and are therefore amortized. In accordance with IFRS 3 in conjunction with IAS 36, goodwill is tested for impairment on an annual basis if there is any evidence to suggest a loss of value. Purchased intangible assets are capitalized at cost and amortized on a straight-line basis over their expected useful life. Internally generated intangible assets are capitalized to the extent that the criteria for recognition in IAS 38 are met. Manufacturing costs include all directly attributable costs.

Research and development costs

Development costs for newly developed products are capitalized at cost to the extent that expenses are directly attributable and if both the technical feasibility and the marketing of the newly developed products are assured (IAS 38). There must also be a sufficient degree of probability that the development activity will lead to future inflows of funds. Capitalized development costs include all direct costs and overheads that are directly attributable to the development process. These are amortized on the basis of the estimated period during which sales may be expected.

In accordance with IAS 38, research costs cannot be capitalized and are therefore recognized as an expense directly in the consolidated income statement.

Tangible assets

Tangible assets are reported at cost less cumulative straight-line depreciation and cumulative impairment.

Tangible assets were not revalued in accordance with the option under IAS 16. In addition to direct costs, the cost also includes appropriate portions of material and production overheads.

Borrowing costs are recognized directly as an expense (IAS 23). Depreciation based exclusively on tax rules is not reported.

Costs of repairs to tangible assets that do not result in an expansion or substantial improvement of the respective asset are recognized as an expense.

Investment property

Investment property (IAS 40 'Investment Property') is recognized at cost less cumulative straight-line depreciation and cumulative impairment. The notes to the consolidated financial statements provide information on the fair value of investment property, which is calculated in line with internationally acknowledged valuation methods, such as the discounted cash flow method or is derived from the current market price of comparable real estate.

Finance leases

Under finance leases, economic ownership is attributed to lessees in those cases in which they bear substantially all the risks and opportunities of ownership of the asset (IAS 17). To the extent that economic ownership is attributable to the Heidelberg Group, they are capitalized from the commencement of the lease term at the lower of fair value or the present value of the minimum lease payments. Depreciation is recognized using the straight-line method on the basis of the shorter of the economic life or the term of the lease.

Depreciation and amortization

Amortization of intangible assets, and depreciation of tangible assets and investment property, is calculated primarily on the basis of the following useful lives, which are applied uniformly throughout the Group (in years):

	2007/2008	**2008/2009**
Development costs	3 to 6	3 to 12
Software/other rights	3 to 5	3 to 5
Buildings	25 to 50	10 to 50
Technical equipment and machinery	3 to 15	3 to 15
Motor vehicles	5 to 9	6 to 9
Operating and office equipment	3 to 13	4 to 15
Investment property	10 to 50	10 to 50

Impairment of non-financial assets

The carrying amount of intangible assets (including capitalized development costs) and of tangible assets is reviewed at the end of each financial year. An impairment loss is recognized if the recoverable amount of the asset is lower than its carrying amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use. If the asset is part of an independent cash-generating unit, impairment is determined on the basis of the recoverable amount of this cash-generating unit. If the reasons for impairment cease to apply, the impairment is reversed up to amortized cost (IAS 36).

The carrying amounts of goodwill are subject to impairment testing if there is evidence to suggest a decline in value. Regardless of whether there are indications of impairment, goodwill is tested for possible impairment annually. An impairment loss is recognized when the recoverable amount is less than the carrying amount of the cash-generating unit to which goodwill has been assigned. Any additional impairment requirements are recognized by way of the pro rata reduction of the carrying amounts of other assets.

Inventories

Inventories are carried at the lower of cost and net realizable value. Valuations are generally determined on the basis of the weighted average cost method.

Costs include production-related full costs determined on the basis of normal capacity utilization.

In particular, the cost of products includes directly attributable direct costs (such as production materials and wages used in construction), as well as fixed and variable production overheads (such as materials and production overheads), including an appropriate depreciation on manufacturing equipment. Particular account is taken of costs that are charged to specific production cost centers. Borrowing costs are not capitalized as part of cost (IAS 23).

The risks of holding inventories arising from reduced usability are taken into account by appropriate write-downs. These write-downs are recognized on the basis of the future production program or actual consumption. Individual periods are used for different inventory items, which are monitored and adjusted based on appropriate criteria. Measurement takes into account lower realizable net selling prices on the balance sheet date. If the reasons for a lower valuation no longer apply to inventories that have formerly been written down and the net selling price has therefore risen, the reversal of the write-down is recognized as a reduction of material costs.

Customer-specific construction contracts

In accordance with IAS 11, customer-specific construction contracts are recognized in line with the percentage-of-completion method, with the amounts realized reported in sales and, after deduction of advance payments by customers, in trade receivables. The percentage of completion is determined based on the expenses incurred (cost-to-cost method). There were no material customer-specific construction orders requiring recognition in accordance with IAS 11.

Financial instruments

Basic information

A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments are recognized when Heidelberg becomes party to a contract for the financial instrument. If the trade date and settlement date differ for standard purchases or sales, financial instruments are recognized at the settlement date. First-time measurement of financial assets and liabilities is at fair value. The carrying amount of financial instruments not measured at fair value through profit or loss includes the directly attributable transaction costs. Subsequent measurement of financial instruments is in line with the measurement categories defined in IAS 39 'Financial Instruments: Recognition and Measurement'. There were no reclassifications between the different IAS 39 measurement categories in the year under review. Under IAS 39, on first-time recognition financial assets and liabilities can be designated as financial instruments in the fair value through profit and loss category. Heidelberg did not exercise this option.

Financial assets and liabilities are reported without being offset. They are only offset when there is a legal right to do so and the entity intends to settle them on a net basis. The recognized carrying amount of current and variable interest, non-current financial assets and liabilities is an appropriate estimate of the fair value.

In accordance with IAS 39, an impairment loss is recognized when there is sufficient objective evidence of impairment of a financial asset. Such evidence may lie in a deterioration of the customer's creditworthiness, delinquency or default, the restructuring of contract terms, or the increased probability that insolvency proceedings will be opened. The calculation of the amount of impairment needed takes into account historical default rates, the extent to which payment is past due, any collateral pledged, and regional conditions. Financial assets are examined for impairment requirements both individually (specific allowances for impairment losses) and in groups with similar default risk profiles (specific impairment allowances calculated on a portfolio basis). Appropriate risk provisioning was recognized for all discernible risks of default. The theoretically maximum remaining risk of default of financial assets is therefore the same as their recognized carrying amounts.

For loans and receivables the amount of impairment is equal to the difference between the carrying amount and the present value of the expected future cash flows, discounted at the original effective interest rate of the financial asset. Impairment is either recognized directly in income by reducing the carrying amount of the financial asset or by using an allowance account. The way in which the impairment is shown is dependent on the estimated probability of the risk of default. The carrying amount of uncollectable receivables is derecognized. If the amount of the impairment is objectively reduced in subsequent reporting periods due to an event occurring after recognition of the impairment, the impairment recognized is reversed accordingly in income.

Impairment on available-for-sale financial assets measured at fair value is recognized in the consolidated income statement as the difference between cost (net of any principle repayments or amortization) and current fair value, less any impairment previously recognized in profit or loss. Reversals of impairment losses on equity instruments are not recognized in income. If the amount of the impairment on debt instruments is objectively reduced in subsequent reporting periods due to an event occurring after recognition of the impairment, the impairment recognized is reversed accordingly in income.

Impairment on available-for-sale financial assets carried at cost is recognized in income as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the current rate of return for similar financial assets. These impairment losses are not reversed.

Financial assets are derecognized when the contractual rights to cash flows end or substantially all the risks and rewards of ownership are transferred to another party. Financial liabilities are derecognized when the contractual obligation is discharged or legally cancelled.

The net gains and losses essentially include changes in the fair value and exchange rate effects recognized in net operating and net financial income and interest income and expense from financial instruments recognized in net financial income. Changes in fair value also include the effects of available-for-sale financial assets recognized in equity.

For information on risk management please refer to note 32 and to the Risk and Opportunity Report in the Group Management Report.

Investments and securities

IAS 39 breaks down these financial instruments into the categories of financial instruments at fair value through profit and loss, financial investments held to maturity, and financial assets available for sale.

Investments (including shares in subsidiaries) and securities are classified as financial assets available for sale. In line with IAS 39, these financial instruments are carried at fair value. Investments are measured at cost as their fair value cannot be reliably determined. Securities are measured at their stock market prices. If this value cannot be reliably determined, securities are measured at cost. Unrealized profits and losses arising from changes in fair value are recognized in equity, taking into consideration deferred taxes. At the time of a sale, realized profit or loss is taken directly to the income statement in net financial income. The carrying amounts of investments and securities measured at cost are reviewed for impairment at each balance sheet date; impairment losses are recognized in income.

The appropriate classification of securities is determined at the time of purchase and is reviewed at each balance sheet date.

Loans
Loans are credit that we extend, and are classified as loans and receivables under IAS 39. Non-current non-interest-bearing and low-interest-bearing loans are carried at net present value. Measurement in subsequent periods is at amortized cost using the effective interest rate method.

Receivables from sales financing
Receivables from sales financing include receivables from our customers arising in connection with the financing of machinery sales and receivables under finance leases.

Finance leases include leased installations considered as sales under non-current financing. In line with IAS 17, these receivables are carried at the net investment value, i.e. discounted future minimum lease payments plus any unguaranteed residual values.

Receivables from sales financing are assigned to the IAS 39 category loans and receivables and carried at fair value. Measurement in subsequent periods is at amortized cost using the effective interest rate method.

Trade receivables
First-time recognition of trade receivables is at fair value plus directly attributable transaction costs. Measurement in subsequent periods is at amortized cost using the effective interest rate method due to the loans and receivables measurement category.

Receivables and other assets
The receivables and other assets item includes both non-financial assets and financial assets including derivative financial instruments. With the exception of derivative financial instruments, financial assets are assigned to the loans and receivables category under IAS 39, and are therefore measured at amortized cost. Non-financial assets are measured in line with the respective applicable standard.

Cash and cash equivalents and securities

Cash on hand and bank balances are carried at amortized cost. Bank balances and securities included in cash and cash equivalents (see note 36) have a remaining term of up to three months on acquisition.

Financial liabilities

Primary financial instruments include financial liabilities, trade payables, and non-derivative other financial liabilities. Trade payables and non-derivative other financial liabilities include accruals for outstanding invoices and deferred staff liabilities.

In accordance with IAS 39, primary liabilities are stated at fair value. Directly attributable transaction costs are included for financial liabilities not carried at fair value through profit or loss. Measurement in subsequent periods is at amortized cost using the effective interest rate method. Liabilities from finance leases are recognized in the amount of the present value of the minimum lease payments. Financial guarantees are recognized at the higher of the amount calculated in line with IAS 37 and the initial amount carried as a liability less any amortization. They are reported under other provisions.

Derivative financial instruments

Derivative financial instruments in the Heidelberg Group comprise hedging instruments used to manage interest rates and exchange rate fluctuations. These instruments serve to reduce income volatility. The Group does not enter into trading positions, i.e. derivatives without an underlying hedged item. We currently use over-the-counter (OTC) instruments. These include:

- forward exchange transactions,
- currency options, and
- interest rate swaps.

The scope of hedge accounting by financial derivatives comprises recognized, onerous, and highly probable hedged items.

In accordance with IAS 39, derivatives meet the recognition criteria for assets and liabilities, as a result of which they must be capitalized (other assets) or expensed (other liabilities) at fair value. First-time recognition is as of the settlement date.

Under IAS 39, the distinction between a fair value hedge and a cash flow hedge is of fundamental importance for hedge accounting.

The aim of a fair value hedge is to offset the changes in fair value of assets and liabilities with opposing changes in the fair value of the designated hedging instrument. Any profit or loss resulting from the change in fair value of the designated hedging instrument is recognized directly in the consolidated income statement. From the inception of the hedge, changes in the fair value of the hedged item attributable to the hedged risk are also recognized in income.

A cash flow hedge serves to hedge the changes in cash flows that typically arise in connection with floating rate assets or liabilities recognized in the consolidated balance sheet, foreign currency onerous contracts, or planned future transactions. The gains and losses of the fair value of derivatives designated as a hedging instrument are recognized in equity until the respective hedged item becomes effective.

Hedging instruments that do not satisfy the documentation requirements of IAS 39 for hedge accounting or whose underlying hedged items no longer exist are classified as held for trading.

Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated in accordance with the standard international liability method (IAS 12). Under this method, deferred taxes are recognized for all temporary differences between IFRS carrying amounts and the tax carrying amounts of the individual companies or Group companies and on corresponding consolidation adjustments. In addition, deferred tax assets for future benefits from tax loss carryforward are also taken into account. Deferred tax assets for accounting differences and for tax loss carryforwards are recognized in the amount for which it is probable that taxable income will be available, i.e. for which utilization seems reasonably assured. Deferred taxes are measured on the basis of the income tax rates of the respective countries. A tax rate of 28.14 percent (previous year: 28.14 percent) is used to calculate domestic deferred taxes. In addition to the corporation tax of 15 percent and the solidarity surcharge of 5.5 percent, the average trade tax rate was also taken into account.

In accordance with the provisions of IAS 12, neither deferred tax assets nor liabilities have been discounted. Deferred tax assets were offset against deferred tax liabilities when required according to the provisions of IAS 12. In line with this, offsetting must be effected if there is a legally enforceable right to set off the actual taxes, and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority and originate from the same company or in the same group of controlled companies.

Assets and liabilities held for sale

Non-current assets and liabilities are classified as held for sale when disposal is highly likely and the asset is available for immediate sale in its present condition. In addition, the owner must have resolved to sell the individual asset or disposal group within one year.

Assets held for sale are carried at the lower of the carrying amount and fair value less costs to sell. Assets held for sale are no longer subject to depreciation or amortization.

Provisions for pensions and similar obligations

The provisions for pensions and similar obligations comprise the obligations of the Group to establish provisions under both defined benefit plans and defined contribution plans. In the case of defined benefit plans the pension obligations are calculated using the projected unit credit method (IAS 19). Under this method, expert actuarial reports are commissioned each year. Mortality is calculated on the basis of the current Heubeck mortality tables (2005 G) or comparable foreign mortality tables. Plan assets carried at fair value are offset against defined benefit obligations. The service cost is reported under staff costs and the interest portion of the additions to provisions under net financial income. The return on plan assets is offset from staff costs at the level of the individual company up to the amount of expenses for pension claims. Any excess amount is reported in net financial income. The calculation of the return expected on plan assets in the long term depends on the respective asset category. Our forecasts are based on long-term historical average figures.

Actuarial gains and losses are entirely offset in equity. Gains and losses recognized in shareholders' equity are shown separately in the statement of recognized income and expense together with the related deferred taxes.

In the case of defined contribution plans (e.g. direct insurance policies), compulsory contributions are offset directly as an expense. No provisions for pension obligations are recognized, as in these cases the Company does not have any obligation beyond that to pay premiums.

Other provisions

Other provisions are recognized when a past event gives rise to a current obligation, the amount of utilization is more likely than not, and the amount can be reliably estimated (IAS 37). This means that the probability must exceed 50 percent. They are measured either at the most likely settlement amount or, if probabilities are equal, at the expected settlement amount. Provisions are only recognized for legal or constructive obligations in respect of third parties. Provisions are measured at full production cost, taking into consideration possible cost increases.

Provisions for restructuring measures are recognized to the extent that the criteria of IAS 37 are met.

Non-current provisions with a remaining term of more than one year are carried at the discounted settlement amount on the balance sheet date on the basis of appropriate interest rates if the time value of money is material. The underlying interest rates depend on the term of the obligation.

Advance payments

Advance payments are recognized under liabilities.

Prepaid expenses

Taxable investment subsidies from the public sector and tax-free investment allowances are reported as prepaid expenses and recognized as income in line with the expected pattern of economic benefits from the asset over its useful life.

Share-based compensation

Stock options covered by IFRS 2 are measured based on their respective fair value at the time the options are granted. Stock appreciation rights (SAR) are measured at the respective fair value of the option at the balance sheet date. The expenses and the corresponding addition to capital reserves as well as the addition to the provision are recognized on a pro rata basis. The determination of the respective fair value is based on a recognized mathematical option price measurement model (Monte Carlo simulation).

Contingent liabilities

Contingent liabilities are potential obligations that relate to past events and whose existence will not be confirmed until one or more uncertain future events occur. These future events, however, lie outside the sphere of influence of the Heidelberg Group. Furthermore, current obligations may represent contingent liabilities if the outflow of resources is not sufficiently probable to recognize a respective provision, or if the amount of the obligation cannot be reliably estimated. The carrying amount of contingent liabilities is equal to the extent of liability on the balance sheet date.

7 Estimates and judgments

When preparing consolidated financial statements, certain assumptions and estimates are made that have an effect on the amount and reporting of assets and liabilities, information on contingent assets and liabilities on the balance sheet date, and on income and expense reported in the period under review. The preparer of consolidated financial statements has a degree of discretion here.

The following are the key issues affected by assumptions and estimates:

> assessing the recoverability of goodwill,
> the measurement of intangible assets and of items of tangible assets,
> assessing impairment of trade receivables and receivables from sales financing,
> recognition and measurement of other provisions,
> the recognition and the measurement of provisions for pensions and similar obligations.

In the impairment test for goodwill, the recoverable amount of the cash-generating unit is determined as the higher of its fair value less the cost to sell and its value in use. The fair value here reflects the best estimate of the amount for which an independent third party would acquire the cash-generating units at the balance sheet date. The value in use is the present value of the estimated future cash flows expected from the cash-generating unit. A change in determining factors may change the fair value or the value in use and could result in the recognition of an impairment loss.

The Group-wide established economic useful lives for intangible assets and for items of tangible assets are subject to management assessments. In addition, the impairment test determines the recoverable amount of the asset or cash-generating unit to which the asset is attributed as the higher of fair value less costs to sell and value in use. The fair value here reflects the best estimate of the amount for which an independent third party would acquire the asset at the balance sheet date. The value in use is the present value of the estimated future cash flows that can be anticipated from the continued use of the asset. A change in determining factors may change the fair value or the value in use and could result in the recognition or reversal of an impairment loss.

Credit and default risks arise for trade receivables and receivables from sales financing to the extent that customers do not meet their payment obligations and assets are lost as a result. The necessary impairment is calculated in line with the creditworthiness of customers, any collateral pledged, and experience based on historical default rates. The customer's actual default may differ from the expected default on account of the underlying factors.

The amount and probability of utilization are estimated in the recognition and measurement of other provisions. They are measured either at the most likely settlement amount or, if probabilities are equal, at the expected settlement amount. The amount of the actual utilization could deviate from estimates.

The calculation of the provisions for pensions and similar obligations is based on the parameters listed in note 27. Increasing or reducing the interest rate used in calculations by one quarter of a percentage point to 6.25 percent or 5.75 percent respectively would result in a € 20,244 thousand reduction in pension claims or a € 21,501 thousand increase respectively. After income taxes, the losses offset in equity would be reduced by € 14,547 thousand or increased by € 15,450 thousand respectively.

The impairment test is based on the parameters listed in note 19. Increasing or reducing the discount rate after taxes by one percentage point to 8.0 percent or 6.0 percent respectively would not result in any impairment requirements. The same applies to a change in the growth factor used to calculate the perpetual annuity by one percentage point either way.

The assumptions and estimates are based on the information and data currently available. Actual developments could deviate from the estimates. The carrying amounts of the relevant assets and liabilities are adjusted accordingly if actual amounts deviate from estimated values.

Notes to the Consolidated Income Statement

8 Net sales

In addition to income from sales of products and services, sales include income from commissions, from finance and operating leases totaling € 8,099 thousand (previous year: € 6,443 thousand), as well as interest income from sales financing and finance leases amounting to € 25,205 thousand (previous year: € 30,059 thousand).

Further information on sales can be found in the reports of the divisions and the reports of the regions in the Group Management Report. The classification of sales by division and region is shown in the segment report.

9 Other operating income

	2007/2008	**2008/2009**
Reversal of other provisions and deferred liabilities	67,552	71,645
Recoveries on loans and other assets previously written down	22,781	28,905
Hedging/exchange rate gains	40,402	22,490
Income from operating facilities	19,390	16,678
Income from disposals of intangible assets, tangible assets and investment property	13,561	1,797
Other income	55,151	48,168
	218,837	189,683

10 Cost of materials

	2007/2008	**2008/2009**
Expenses for raw materials, consumables and supplies, and of goods purchased and held for resale	1,439,502	1,229,529
Cost of purchased services	228,117	172,025
Interest expense of Financial Services	1,440	1,329
	1,669,059	1,402,883

The ratio of the cost of materials to total operating performance is 45.6 percent (previous year: 43.7 percent).

11 Staff costs and number of employees

	2007/2008	**2008/2009**
Wages and salaries	994,426	890,460
Retirement benefit expenses[1)]	38,310	35,962
Return on plan assets	– 24,425	– 24,328
Other social security contributions and expenses	171,370	163,673
	1,179,681	1,065,767

1) See note 27

The interest component of the pension claims is shown under net financial income. The return on plan assets is offset against staff costs at the level of the individual company up to the amount of retirement benefit expenses. Any excess amount is shown in net financial income.

The number of **employees**[1] was:

	Average 2007/2008	**2008/2009**	As of 31-Mar-2008	**31-Mar-2009**
Europe, Middle East and Africa	14,182	14,046	14,324	13,668
Eastern Europe	712	775	779	753
North America	1,357	1,267	1,341	1,176
Latin America	405	403	408	396
Asia/Pacific	2,061	2,276	2,087	2,226
	18,717	18,767	18,939	18,219
Trainees	729	752	657	707
	19,446	19,519	19,596	18,926

[1] Not including interns, graduating students, dormant employees, and employees in the exemption phase of partial retirement

12 Depreciation and amortization

Depreciation and amortization including impairment of € 99,302 thousand (previous year: € 123,603 thousand) relates to intangible assets (€ 24,693 thousand; previous year: € 35,006 thousand), tangible assets (€ 74,593 thousand; previous year: € 87,123 thousand) and investment property (€ 16 thousand; previous year: € 1,474 thousand). No depreciation or amortization was recognized on assets held for sale (previous year: € 0 thousand).

Impairment on intangible assets and tangible assets of € 2,062 thousand (previous year: € 758 thousand) relates to intangible assets (€ 25 thousand; previous year: € 0 thousand), land and buildings – as a result of lower market values – (€ 238 thousand; previous year: € 471 thousand), technical equipment and machinery (€ 849 thousand; previous year: € 277 thousand) and other operating and office equipment (€ 950 thousand; previous year: € 10 thousand). As in the previous year, no impairment was recognized on investment property in the reporting year.

13 Other operating expenses

	2007/2008	**2008/2009**
Other deliveries and services not included in the cost of materials	231,891	205,429
Special direct sales expenses including freight charges	163,186	129,033
Rent and leases (excluding car fleet)	62,546	63,617
Travel expenses	61,992	54,801
Additions to provisions and deferred liabilities relating to several types of expense	48,208	47,128
Bad debt allowances and impairment on other assets	38,590	41,314
Hedging/exchange rate losses	11,849	30,785
Costs of car fleet	24,186	26,072
Insurance expense	17,577	16,686
Other overheads	136,172	133,822
	796,197	748,687

14 Special items

Special items include expenses in connection with our **Heidelberg 2010 program**. Of these expenses, € 162,813 thousand refer to expenses from measures to reduce staff. The remaining expenses from special items totaling € 16,174 thousand among others include advisory costs and losses from deconsolidation.

15 Financial result

	2007/2008	**2008/2009**
Financial income	19,598	20,594
Financial expenses	88,483	139,730
Financial result	– 68,885	– 119,136

16 Financial income

	2007/2008	**2008/2009**
Interest and similar income	13,272	13,587
Income from financial assets/loans/securities	6,326	7,007
Financial income	19,598	20,594

17 Financial expenses

	2007/2008	**2008/2009**
Interest and similar expenses	67,977	118,206
– of which: net interest expenses for pensions	(16,997)	(26,554)
Expenses for financial assets/loans/securities	20,506	21,524
Financial expenses	88,483	139,730

Net interest expenses for pensions comprise interest expenses for pension rights less the portion of return on plan assets not netted against staff costs (see note 11).

Expenses for financial assets/loans/securities include write-downs on financial assets of € 7,872 thousand (previous year: € 0 thousand).

18 Taxes on income

Taxes on income are broken down as follows:

	2007/2008	**2008/2009**
Current taxes	51,049	– 7,018
Deferred taxes	6,363	– 90,988
	57,412	– 98,006

Taxes on income comprise German corporate tax including the solidarity surcharge, trade tax, and comparable taxes of the foreign subsidiaries.

As in the previous year, no material income was recognized from loss carrybacks in the reporting year.

The nominal tax rate is 28.14 percent for the financial year (previous year: 28.14 percent).

Deferred tax liabilities on temporary differences in connection with shares in subsidiaries were not taken into account as these differences are not likely to be reversed in the foreseeable future. As at March 31, 2009 temporary differences from shares in subsidiaries totaled € 325,218 thousand.

As in the previous year, the application of amended or new standards did not result in any additional tax expenses or tax income.

Total tax loss carryforwards for which no deferred tax assets were recognized amount to € 340,415 thousand (previous year: € 330,876 thousand). Of these, € 3,560 thousand can be used until 2010 (previous year: none until 2009), none can be used until 2012 (previous year: € 2,963 thousand until 2011), € 6,101 thousand can be used until 2014 (previous year: none until 2013) and € 330,754 can be used until 2015 and later (previous year: € 327,913 thousand until 2014 and later).

Deferred tax assets are only recognized for tax loss carryforwards if their realization is guaranteed in the near future. Deferred tax assets on current tax losses amounting to € 45,538 thousand (previous year: € 2,243 thousand) were recognized in the reporting year. As in the previous year, no deferred tax assets were recognized for tax loss carryforwards that were not yet applicable. Write-downs of deferred tax assets for loss carryforwards recognized in previous years were carried out in the year under review in the amount of € 2,520 thousand (previous year: € 0 thousand).

Current taxes were reduced in the reporting year by € 4 thousand (previous year: € 10,273 thousand) as a result of deferred tax assets for tax loss carryforwards that had not previously been taken into account. There was no as yet unutilized tax credit for which no deferred tax assets have been recognized on the consolidated balance sheet (previous year: € 3,873 thousand).

In net terms, current income taxes included income of € 36,468 thousand (previous year: expenses of € 1,955 thousand) relating to previous periods.

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

	2007/2008	**2008/2009**
Income before taxes	198,955	– 346,713
Theoretical tax rate in percent	28.14	28.14
Theoretical tax expense/income	55,986	– 97,565
Change in theoretical tax expense/income due to:		
– corporate income tax credit from previous years due to a change in the German Corporation Tax Act	– 8,856	– 1,428
– differing tax rate	– 14,985 [1]	– 7,005
– tax loss carryforwards [2]	– 5,620	29,511
– reduction due to tax-free income	– 7,920	– 12,187
– tax increase due to non-deductible expenses	16,925	19,651
– change in tax provisions/taxes attributable to previous years	22,650	– 28,678
– other	– 768	– 305
Taxes on income	57,412	– 98,006
Tax rate in percent	28.86	28.27

[1] Including € 11,678 thousand of deferred tax income due to the 2008 business tax reform in Germany

[2] Amortization of loss carryforwards, utilization of non-recognized loss carryforwards and non-recognition of current losses

Notes to the consolidated balance sheet

19 Intangible assets

Goodwill includes amounts arising from the acquisition of businesses (asset deals) and from capital consolidation. For the purpose of impairment testing, assets are allocated to cash-generating units. These correspond to the segments. The carrying amounts of the goodwill associated with the cash-generating units Press and Postpress total € 115,950 thousand (previous year: € 93,596 thousand) and € 9,609 thousand (previous year: € 9,609 thousand) respectively.

The first-time consolidation of 'Hi-Tech Coatings' (see note 3) generated goodwill in the amount of € 21,695 thousand, which is included in the cash-generating unit Press.

According to IAS 36, in line with the impairment test the recoverable amount of the cash-generating units is determined based on the higher of the fair value less the cost to sell and the value in use. The fair value here reflects the best estimate of the amount for which an independent third party would acquire the cash-generating units at the balance sheet date. The value in use is the present value of the estimated future cash flows expected from the cash-generating unit. Calculation of the value in use on the basis of the discounted cash flow method is based on the planning authorized by the Management Board, which in turn is based on medium-term planning for a period of five years. This planning process is based on past experience as well as expectations of future market development. As a result, as in the previous year, there were no impairment requirements for the Press, Postpress, or Financial Services cash-generating units.

The discount rates used in impairment testing are developed on the basis of market data and amount to 7.04 percent (previous year: 8.0 percent) after taxes for the cash-generating units. Before taxes, the discount rates amount to 9.0 percent (previous year: 11.0 percent). To extrapolate cash flows beyond the detailed planning period, Heidelberg uses steady growth rates of 0 percent to 1 percent to show expected inflation.

Capitalized **development costs** relate for the most part to the development of machinery in the Press Division. Non-capitalized development costs from all divisions – including research expenses – amount to € 157,602 thousand in the reporting year (previous year: € 182,199 thousand).

In the 2008/2009 financial year, we adjusted the useful life of intangible assets. If the useful lives had remained the same, amortization would have been € 13,305 thousand higher in the 2008/2009 financial year.

20 Tangible assets, investment property and assets held for sale

The carrying amounts of assets capitalized in fixed assets from finance leases in which we are the lessee are € 5,646 thousand for other operating and office equipment (previous year: € 8,295 thousand). These assets are essentially vehicles and IT equipment.

The carrying amounts of assets capitalized in fixed assets from operating leases in which we are the lessor are € 34,017 thousand (previous year: € 23,452 thousand). These assets are reported under technical equipment and machinery. These assets are printing presses leased to customers. Cumulative depreciation and amortization amounted to € 16,324 thousand (previous year: € 17,080 thousand). Depreciation and amortization of € 5,556 thousand (previous year: € 4,987 thousand) and impairment of € 735 thousand (previous year: € 277 thousand) were recognized in the reporting year. Future lease income of € 17,558 thousand (previous year: € 9,007 thousand) is anticipated from operating leases. Payments with maturities of up to one year, between one and five years, and more than five years amount to € 7,701 thousand (previous year: € 3,375 thousand), € 8,149 thousand (previous year: € 5,172 thousand) and € 1,708 thousand (previous year: € 460 thousand).

In connection with a long-term loan, there are restrictions on disposal in the form of usufractory rights in the amount of € 75,105 thousand (previous year: € 75,105 thousand) on three developed plots of land.

The carrying amounts of tangible assets that are partially unused or no longer used and pledged tangible assets are of minor significance.

For tangible assets leased to customers of the Heidelberg Group in finance leases, corresponding receivables have been capitalized in the amount of the discounted future minimum lease payments. Leased items are therefore not reported under fixed assets.

The fair value of investment property (IAS 40: Investment Property) is € 1,810 thousand (previous year: € 1,810 thousand). As in the previous year, only immaterial current income or expenses were incurred in connection with investment property in the reporting year.

In the 2008/2009 financial year, the useful life of tangible assets was partially adjusted. If the useful lives had remained the same, amortization would have been € 13,849 thousand higher in the 2008/2009 financial year.

In the Press segment, the disposal of one developed and one undeveloped plot of land was planned and initiated. In line with IFRS 5, assets of € 15,824 thousand (previous year: € 16,645 thousand) were therefore classified as held for sale as of March 31, 2009.

21 Financial assets

Financial assets include shares in subsidiaries totaling € 10,001 thousand (previous year: € 45,657 thousand), other investments of € 11,447 thousand (previous year: € 14,326 thousand) and securities of € 7,409 thousand (previous year: € 8,066 thousand). Other investments largely comprise the shares held in Goss International Corporation, Bolingbrook, Illinois, USA.

22 Receivables and other assets

			31-Mar-2008			**31-Mar-2009**
	Current	Non-current	Total	Current	Non-current	Total
Receivables from sales financing	128,205	194,839	323,044	122,218	150,976	273,194
Trade receivables	596,473	–	596,473	450,866	–	450,866
Other receivables and other assets						
Other tax assets	19,113	–	19,113	17,342	–	17,342
Loans	549	8,785	9,334	683	9,431	10,114
Derivative financial instruments	67,722	39,208	106,930	31,014	21,824	52,838
Deferred interest	242	–	242	147	–	147
Prepaid expenses	16,063	–	16,063	13,400	532	13,932
Other assets	67,464	130,853	198,317	95,074	8,232	103,306
	171,153	178,846	349,999	157,660	40,019	197,679

In the reporting year, no plan assets (previous year: € 94,136 thousand) are included in non-current other assets (see note 27).

Receivables from sales financing

Receivables from sales financing are shown in the following table:

Contract currency	Carrying amount 31-Mar-2008 € thousand	Remaining term in years	Effective interest rate (percent)	**Carrying amount 31-Mar-2009 € thousand**	Remaining term in years	Effective interest rate (percent)
EUR	158,285	up to 8	up to 16	141,055	up to 8	up to 16
USD	60,110	up to 8	up to 12	45,789	up to 8	up to 11
GBP	15,902	up to 6	up to 15	8,922	up to 6	up to 12
JPY	8,235	up to 7	up to 6	10,481	up to 7	up to 7
Other	80,512	–	–	66,947	–	–
	323,044			273,194		

The effective interest rates correspond to the agreed nominal interest rates.

The fair value of receivables from sales financing is essentially the carrying amount recognized. This fair value is based upon expected cash flows which are discounted taking into account the interest rates with matching maturities prevailing on the balance sheet date and the customer-specific credit rating.

A specific allowance for impairment losses of € 31,575 thousand (previous year: € 39,418 thousand) was recognized for receivables from sales financing with a gross carrying amount of € 101,592 thousand (previous year: € 107,271 thousand). The estimated fair values of rights of recourse to delivered products are the carrying amounts. Some additional **rights of recourse** in respect of third parties exist in the form of guarantees.

To the extent that there was no individual, objective evidence of impairment, a specific impairment allowance calculated on a portfolio basis was recognized for receivables from sales financing.

The carrying amounts of these receivables, which are also offset by rights of recourse to the delivered products, were past due as follows as of the balance sheet date:

	2007/2008	**2008/2009**
Receivables neither past due nor impaired	233,540	186,922
Receivables past due but not impaired		
less than 30 days	11,629	6,343
between 30 and 60 days	3,804	1,966
between 60 and 90 days	626	1,150
between 90 and 180 days	2,332	2,357
more than 180 days	3,260	4,439
Total	21,651	16,255
	255,191	203,177

The total impairment loss in the period for receivables from sales financing was € 18,594 thousand (previous year: € 19,408 thousand). Of this, impairment amounts booked to allowance accounts developed as follows:

	2007/2008	**2008/2009**
As of the start of the financial year	75,176	47,849
Additions	17,093	16,199
Utilization	– 10,935	– 6,586
Reversals	– 26,726	– 10,530
Change in the scope of the consolidation, currency adjustments, other changes	– 6,759	909
As of the end of the financial year	47,849	47,841

Receivables from sales financing include lease receivables from finance leases in which in particular our financing companies act as lessors.

Leases are subject to the following parameters:

	31-Mar-2008				31-Mar-2009			
	Up to 1 year	Between 1 and 5 years	More than 5 years		Up to 1 year	Between 1 and 5 years	More than 5 years	
Total lease payments	–	–	–	48,813	–	–	–	22,386
Lease payments received	–	–	–	– 29,469	–	–	–	– 10,940
Outstanding lease payments	6,730	11,671	943	19,344	3,471	7,738	237	11,446
Interest portion of outstanding lease payments	– 859	– 1,510	– 118	– 2,487	– 454	– 715	– 7	– 1,176
Present value of outstanding lease payments (carrying amount)	5,871	10,161	825	16,857	3,017	7,023	230	10,270

Trade receivables

A specific allowance for impairment losses of € 40,088 thousand (previous year: € 38,881 thousand) was recognized for trade receivables with a gross carrying amount of € 61,204 thousand (previous year: € 65,812 thousand). To the extent that there was no individual, objective evidence of impairment, a specific impairment allowance calculated on a portfolio basis was recognized for trade receivables. The carrying amount of these receivables was past due as follows as of the balance sheet date:

	2007/2008	2008/2009
Receivables neither past due nor impaired	468,211	301,439
Receivables past due but not impaired		
less than 30 days	47,128	59,965
between 30 and 60 days	20,190	24,981
between 60 and 90 days	10,694	10,683
between 90 and 180 days	13,349	17,399
more than 180 days	9,970	15,283
Total	101,331	128,311
	569,542	429,750

The trade receivables are offset by rights of recourse to the delivered products.

The total impairment loss in the period for trade receivables was € 21,176 thousand (previous year: € 17,154 thousand). Of this, impairment amounts booked to allowance accounts developed as follows:

	2007/2008	**2008/2009**
As of the start of the financial year	46,180	54,979
Additions	15,427	18,240
Utilization	– 2,374	– 8,509
Reversals	– 12,456	– 12,040
Change in the scope of the consolidation, currency adjustments, other changes	8,202	– 825
As of the end of the financial year	54,979	51,845

Other receivables and other assets

The carrying amounts of non-current receivables and other financial assets are largely identical to the fair values. Any discrepancies that arise are of minor financial significance.

Specific allowances for impairment losses of € 4,687 thousand (previous year: € 5,618 thousand) and € 4,480 thousand (previous year: € 4,223 thousand) relate to loans (gross carrying amount € 14,808 thousand; previous year: € 14,952 thousand) and other financial assets (gross carrying amount € 46,501 thousand; previous year: € 37,528 thousand) respectively.

Of the impairment recognized on loans in the previous year, € 251 thousand (previous year: € 132 thousand) were utilized and € 0 thousand (previous year: € 12 thousand) were reversed. Additions to impairment losses of € 62 thousand were required (previous year: € 329 thousand). Of the impairment recognized on other financial assets in the previous year, € 911 thousand (previous year: € 2,589 thousand) were utilized and € 0 thousand (previous year: € 7 thousand) were reversed. Additions to impairment of € 1,303 thousand were required (previous year: € 676 thousand).

€ 289 thousand (previous year: € 1,355 thousand) of unimpaired loans and other financial assets were past due by more than 180 days.

Derivative financial instruments include positive fair values from cash flow hedges of € 50,294 thousand (previous year: € 104,505 thousand) and from fair value hedges of € 2,544 thousand (previous year: € 1,677 thousand).

23 Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities break down as follows:

	31-Mar-2008 Asset	31-Mar-2008 Liability	**31-Mar-2009** Asset	**31-Mar-2009** Liability
Tax loss carryforwards	2,695	–	45,717	–
Assets:				
Intangible assets/tangible assets/ investment property	5,070	61,639	6,375	76,521
Inventories, receivables, and other assets	24,489	61,289	29,068	6,442
Securities	–	41,171	–	42,563
Liabilities:				
Provisions	60,870	3,576	90,508	5,238
Liabilities	30,646	23,468	30,620	17,151
Gross amount	123,770	191,143	202,288	147,915
Offsetting	46,482	46,482	110,162	110,162
Carrying amount	77,288	144,661	92,126	37,753

Due to currency translation, deferred tax assets were increased in equity by € 8,150 thousand (previous year: reduced by € 5,417 thousand) in the reporting year. Furthermore, due to changes in fair value recognized in equity and the recognition of financial assets and cash flow hedges recognized in income, deferred tax assets were increased by € 13,596 thousand in equity (previous year: reduced by € 5,779 thousand). The increase in equity of deferred tax assets due to the recognition in equity of the change in actuarial gains/losses and the change in the IAS 19.58 b) adjustment amount in equity totaled € 13,109 thousand (previous year: reduction of € 37,196 thousand). Due to the change in the scope of the consolidation, deferred tax liabilities increased by € 4,097 thousand (previous year: € 1,059 thousand) in equity.

Deferred tax assets include current deferred taxes of € 77,862 thousand (previous year: € 51,467 thousand). Deferred tax liabilities include current deferred taxes of € 21,357 thousand (previous year: € 52,098 thousand).

24 Inventories

	31-Mar-2008	**31-Mar-2009**
Raw materials and supplies	136,812	132,495
Work and services in progress	384,247	321,346
Finished goods and goods for resale	440,364	572,829
Advance payments	12,291	7,456
	973,714	1,034,126

In order to adjust inventories to the net realizable value, impairment of € 20,580 thousand was recorded in the year under review (previous year: € 15,664 thousand). The reason for the write-down to the lower net realizable value is primarily the decreased likelihood of market success for a small portion of our inventories. Used machinery was repossessed as collateral owing to the insolvency of customers. In the year under review, used machinery of € 8,243 thousand (previous year: € 4,502 thousand) was reported under finished goods and goods held for resale. No inventories were pledged as collateral in either the reporting year or the previous year.

25 Securities and cash and cash equivalents

Securities of € 889 thousand (previous year: € 2,075 thousand) are classified as financial assets available for sale under IAS 39. These are all shares and fixed-income securities.

Cash and cash equivalents consist of cash on hand and bank balances. Restrictions on disposal of cash and cash equivalents due to foreign exchange restrictions amount to € 31,160 thousand (previous year: € 43,614 thousand). Bank balances are exclusively held for short-term cash management purposes.

26 Shareholders' equity

Capital stock/number of shares outstanding/treasury stock

The shares are bearer shares and grant a pro rata amount of € 2.56 in the fully paid-in share capital of the Company.

In the 2006/2007 and 2007/2008 financial years, Heidelberger Druckmaschinen Aktiengesellschaft acquired treasury stock in two share buyback programs; the last share buyback program was completed on September 4, 2007. The repurchased shares could only be utilized to reduce the Company's share capital or for employee share participation programs, as well as other forms of share distribution to the employees of the Company or a subsidiary or to individuals who are or were employed by the Company or subsidiaries.

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

As of March 31, 2009, the Company holds 400,000 shares, as in the previous year. The shares were acquired in March 2007. The amount allocated to share capital is € 1,024 thousand, with a notional share of share capital of 0.51 percent as of March 31, 2009 (previous year: 0.51 percent). The cost of the acquisition was € 13,246 thousand. Additional transaction fees amounted to € 12 thousand. The total cost of the acquisition was therefore € 13,258 thousand.

At the Annual General Meeting on July 18, 2008, the Management Board was again authorized to acquire the Company's own shares in an amount of up to 10 percent, including with use of derivatives in an amount of up to 5 percent, of the share capital available at that time or – should this amount be lower – of the share capital available at the time of the authorization's implementation for any acceptable purpose up to January 15, 2010. Under certain conditions described in more detail in the resolution of the Annual General Meeting on July 18, 2008, the shares can also be used while disapplying subscription rights; these options for use also apply to the treasury stock already held by the Company. The authorization of the Annual General Meeting of July 26, 2007 was canceled by the Annual General Meeting on July 18, 2008.

Convertible bond

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

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

As of July 21, 2008, in accordance with the conditions governing the bonds, the conversion price was adjusted from € 38.03 to € 35.47. This adjustment occurred due to the dividend distribution of € 0.95 per share.

In accordance with the resolution by the Annual General Meeting on July 20, 2006, the Management Board is authorized, with the approval of the Supervisory Board, to issue bearer warrants and/or convertible bonds in a total nominal amount of up to € 500,000,000.00 with a maximum term of 30 years on one or several occasions until July 19, 2011, and to grant option rights to the bearers of bonds with warrants or conversion rights to bearers of convertible bonds to bearer shares in the Company with a pro rata amount of share capital of up to € 21,260,979.20 subject to the conditions of the option or convertible bond.

As, with regard to the Company's existing authorization from 2006 to issue convertible bonds and bonds with warrants, doubts have arisen about their admissibility under company law owing to verdicts of courts of law, the Management Board was granted two authorizations at the Annual General Meeting on July 18, 2008, which in principle have the same content, but which differ with regard to the option and conversion prices stipulated, for the issue of convertible bonds and/or bonds with warrants, profit-sharing rights, and/or profit participating bonds (or combinations of these instruments) with or without a limit on the term with a total nominal amount of up to € 500,000,000.00 and to grant conversion or option rights on bearer shares in the Company with a total pro rata amount of share capital of up to € 19,979,118.08 to the bearers or creditors of bonds and while disapplying subscription rights. These supplement the authorization granted on July 20, 2006 to issue bonds with warrants or convertible bonds, but do not increase the amount of share capital up to which the Management Board can arrange option rights, conversion rights, or conversion obligations.

Contingent capital

The Company has the following contingent capital:

According to Article 3 (3) of the Articles of Association and the resolution of the Annual General Meeting of September 29, 1999, the share capital can be contingently increased by up to € 10,996,288.00 by issuing up to 4,295,425 shares (**Contingent Capital**). The sole purpose of the contingent capital is to grant subscription rights to members of the Company's Management Board, to members of the management bodies of subsidiaries, and other senior management staff of the Company and its subsidiaries.

According to Article 3 (4) of the Articles of Association and the resolution of the Annual General Meeting of July 21, 2004, the share capital can also be contingently increased by up to € 21,992,570.88 by issuing up to 8,590,848 new bearer shares with a pro rata amount of share capital of € 2.56 each (**Contingent Capital II**). Contingent Capital II is for the purpose of granting option rights or option obligations to the bearers of warrants under bonds with warrants in accordance with the option conditions; or for the purpose of granting conversion rights or conversion obligations to the bearers of convertible bonds in accordance with the convertible bond conditions, which are issued by the Company or a subsidiary Group company by July 20, 2009, as authorized by the resolution of the Annual General Meeting of July 21, 2004.

According to Article 3 (5) of the Articles of Association and the resolution of the Annual General Meeting of July 20, 2006, the share capital can be contingently increased by up to € 21,260,979.20 by issuing up to 8,305,070 new bearer shares with a pro rata amount of share capital of € 2.56 each (**Contingent Capital 2006**). This contingent capital increase will be carried out only to the extent that bearers of option or conversion rights or those obliged to exercise their conversion rights/options from bonds with warrants or convertible bonds issued or guaranteed by the Company or a subsidiary Group company exercise their option or conversion rights or fulfill their obligation regarding conversion/the exercising of options. The new shares are issued at the option or conversion price to be determined according to the enabling resolution as described under 'Convertible bond'.

To secure the option and/or conversion rights or obligations arising from bonds or similar instruments created on the basis of the authorizations granted at the Annual General Meeting of July 18, 2008 and presented under 'Convertible bond', the following two contingent capitals have been created:

According to Article 3 (7) of the Articles of Association and the resolution of the Annual General Meeting of July 18, 2008, the share capital can be contingently increased by up to € 19,979,118.08 by issuing up to 7,804,343 new bearer shares with a pro rata amount of share capital of € 2.56 each (**Contingent Capital 2008/I**). The contingent capital increase is for the purpose of granting bearer shares to the bearers or creditors of convertible bonds and/or bonds with warrants, profit-sharing rights, and/or participating bonds (or combinations of these instruments) that were issued by the Company or one of its direct or indirect Group companies on the basis of the authorization resolved at the Annual General Meeting on July 18, 2008 under agenda item 9a) and that grant a conversion or option right to bearer shares in the Company or that stipulate a conversion obligation.

According to Article 3 (8) of the Articles of Association and the resolution of the Annual General Meeting of July 18, 2008, the share capital can be contingently increased by up to € 19,979,118.08 by issuing up to 7,804,343 new bearer shares with a pro rata amount of share capital of € 2.56 each (**Contingent Capital 2008/II**). The contingent capital increase is for the purpose of granting bearer shares to the bearers or creditors of convertible bonds and/or bonds with warrants, profit-sharing rights, and/or participating bonds (or combinations of these instruments) that were issued by the Company or one of its direct or indirect Group companies on the basis of the authorization resolved at the Annual General Meeting on July 18, 2008 under agenda item 10a) and that grant a conversion or option right to bearer shares in the Company or that stipulate a conversion obligation.

Authorized capital

By way of resolution of the Annual General Meeting of July 18, 2008, the Management Board is authorized, with the approval of the Supervisory Board, to increase the share capital of the Company by up to € 59,937,356.80 on one or several occasions against cash or non-cash contributions by July 1, 2011 (Authorized Capital 2008). The subscription rights of shareholders can be disapplied in accordance with the more detailed provisions in Article 3 (6) of the Articles of Association, with the approval of the Supervisory Board. The Authorized Capital 2006 was canceled.

Retained earnings

The retained earnings include the earnings generated but not yet distributed of Heidelberger Druckmaschinen Aktiengesellschaft and its consolidated subsidiaries in previous years, the effects of consolidation, exchange rate effects, IAS 39 fair value changes in equity, and the actuarial gains and losses on pension obligations. Retained earnings were reduced accordingly by the acquisition of treasury stock.

Appropriation of the net profit of Heidelberger Druckmaschinen Aktiengesellschaft

In accordance with the resolution of the Annual General Meeting of July 18, 2008, the unappropriated surplus for financial year 2007/2008 of € 83,138,224.98 was distributed as follows: distribution of a dividend of € 0.95 per share (total dividend: € 73,761,262.30) and carryforward of the remainder of € 9,376,962.68 to new account.

The proposed appropriation of profits for the 2008/2009 financial year provides for the unappropriated surplus totaling € 50,527,874.47 to be distributed as follows: allocations to retained earnings of € 50,000,000.00 and carryforward of the remainder of € 527,874.47 to new account.

27 Provisions for pensions and similar obligations

The Heidelberg Group operates pension schemes – either directly or through premium payments to schemes financed by private institutions – for the majority of employees for the time after their retirement. The amount of benefit payments depends on the conditions in particular countries. The amounts are generally based on the term of employment and the salary of the employees. Liabilities include both those arising from current pensions as well as vested pension rights for pensions payable in the future. The pension payments expected following the start of benefit payments are distributed over the employee's full period of employment. The group of beneficiaries participating in the defined benefit plans financed by funds at Heidelberger Druckmaschinen Aktiengesellschaft and Heidelberger Druckmaschinen Vertrieb Deutschland GmbH has been closed.

The expenses for defined contribution plans amounted to € 87,938 thousand (previous year: € 80,918 thousand) in the reporting year and essentially include contributions to the statutory pension insurance.

A so-called third option was exercised in line with IAS 19. In line with this, actuarial gains and losses and the restrictions of IAS 19.58 b) are offset in equity.

As part of a contractual trust arrangement (CTA) of Heidelberger Druckmaschinen Aktiengesellschaft and Heidelberger Druckmaschinen Vertrieb Deutschland GmbH set up in March 2006, assets were transferred to a trustee, Heidelberg Pension-Trust e.V., Heidelberg. The purpose of the CTA is to finance all pension obligations.

The calculation of the pension provisions is based on the following assumptions:

Figures in percent	2007/2008		**2008/2009**	
	Germany	Abroad	**Germany**	**Abroad**
Discount rate	6.00	5.34	6.00	4.95
Expected return on plan assets	6.50	5.40	5.59	5.14
Expected future salary increases	3.00	2.98	3.00	2.78
Expected future pension increases	1.75	2.05	2.00	1.89

To determine the expected return on plan assets, we use amounts generated in the past and forecasts concerning the expected development of plan assets.

The information on pensions is structured as follows:

1. Composition and development of the net carrying amounts.
2. Reconciliation of the defined benefit obligation and the fair value of plan assets to the provisions for pensions.
3. Development of the present value of the defined benefit obligation.
4. Development of the fair value of plan assets.
5. Composition of plan assets.
6. Breakdown of retirement benefit expenses.
7. Three-year comparison: total defined benefit obligation and experience adjustments.

1. The net carrying amounts break down as follows:

	31-Mar-2008	**31-Mar-2009**
Provisions for pensions and similar obligations	115,969	154,162
Reported assets	94,136	–
Net carrying amounts at the end of the financial year	21,833	154,162

The net carrying amounts developed as follows:

	2007/2008	**2008/2009**
Net carrying amounts at the start of the financial year	100,301	21,833
Expenses for pension obligations	58,792	61,493
Pension payments	– 2,218	– 1,824
Funding of pensions/contributions	– 6,753	– 7,183
Change in actuarial gains (–)/losses (+)	– 83,485	127,361
Expected return on plan assets	– 51,432	– 43,939
Change in adjustment amount due to IAS 19.58b)	1,571	– 7,686
Change in the scope of the consolidation, currency adjustments, other changes	5,057	4,107
Net carrying amounts at the end of the financial year	21,833	154,162

2. The provisions for pensions and similar obligations are derived from the defined benefit obligation and the fair value of plan assets as follows:

	31-Mar-2008	**31-Mar-2009**
Present value of defined benefit obligation (funded)	810,564	832,648
Less fair value of plan assets	– 817,618	– 702,810
	– 7,054	129,838
Present value of defined benefit obligation (unfunded)	21,201	24,324
Adjustment amount due to IAS 19.58b)	7,686	–
Net carrying amount	21,833	154,162
Reported assets included therein	94,136	–
Provisions for pensions and similar obligations	115,969	154,162

3. The defined benefit obligation developed as follows:

	2007/2008	**2008/2009**
Defined benefit obligation at the start of the financial year	970,176	831,765
Current service cost	23,257	18,847
Interest expense	44,004	46,165
Pension payments	– 36,650	– 38,079
Change in actuarial gains (–) / losses (+)	– 140,556	19,256
Past service cost	– 8,469	–
Curtailments	–	– 3,519
Change in the scope of the consolidation, currency adjustments, other changes	– 19,997	– 17,463
Defined benefit obligation at the end of the financial year	831,765	856,972
– of which: funded	810,564	832,648
– of which: unfunded	21,201	24,324

The past service cost was based in the previous year on the adjustment of the pension age due to the German Pension Age Adjustment Act.

4. The fair value of plan assets developed as follows:

	2007/2008	**2008/2009**
Fair value of plan assets at the start of the financial year	875,990	817,618
Expected return on plan assets	51,432	43,939
Funding of pensions/contributions	6,753	7,183
Pension payments from funds	– 34,432	– 36,255
Change in actuarial gains (+) / losses (–)	– 57,071	– 108,105
Change in the scope of consolidation, currency adjustments, other changes	– 25,054	– 21,570
Fair value of plan assets at the end of the financial year	817,618	702,810

The actual return on plan assets is € – 64,166 thousand (previous year: € – 5,639 thousand).

5. Plan assets break down as follows:

	31-Mar-2008	**31-Mar-2009**
Fixed-income securities	461,044	440,006
Shares	258,669	169,787
Real estate	31,233	35,032
Qualifying insurance policy	28,086	28,707
Cash and cash equivalents	26,846	16,834
Other	11,740	12,444
	817,618	702,810

6. Retirement benefit expenses break down as follows:

	2007/2008	**2008/2009**
Current service cost [1)]	23,257	18,847
Interest expense	44,004	46,165
Past service cost [1)]	– 8,469	–
Curtailments [1)]	–	– 3,519
Expenses for pension obligations	58,792	61,493
Expected return on plan assets	– 51,432	– 43,939
Expenses for other pension plans [1)]	23,522	20,634
	30,882	38,188

1) Retirement benefit expenses reported under staff costs before netting against the return on plan assets amount to € 35,962 thousand (previous year: € 38,310 thousand)

The return on plan assets on an individual entity level is included in staff costs up to the amount of the corresponding expense for pension claims; any excess is shown together with interest expenses in net financial income.

It was not possible to estimate reliably expected future contributions to the employee pension funds as of the balance sheet date.

The cumulative actuarial losses and the cumulative adjustment amount in accordance with IAS 19.58b) are € 96,814 thousand as of the balance sheet date (previous year: gain of € 19,845 thousand).

7. Four-year comparison: total defined benefit obligation and experience adjustments

The present value of the defined benefit obligations, the fair values of plan assets, the funding status at the end of reporting periods, and experience adjustments to liabilities and plan assets are shown in the following tables:

	31-Mar-2006	31-Mar-2007	31-Mar-2008	**31-Mar-2009**
Present value of defined benefit obligation (funded)	841,874	946,726	810,564	832,648
Less fair value of plan assets	– 785,321	– 875,990	– 817,618	– 702,810
	56,553	70,736	– 7,054	129,838
Present value of defined benefit obligation (unfunded)	144,797	23,450	21,201	24,324

	2005/2006	2006/2007	2007/2008	**2008/2009**
Experience adjustments to liabilities	3,926	2,318	– 1,699	1,223
Experience adjustments to assets	27,825	– 7,962	– 57,071	– 108,105

28 Other provisions

			31-Mar-2008			**31-Mar-2009**
	Current	Non-current	Total	Current	Non-current	Total
Tax provisions	37,705	257,271	294,976	69,745	210,326	280,071
Other provisions						
Staff obligations	91,365	51,747	143,112	68,729	53,906	122,635
Sales obligations	180,104	11,735	191,839	143,841	11,980	155,821
Other	69,212	39,621	108,833	187,184	72,843	260,027
	340,681	103,103	443,784	399,754	138,729	538,483
	378,386	360,374	738,760	469,499	349,055	818,554

	As of 1-April-2008	Changes in the scope of consolidation, currency adjustments, reclassification	Utilization	Release	Addition	**As of 31-Mar-2009**
Tax provisions	294,976	6,687	17,257	89,443	85,108	280,071
Other provisions						
Staff obligations	143,112	7,166	82,666	6,060	61,083	122,635
Sales obligations	191,839	1,675	65,223	58,947	86,477	155,821
Other	108,833	– 12,879	20,764	25,277	210,114	260,027
	443,784	– 4,038	168,653	90,284	357,674	538,483
	738,760	2,649	185,910	179,727	442,782	818,554

Additions include accrued interest of € 6,078 thousand (previous year: € 7,102 thousand). Of this sum, € 3,581 thousand (previous year: € 2,406 thousand) relates to staff obligations, € 248 thousand (previous year: € 436 thousand) to sales obligations, and € 2,249 thousand (previous year: € 4,260 thousand) to miscellaneous other provisions.

As in previous years, **tax provisions** primarily recognize the risks of additional assessments.

Staff provisions essentially relate to bonuses (€ 22,459 thousand; previous year: € 44,191 thousand), expenses for early retirement payments and for the partial retirement program (€ 29,223 thousand; previous year: € 28,474 thousand), anniversary expenses (€ 16,465 thousand; previous year: € 16,506 thousand), and provisions for the stock option program and the long-term incentive plan (€ 1 thousand; previous year: € 582 thousand).

Sales provisions mainly relate to warranties, reciprocal liability, and buy-back obligations (€ 109,002 thousand; previous year: € 138,234 thousand). The provisions for warranty obligations, obligations to provide subsequent performance and product liability serve to cover risks that are either not insured or which go beyond insurable risks. The reciprocal liability and buy-back obligations (€ 17,224 thousand; previous year: € 19,895 thousand) mainly relate to finance guarantees entered into for the finance partners of our customers in the context of sales financing. In connection with the finance guarantees for sales financing, there are claims against third parties in connection with the transfer of machinery. Outstanding claims were not capitalized.

Miscellaneous other provisions include provisions for onerous contracts of € 57,591 thousand (previous year: € 20,136 thousand) and research and development obligations of € 7,727 thousand (previous year: € 5,216 thousand). They also include provisions of € 152,497 thousand for measures in connection with our **Heidelberg 2010 program**.

29 Financial liabilities

			31-Mar-2008			31-Mar-2009
	Current	Non-current	Total	Current	Non-current	Total
Convertible bond	–	295,055	295,055	303,823	–	303,823
Borrower's note loans [1]	7,243	123,500	130,743	62,105	61,500	123,605
Amounts due to banks	18,414	70,579	88,993	246,423	63,281	309,704
From finance lease contracts	4,487	4,106	8,593	3,646	2,157	5,803
Other	20,492	272	20,764	16,827	156	16,983
	50,636	493,512	544,148	632,824	127,094	759,918

[1] Including deferred interest

Convertible bond

As the bearer of the convertible bond has the right to early repayment, the convertible bond is reported as current in the year under review, in accordance with the classification regulations of IAS 1.

The fair value of the liability component of the convertible bond, calculated on the basis of the discounted cash flow method using market interest rates, was € 296,115 thousand as of the balance sheet date (previous year: € 271,868 thousand). Please also see note 26 Shareholders' equity for information on the convertible bond.

Borrower's note loans

Three floating-rate borrower's note loans with a nominal amount of € 123,500 thousand (previous year: € 130,500 thousand) are currently outstanding. While one of these loans, with a nominal amount of € 18,500 thousand (previous year: € 25,500 thousand), has an amortizing repayment structure and matures in 2011, the other two loans with nominal amounts of € 55,000 thousand and € 50,000 thousand respectively provide for bullet maturity repayment in 2009 and 2013. The contractually arranged interest rate adjustment periods are up to six months.

Amounts due to banks

Amounts due to banks (including borrower's note loans) are shown in the table below:

Type	Contract currency	Carrying amount as of 31-Mar-2008 in € thousand	Remaining term in years	Effective interest rate (percent)	**Carrying amount as of 31-Mar-2009 in € thousand**	Remaining term in years	Effective interest rate (percent)
Loans	EUR	210,432	up to 12	up to 6.6	417,009	up to 9	up to 7.5
Current account	EUR	–	–	–	8,545	–	up to 2.9
Other	Other	9,304	up to 1	up to 14.4	7,755	up to 1	up to 8.0
		219,736			433,309		

The stated effective interest rates largely match the agreed nominal interest rates.

The stated carrying amounts essentially correspond to the respective nominal values and include contractually agreed interest adjustment terms for variable interest of up to six months.

In connection with the arranging of a long-term loan of € 68,835 thousand (previous year: € 75,105 thousand), the lender was granted usufractory rights to three developed properties of Heidelberger Druckmaschinen Aktiengesellschaft. The basis of this is a sale-and-leaseback transaction in line with SIC 27, which provides for a fixed basic term for the lease agreement of ten years and two renewal options of four years each. The usufractory rights each have a term of 18 years. Heidelberger Druckmaschinen Aktiengesellschaft can commute the usufractory rights after ten years. The fair value calculated on the basis of the discounted cash flow method using market interest rates is € 71,831 thousand (previous year: € 73,454 thousand).

The **credit lines** not yet fully used in our Group amount to € 829,935 thousand (previous year: € 1,093,481 thousand) as of the balance sheet date.

As a key element of the long-term securing of liquidity, in July 2005 Heidelberg arranged a syndicated credit line from an underwriting syndicate under the co-management of Commerzbank Aktiengesellschaft, Dresdner Bank Aktiengesellschaft, and Deutsche Bank Aktiengesellschaft. This syndicated line of credit for € 550 million had an initial term until 2010 with two renewal options for one additional year each. In 2007, Heidelberg exercised its second option to renew the term of the syndicated line of credit until July 29, 2012.

The current financial market crisis and its effects on the real economy have led to significant changes in overall financial conditions for all companies and therefore also for Heidelberg. On the basis of a detailed financing concept that largely corresponds to the financing structure used until now in terms of its type, scope, and planned term, extensive talks have been held with the banks providing financing; however, there are no complete, legally binding agreements as yet. For additional information, please refer to the explanations in the Risk and Opportunity Report in the Group Management Report starting on page 108.

Current amounts due to banks (with a term to maturity up to one year) of € 246,423 thousand (previous year: € 18,414 thousand) include € 170,084 thousand (previous year: € 0 thousand) utilization under this syndicated credit line as of the reporting date.

Liabilities from finance leases

Liabilities from finance leases are as follows:

				31-Mar-2008				**31-Mar-2009**
	Up to 1 year	Between 1 and 5 years	More than 5 years		Up to 1 year	Between 1 and 5 years	More than 5 years	
Total lease payments	–	–	–	17,578	–	–	–	16,089
Lease payments already made	–	–	–	– 8,728	–	–	–	– 10,145
Outstanding lease payments	4,668	4,182	–	8,850	3,758	2,186	–	5,944
Interest portion of outstanding lease payments	– 181	– 76	–	– 257	– 112	– 29	–	– 141
Present value of outstanding lease payments (carrying amount)	4,487	4,106	–	8,593	3,646	2,157	–	5,803

30 Trade payables

As a general rule, until full payment has been effected trade payables are collateralized by reservation of title.

31 Other liabilities

			31-Mar-2008			**31-Mar-2009**
	Current	Non-current	Total	Current	Non-current	Total
Deferred liabilities (staff)	84,307	–	84,307	59,904	–	59,904
Advance payments on orders	81,912	–	81,912	91,483	–	91,483
From derivative financial instruments	24,175	2,600	26,775	42,335	32,927	75,262
From other taxes	54,630	–	54,630	36,396	–	36,396
Relating to social security	6,041	2,704	8,745	6,495	1,947	8,442
Deferred income	49,381	35,116	84,497	60,780	37,002	97,782
Other	57,447	73,970	131,417	44,782	76,716	121,498
	357,893	114,390	472,283	342,175	148,592	490,767

Derivative financial instruments

Derivative financial instruments include negative fair values of cash flow hedges of € 65,413 thousand (previous year: € 24,460 thousand) and fair value hedges of € 9,849 thousand (previous year: € 2,315 thousand).

Deferred income

Deferred income includes taxable investment subsidies of € 4,950 thousand (previous year: € 5,518 thousand), tax-free investment allowances of € 2,119 thousand (previous year: € 2,119 thousand) and other deferred income of € 90,713 thousand (previous year: € 76,860 thousand).

Taxable subsidies comprise funds under the regional economic promotion program for investing in Brandenburg. The subsidies were for Heidelberger Druckmaschinen Aktiengesellschaft in connection with the joint task for the development area totaling € 4,950 thousand (previous year: € 5,518 thousand).

Tax-free allowances include allowances in line with the German Investment Allowance Act of 1991/1996/1999/2005/2007 of € 2,119 thousand (previous year: € 2,119 thousand) mainly for the Brandenburg location.

Other deferred income essentially includes advance payments for future maintenance and services and non-recurring payments for heritable building rights under sale-and-leaseback agreements. These amounts are reversed in the income statement over the term of the agreement.

Miscellaneous other liabilities

Recognized liabilities are essentially the undiscounted contractual cash flows.

32 Information on financial instruments

Carrying amounts of financial instruments

The carrying amounts of financial instruments are assigned to the measurement categories of IAS 39:

> RECONCILIATION > TOTAL ASSETS

Balance sheet items	IAS 39 measurement category[1]	Carrying amounts			Carrying amounts		
				31-Mar-2008			**31-Mar-2009**
		Current	Non-current	Total	Current	Non-current	Total
Financial assets							
Shares in affiliated companies	AFS	–	45,657	45,657	–	10,001	10,001
Other investments	AFS	–	14,326	14,326	–	11,447	11,447
Securities	AFS	–	8,066	8,066	–	7,409	7,409
		–	68,049	68,049	–	28,857	28,857
Receivables from sales financing							
Receivables from sales financing (excluding finance leases)	L&R	122,334	183,853	306,187	119,201	143,723	262,924
Receivables from finance leases	n.a.	5,871	10,986	16,857	3,017	7,253	10,270
		128,205	194,839	323,044	122,218	150,976	273,194
Trade receivables	L&R	596,473	–	596,473	450,866	–	450,866
Other receivables and other assets							
Derivative financial instruments	n.a.[2]	67,722	39,208	106,930	31,014	21,824	52,838
Other financial assets	L&R	50,386	39,147	89,533	80,960	13,199	94,159
		118,108	78,355	196,463	111,974	35,023	146,997
Miscellaneous other assets		53,045	100,491	153,536	45,686	4,996	50,682
		171,153	178,846	349,999	157,660	40,019	197,679
Securities	AFS	2,075	–	2,075	889	–	889
Cash and cash equivalents	L&R	141,868	–	141,868	79,117	–	79,117

[1] Explanations of the abbreviations of the IAS 39 measurement categories:
AFS: available-for-sale financial assets
L&R: loans and receivables
n.a.: no IAS 39 measurement category

[2] Derivative financial instruments include no short-term hedging instruments (previous year: € 749 thousand) assigned to the IAS 39 measurement category 'Financial instruments held for trading'

> RECONCILIATION > EQUITY AND LIABILITIES

Balance sheet items	IAS 39 measurement category[1)]	Carrying amounts			Carrying amounts		
				31-Mar-2008			**31-Mar-2009**
		Current	Non-current	Total	Current	Non-current	Total
Financial liabilities							
Convertible bond	FLAC	–	295,055	295,055	303,823	–	303,823
Borrower's note loans	FLAC	7,243	123,500	130,743	62,105	61,500	123,605
Amounts due to banks	FLAC	18,414	70,579	88,993	246,423	63,281	309,704
Finance lease liabilities	n.a.	4,487	4,106	8,593	3,646	2,157	5,803
Other financial liabilities	FLAC	20,492	272	20,764	16,827	156	16,983
		50,636	493,512	544,148	632,824	127,094	759,918
Trade payables	FLAC	294,955	–	294,955	181,920	–	181,920
Other liabilities							
Derivative financial instruments	n.a.	24,175	2,600	26,775	42,335	32,927	75,262
Other financial liabilities	FLAC	134,946	63,513	198,459	100,791	65,057	165,848
		159,121	66,113	225,234	143,126	97,984	241,110
Miscellaneous other liabilities		198,772	48,277	247,049	199,049	50,608	249,657
		357,893	114,390	472,283	342,175	148,592	490,767

1) Explanations of the abbreviations of the IAS 39 measurement categories:
FLAC: financial liabilities at amortized cost
n.a.: no IAS 39 measurement category

Liquidity risk of financial liabilities

The following table shows the contractually agreed, undiscounted cash flows of financial liabilities. The yield curves of the respective currencies valid as per the balance sheet date were used to determine the variable interest payments from financial instruments. Where necessary, foreign currencies were translated at spot rates. Financial liabilities repayable on demand are always assigned to the earliest time band.

	31-Mar-2008	**31-Mar-2009**
Up to 1 year	58,230	631,140
Between 1 and 5 years	461,454	123,012
More than 5 years	111,165	36,495
	630,849	790,647

Net gains and losses

The net gains and losses are assigned to the IAS 39 measurement categories as follows:

	2007/2008	**2008/2009**
Available for sale financial assets	4,204	– 7,418
Loans and receivables	16,531	– 22,701
Financial liabilities at amortized cost	– 30,143	– 38,409

Changes in the value of available for sale financial assets of € – 1,039 thousand (previous year: € – 378 thousand) were also recognized in equity.

Net gains and losses include € 10,277 thousand (previous year: € 9,547 thousand) of interest income and € 41,357 thousand (previous year: € 34,191 thousand) of interest expenses for financial assets and financial liabilities not measured at fair value through profit or loss.

In addition, there were net losses on financial instruments held for trading of € – 521 thousand (previous year: net gain of € 178 thousand). These financial instruments relate to hedges that do not satisfy the documentation requirements of IAS 39 for hedge accounting or whose underlying hedged items no longer exist.

Derivative financial instruments

The Corporate Treasury department of Heidelberger Druckmaschinen Aktiengesellschaft is responsible for all hedging and financing activities of Heidelberger Druckmaschinen Aktiengesellschaft and our subsidiaries. It is also responsible for the cash pooling operations of our Group as a whole. Within the Corporate Treasury department, we ensure that there is both a functional and a physical separation of the trading, processing, and risk control activities, and this is regularly reviewed by our internal audit department.

The prerequisite for an adequate risk management system is a well-founded database. The Corporate Treasury department of Heidelberger Druckmaschinen Aktiengesellschaft operates a Group-wide financial reporting system – the Treasury Information System. This system is used to identify interest rate, currency, and liquidity risks within the Group and to derive appropriate action plans and strategies with which to manage these risks on a central basis in line with guidelines issued by the Management Board. Heidelberg operates a monthly, annualized consolidated liquidity planning system on a rollover basis, which makes it possible to manage current and future liquidity needs. In the reporting year, the Heidelberg Group was able to promptly meet its financial liabilities at all times. The current financial market crisis and its effects on the real economy have led to significant changes in overall financial conditions for all companies and therefore also for Heidelberg. On the basis of a detailed financing concept that largely corresponds to the financing structure used until now in terms of its type, scope, and planned term, extensive talks have been held with the banks providing financing; however, there are no complete, legally binding agreements as yet. For additional information, please refer to the explanations in the Risk and Opportunity Report in the Group Management Report starting on page 108.

The Heidelberg Group is exposed to market price risks in the form of interest rate and exchange rate fluctuations. Derivative financial instruments are used to manage these risks. Corresponding contracts with third-party banks are mainly concluded through Heidelberger Druckmaschinen Aktiengesellschaft. The credit ratings of these business partners are reviewed regularly. The risk control activities include an ongoing market evaluation of contracted transactions.

Currency risks arise in particular as a result of US dollar and Japanese yen exchange rate fluctuations in connection with receivables and liabilities, anticipated cash flows, and onerous contracts. **Interest rate risks** essentially occur with regard to variable-rate interest refinancing transactions. In hedge accounting, the derivative financial instruments designated as a hedge of these currency risks and of interest rate risks are shown as follows:

	Nominal volumes		Fair values	
	31-Mar-2008	**1-Mar-2009**	31-Mar-2008	**1-Mar-2009**
Currency hedging				
Cash flow hedge				
Forward exchange transactions	687,736	436,093	24,910	5,983
– of which: positive fair value	(571,498)	(255,098)	(29,339)	(8,948)
– of which: negative fair value	(116,238)	(180,995)	(– 4,429)	(– 2,965)
Currency options	1,703,000	2,259,861	52,389	– 18,165
– of which: positive fair value	(1,044,000)	(1,220,161)	(72,419)	(41,346)
– of which: negative fair value	(659,000)	(1,039,700)	(– 20,030)	(– 59,511)
	2,390,736	2,695,954	77,299	– 12,182
Fair value hedge				
Forward exchange transactions	526,973	588,669	– 638	– 7,305
– of which: positive fair value	(90,692)	(155,276)	(1,677)	(2,544)
– of which: negative fair value	(436,281)	(433,393)	(– 2,315)	(– 9,849)
Interest-rate hedging				
Cash flow hedge				
Interest rate swaps	142,445	134,101	2,746	– 2,937
– of which: positive fair value	(140,555)	(–)	(2,747)	(–)
– of which: negative fair value	(1,890)	(134,101)	(– 1)	(– 2,937)

The nominal volumes result from the total of all the purchase and sale amounts of the underlying hedged items. The fair values correspond to changes in value arising from a notional revaluation taking into consideration market parameters applicable at the balance sheet date. The fair values are calculated using standardized valuation methods (discounted cash flow method and option pricing models).

The positive and negative fair values of the derivative financial instruments designated as hedging instruments are offset by opposing value developments in the hedged items. All derivative financial instruments are carried as assets or liabilities at their corresponding fair values.

The following table shows the contractually agreed, undiscounted incoming and outgoing payments for derivative financial instruments. The yield curves of the respective currencies valid as per the balance sheet date were used to determine the variable interest payments from financial instruments. Where necessary, foreign currencies were translated at spot rates.

	Up to 1 year	Between 1 and 5 years	More than 5 years	Total undis-counted cash flows
31-Mar-2008				
Derivative financial liabilities				
Outgoing payments	– 701,083	– 6,850	–	– 707,933
Associated incoming payments	675,943	6,939	–	682,882
Derivative financial assets				
Outgoing payments	– 932,539	– 431,571	–	– 1,364,110
Associated incoming payments	1,004,190	460,159	–	1,464,349
31-Mar-2009				
Derivative financial liabilities				
Outgoing payments	– 724,120	– 82,641	–	– 806,761
Associated incoming payments	701,770	80,019	–	781,789
Derivative financial assets				
Outgoing payments	– 525,083	–	–	– 525,083
Associated incoming payments	537,389	–	–	537,389

Currency hedging

Cash flow hedge

The forward exchange and currency option transactions outstanding as of the balance sheet date hedge highly likely currency risks expected from purchase volumes of our subsidiaries over the next 48 months. Therefore, the remaining term of these derivatives at the balance sheet date was up to four years. Of the hedges, 47 percent (previous year: 52 percent) of the hedging volume relates to the US dollar and 38 percent (previous year: 32 percent) to the Japanese yen as of the balance sheet date.

On the balance sheet date, hedges resulted in total positive fair values of € 50,294 thousand (previous year: € 101,758 thousand) and negative fair values of € 62,476 thousand (previous year: € 24,459 thousand). The change in value of the designated portion of the hedge was recognized in equity and will be taken to income over the subsequent 48 months. As a result of the early termination of cash flow hedges, expenses totaling € 3,552 thousand (previous year: € 0 thousand) were transferred from the hedge reserve to the financial result.

Fair value hedge

This is essentially the exchange rate hedge for loan receivables in foreign currencies. The opposing net gain on the fair value of hedges of € 55,629 thousand (previous year: € – 37,511 thousand) and the translation of hedged items at spot rates of € – 51,970 thousand (previous year: € 42,248 thousand) are reported in the consolidated income statement.

Interest rate hedging

Cash flow hedge

The Heidelberg Group limits the risk from increasing interest expenses for refinancing by using interest-rate swaps, under which Heidelberg receives variable-rate interest and pays fixed interest (payer interest rate swap). The remaining terms of these interest rate swaps are up to four years and are in line with our planning horizon. As of the balance sheet date, the measurement of all transactions resulted in no positive fair values (previous year: € 2,747 thousand) and negative fair values of € 2,937 thousand (previous year: € 1 thousand), which were recognized in equity and will be released to net interest income over the term of the transactions. The expenses from deferred interest included in the fair values of the interest rate swaps of € 107 thousand (previous year: income of € 52 thousand) was recognized in the consolidated income statement.

Sensitivity analysis

In order to show clearly the effects of currency and interest rate risks on the consolidated income statement and the equity, the impact of hypothetical changes in exchange rates and interest is shown below in the form of sensitivity analyses. It is assumed here that the position on the balance sheet date is representative for the financial year.

On-balance-sheet **currency risks** as defined by IFRS 7 are caused by monetary financial instruments not in the functional currency. The portfolio of primary monetary financial instruments is mainly held directly in the functional currency or transferred to the functional currency through the use of derivatives. It is therefore assumed in this analysis that changes in exchange rates show no influence on income or equity with regard to this portfolio. The impact of the translation of the subsidiaries' financial statements into the Group currency (translation risk) is not taken into account either. Accordingly, the analysis includes the derivative financial instruments that were concluded in order to hedge highly probable future cash flows in a foreign currency (cash flow hedge). Assuming a 10 percent increase in the value of the euro against all currencies, the hedge reserve would have been € 32,334 thousand (previous year: € 109,083 thousand) higher as at the balance sheet date and the financial result would have been € 31,577 thousand higher (previous year: € 15,459 thousand lower). Assuming a 10 percent decrease in the value of the euro, the hedge reserve would have been € 73,712 thousand (previous year: € 78,306 thousand) lower and the financial result would have been € 5,294 thousand (previous year: € 19,147 thousand) lower.

In accordance with IFRS 7, recognized **interest rate risks** of the Heidelberg Group must still be shown. These are partly due to the portion of primary floating rate financial instruments that were not hedged through the use of derivative financial instruments within cash flow hedging transactions. In addition, a hypothetical change in market interest rates with regard to derivative financial instruments would result in changes to the hedge reserve in the cash flow hedge. However, fixed-income financial instruments carried at amortized cost and floating rate financial instruments hedged within cash flow hedges are not subject to any recognized interest rate risk. These financial instruments are therefore not taken into account. Assuming an increase of 100 basis points in the market interest rate across all terms, the hedge reserve would have been € 2,073 thousand (previous year: € 3,052 thousand) higher as at the balance sheet date and the financial result would have been € 2,549 thousand (previous year: € 2,170 thousand) lower. Assuming a decrease of 100 basis points in the market interest rate across all terms, the hedge reserve would have been € 2,173 thousand (previous year: € 3,205 thousand) lower and the financial result would have been € 2,549 thousand (previous year: € 2,170 thousand) higher.

Risk of default

The Heidelberg Group is exposed to default risks to the extent that counterparties do not fulfill their contractual obligations arising from derivative financial instruments. In order to control this risk, default risks and changes in credit ratings are continually monitored. There is a theoretical **risk of default (credit risk)** for the existing derivative financial instruments in the amount of the positive fair values as at the respective reporting date. However, no actual default of payments from these derivatives is expected at present.

33 Contingent liabilities

Contingent liabilities from guarantees, amounting to € 16,561 thousand as of March 31, 2009 (previous year: € 20,664 thousand; until now € 179,962 thousand), comprise in particular reciprocal liability and buyback obligations for third-party liabilities in connection with long-term sales financing, which in turn largely correspond to rights of recourse on the delivered products.

For the adjustments to the previous year's figures, see note 1.

34 Other financial liabilities

Other financial liabilities break down as follows:

	31-Mar-2008				31-Mar-2009			
	Up to 1 year	Between 1 and 5 years	More than 5 years		Up to 1 year	Between 1 and 5 years	More than 5 years	
Lease obligations	65,506	158,209	181,530	405,245	59,031	149,835	134,302	343,168
Investments	45,720	3,833	–	49,553	39,708	25,111	–	64,819
	111,226	162,042	181,530	454,798	98,739	174,946	134,302	407,987

The figures shown are nominal values. The minimum lease payments for operating leases primarily comprise:

> The Research and Development Center (Heidelberg) in the amount of € 45,389 thousand (previous year: € 46,573 thousand);
> the Print Media Academy (Heidelberg) in the amount of € 46,665 thousand (previous year: € 50,558 thousand);
> the World Logistics Center (WLC) (Wiesloch-Walldorf plant) in the amount of € 28,913 thousand (previous year: € 31,849 thousand);
> the 'X-House' administrative building (Heidelberg) in the amount of € 16,612 thousand (previous year: € 18,336 thousand);
> the administrative and production building in Rochester, New York, USA, in the amount of € 22,464 thousand (previous year: € 51,586 thousand);
> the administrative and production building in Durham, USA, in the amount of € 21,281 thousand (previous year: € 18,849 thousand); and
> motor vehicles in the total value of € 26,540 thousand (previous year: € 27,963 thousand).

Investments and other purchasing requirements are largely financial obligations in connection with orders of tangible assets and obligations for the purchase of raw materials and supplies.

Future payments for other financial obligations are partially offset by future incoming payments for license agreements.

Additional information

35 Earnings per share in accordance with IAS 33

	2007/2008	2008/2009
Consolidated net income/loss for the year attributable to Heidelberg (€ thousand)	141,770	– 248,707
Plus: earnings increase due to dilutive effect of convertible bond (€ thousand)	9,872	–
Earnings/loss taking into account dilutive effects (€ thousand)	151,642	–
Number of shares in thousands (weighted average)	78,126	77,643
Effect of the dilutive convertible bond	7,363	–
Weighted average of outstanding shares – fully diluted	85,489	–
Undiluted earnings per share (€)	1.81	– 3.20
Diluted earnings per share (€)	1.77	– 3.20

The undiluted earnings per share are calculated by dividing the consolidated net income/loss for the year attributable to Heidelberg by the weighted average number of the shares outstanding in the reporting year of 77,643 thousand (previous year: 78,126 thousand shares). Earnings per share can be diluted by so-called potential shares. The dilutive potential shares had to be included in the calculation of diluted earnings per share on account of the issuance of the convertible bond. As of the balance sheet date, the inclusion of potential shares owing to the issuance of the convertible bond did not have any dilutive effect. Please see note 26 Shareholders' equity for information on the structure of the convertible bond.

36 Information on the consolidated cash flow statement

The consolidated cash flow statement shows the changes in the cash and cash equivalents of the Heidelberg Group during the financial year as a result of the inflows and outflows of cash. Cash flows are broken down into operating, investing, and financing activities (IAS 7). The changes in balance sheet items shown in the consolidated cash flow statement cannot be derived directly from the consolidated balance sheet as the effects of currency translation and changes in the scope of consolidation do not affect cash and have therefore been eliminated.

The additions from finance leases of € 1,396 thousand (previous year: € 5,183 thousand) are not included in the investments in intangible assets, tangible assets, and investment property. € 36,038 thousand (previous year:

€ 47,184 thousand) of investments in intangible assets and tangible assets relate to intangible assets, € 161,819 thousand (previous year: € 169,601 thousand) to tangible assets. € 443 thousand (previous year: € 31 thousand) of income from the disposal of intangible assets, tangible assets and investment property relates to intangible assets, € 31,579 thousand (previous year: € 27,082 thousand) to tangible assets, and none (previous year: € 15,338 thousand) to investment property.

The proceeds from the disposals of financial assets included the purchase price (€ 136 thousand) for the disposal of IDAB WAMAC International AB, Eksjö, Sweden, and Heidelberg Postpress Sweden AB, Eksjö, Sweden.

The payments from operating leases in which Heidelberg is the lessee are shown in the consolidated cash flow statement under operating activities. The repayment portion of lease installments for finance leases in which Heidelberg is the lessee are reported under financing activities. The interest portion of lease installments is shown under operating activities.

Payments received from operating and finance leases in which Heidelberg is the lessor are reported under changes in cash from operating activities.

Detailed information on the consolidated cash flow statement can be found in the Group Management Report. Cash and cash equivalents break down as follows:

	31-Mar-2008	**31-Mar-2009**
Current securities	2,075	889
Cash and cash equivalents	141,868	79,117
Total cash and cash equivalents	143,943	80,006

37 Information on segment reporting

Segment reporting is based on the **risk and reward approach**.

The Press Division comprises not only all the components, products, and solutions provided by prepress, sheetfed offset, and flexo printing but our sales activities in web offset printing as well. All finishing operations are integrated into the Postpress Division. Our sales financing services form the Financial Services Division.

Regionally, we distinguish between ‘Europe, Middle East and Africa’, ‘Eastern Europe’, ‘North America’, ‘Latin America’ and ‘Asia/Pacific’.

Further information on the business areas can be found in the reports of the divisions and the reports of the regions in the Group Management Report. Transfer prices for internal Group sales are determined using a market-driven approach, based on the principle of dealing at arm's length.

Inter-segment sales are of minor financial significance and can therefore be disregarded.

Non-cash expenses comprise the following:

	2007/2008	**2008/2009**
Bad debt allowances and impairment on other assets	38,590	45,470
Additions to provisions/deferred liabilities	398,924	531,462
	437,514	576,932

€ 21,412 thousand of bad debt allowances and impairment on other assets relates to the Press Division (previous year: € 17,094 thousand), € 18,594 thousand to the Financial Services Division (previous year: € 19,408 thousand), and € 5,464 thousand to the Postpress Division (previous year: € 2,088 thousand).

Research and development costs result from research and development costs incurred in the reporting year. This does not include write-downs on development costs.

Investments comprise investments in intangible assets, tangible assets and investment property.

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

Segment assets and **segment liabilities** are derived from gross assets and liabilities as follows:

	31-Mar-2008	**31-Mar-2009**
Gross assets as on consolidated balance sheet	3,507,157	3,241,162
– Financial assets	– 68,049	– 28,857
– Securities	– 2,075	– 889
– Financial receivables	– 59,124	– 63,100
– Deferred tax assets	– 77,288	– 92,126
– Tax refund claims	– 121,994	– 116,199
Segment assets	3,178,627	2,939,991

Financial receivables comprise financial receivables from subsidiaries and other financial assets.

	31-Mar-2008	**31-Mar-2009**
Gross liabilities as on consolidated balance sheet	2,314,322	2,445,036
– Tax provisions	– 294,976	– 280,071
– Tax liabilities	– 58,176	– 38,358
– Financial liabilities	– 490,048	– 689,164
– Deferred tax liabilities	– 144,661	– 37,753
Segment liabilities	1,326,461	1,399,690

Financial liabilities comprise the individual items shown in note 29, except financial liabilities relating to sales financing.

38 Capital management

In the context of implementing the holistic management approach, it is the task of capital management to provide the best possible support in the attainment of the Heidelberg Group's goals. Heidelberg's financial goals are ensuring liquidity and creditworthiness and increasing the enterprise value of the Heidelberg Group on an ongoing basis.

In addition to the return on capital employed (ROCE), we use a management control figure based on capital costs, the 'value contribution' (see the Management Report, page 69). The value contribution shows whether the Heidelberg Group earned its capital costs in the period under review.

The basis for determining the value contribution is the following capital structure:

	2007/2008	**2008/2009**
Shareholders' equity	1,192,835	796,126
– Net deferred taxes	– 67,373	54,373
Adjusted shareholders' equity	1,260,208	741,753
Annual average	1,237,778	1,000,981
Pension provisions	115,969	154,162
+ Tax provisions	294,976	280,071
+ Net tax receivables/liabilities	– 63,818	– 77,841
+ Non-operating financial liabilities	490,048	689,164
Liabilities	837,175	1,045,556
Annual average	824,867	941,366
Adjusted total capital	2,097,383	1,787,309
Annual average	2,062,644	1,942,346

The capital management strategy has not changed as against the previous year; there has merely been a shift in the focus during the reporting year. Priority is given to reducing the commitment of capital, strengthening the equity ratio, and securing liquidity. In the year under review, the equity of the Heidelberg Group declined from € 1,192,835 thousand to € 796,126 thousand. Based on total assets, the equity ratio therefore dropped from 34.0 percent to 24.6 percent. Despite our measures to reduce capital tie-up, the increase in net financial liabilities from € 402,280 thousand in the previous year to € 680,801 thousand could not be prevented. The net financial liabilities are the total financial liabilities and cash and cash equivalents.

Heidelberg is not subject to any capital requirements arising from its Articles of Association.

The current financial market crisis and its effects on the real economy have led to significant changes in overall financial conditions for all companies and therefore also for Heidelberg. In view of the development of Heidelberg's share price, we must now assume that investors in the convertible bond will exercise their right to early repayment of the bond in February 2010 and that repayment will therefore take place before February 2012. Owing to the significant decline in Heidelberg's sales, it had to be assumed that the financial ratios originally agreed ('financial covenants') under the syndicated loan can no longer be achieved over the remaining term of the financing (July 2012). As a precaution, Heidelberg therefore obtained the agreement to an 'amendment request' (adjustment of the 'financial covenants' originally agreed) from the relevant banks in December 2008.

Comprehensive discussions were held with the banks that are providing the financing based on a detailed financing concept that is largely in agreement with the previous financing structure in type, scope, and term. The banks providing the financing granted their fundamental credit approval late in May through early June 2009, however under the condition that in accordance with the second package of measures, i.e., the 'Pact for Employment and Stability in Germany' (the so-called Economic Stimulus Package II), and for the loan granted by KfW collateral be provided by the Federal Republic of Germany and the States of Baden-Wuerttemberg and Brandenburg by the end of August 2009. Although the corresponding administrative units of the German Federal Government gave their fundamental consent to this, written confirmation is currently still pending. We anticipate a final decision from the Economic Committee of the State of Baden-Wuerttemberg in the near future. Based on previous negotiations, the Management Board expects a positive decision here as well. For additional information on this topic, please refer to the details provided in the Risk and Opportunity Report in the Group Management Report beginning on page 108.

39 Declaration of Compliance in accordance with Article 161 of the German Stock Corporation Act

The Management Board and the Supervisory Board of Heidelberger Druckmaschinen Aktiengesellschaft issued the declaration of compliance in accordance with Article 161 of the German Stock Corporation Act and made it permanently accessible to the shareholders. Earlier declarations of compliance were also made permanently accessible.

40 Management Board and Supervisory Board

The basic characteristics of the remuneration system and amounts of remuneration for the members of the Management Board and Supervisory Board are presented in the remuneration report. The remuneration report is part of the Group Management Report (see pages 42 to 51).

The members of the Supervisory Board and the Management Board are listed in the separate overview presented on pages 220 to 221 (Supervisory Board) and 223 (Management Board).

Total cash remuneration of the Management Board for the year under review including non-cash remuneration amounted to € 1,836 thousand (previous year: € 1,962 thousand); € 409 thousand of this related to remuneration for bonuses (previous year: € 825 thousand). No performance share units from the long-term incentive plan were granted in the reporting year; in the previous year, the fair value at the time the LTI 2007 was granted totaled € 408 thousand, on the condition that 100 percent of targets were met. Total remuneration in the period under review thus amounted to € 1,836 thousand (previous year: € 2,370 thousand). As in the previous year, stock options awarded from the stock option program in previous years and LTI performance share units were not paid out in the year under review.

In the reporting year, the expenses for retirement benefits under IFRS (service cost and interest cost) for members of the Management Board amounted to € 653 thousand (previous year: € 594 thousand); this includes the service cost of € 353 thousand (previous year: € 323 thousand).

In the reporting year, no performance share units (previous year: 13,500) were awarded to members of the Management Board under the long-term incentive plan. As of the balance sheet date, the Management Board members held a total of 72,000 stock options (previous year: 69,000 stock options) under the stock option plan.

Former members of the Management Board and their surviving dependents received € 2,982 thousand (previous year: € 2,862 thousand). € 825 thousand of this (previous year: € 814 thousand) relates to liabilities to former members of the Management Board of Linotype-Hell Aktiengesellschaft and their surviving dependents, which were assumed in financial year 1997/1998 within the framework of universal succession. The pension obligations (defined benefit obligations) to former members of the Management Board and their surviving dependents amount to € 35,235 thousand (previous year: € 34,090 thousand). € 8,666 thousand of this (previous year: € 8,779 thousand) relate to the pension obligations of the former Linotype-Hell Aktiengesellschaft, acquired in financial year 1997/1998 under the provisions of universal succession. Former members of the Management Board held 105,000 stock options (previous year: 147,000 stock options) as of the balance sheet date.

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

Fixed remuneration of € 389 thousand (previous year: € 382 thousand), but no variable remuneration (previous year: € 144 thousand) were paid to the members of the Supervisory Board for the financial year 2008/2009; these payments do not include sales tax.

41 Related party transactions

Business relations exist between numerous companies and Heidelberger Druckmaschinen Aktiengesellschaft and its subsidiaries in the course of ordinary business. This also includes associated companies, which are regarded as related companies of the Heidelberg Group. Related parties include members of the Management Board and the Supervisory Board.

In the 2008/2009 financial year, transactions were carried out with related parties that resulted in liabilities of € 6,769 thousand (previous year: € 8,323 thousand), receivables of € 21,558 thousand (previous year: € 31,493 thousand), expenses of € 15,183 thousand (previous year: € 12,232 thousand), and income of € 35,046 thousand (previous year: € 56,269 thousand), which essentially includes sales. All transactions were concluded at standard market terms and did not differ from trade relationships with other companies.

Companies controlled by a member of the Supervisory Board of Heidelberger Druckmaschinen Aktiengesellschaft provided consultancy services to a fully consolidated foreign company in the period under review; the volume of this business was € 409 thousand.

42 Stock option plan[1)]

The Annual General Meeting of September 29, 1999 approved a contingent increase of share capital of up to € 10,996,288.00 through the issue of up to 4,295,425 shares (Contingent Capital). The sole purpose of the contingent capital increase is to grant subscription rights to members of the Company's Management Board, to members of the Management Board of subsidiaries in Germany and abroad, and to other senior executives within the Heidelberg Group.

1) The comments on the stock option plan are also part of the Corporate Governance Report (see page 13 ff)

Authorization of the Management Board and the Supervisory Board

The Management Board has been authorized to grant subscription rights to eligible persons within a period of five years from the time the contingent capital goes into effect. The subscription rights are to be issued to those entitled by way of entry in the commercial register in tranches of not more than 30 percent of the total volume per financial year. The Supervisory Board has the sole responsibility for granting subscription rights to members of the Management Board.

Vesting period/term

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

Exercise period and exercise blocking periods

Subscription rights can be exercised at any time after the end of the blocking period during the respective term. However, the subscription rights cannot be exercised during blocking periods that have been established by the Management Board and Supervisory Board – for example, periods of at least ten trading days before dates on which reports on the Company's business development are published. The entire period or parts of the period between the end of a financial year and the end of the respective ordinary Annual General Meeting may also be designated as blocking periods.

Investment on own account

When granting subscription rights, the precondition may be imposed that the eligible persons must acquire shares of Heidelberger Druckmaschinen Aktiengesellschaft on their own account and that they retain the shares for the appropriate vesting period.

Condition for exercising subscription rights

Subscription rights can only be exercised if the market price of the Company's shares (as calculated on the basis of the total shareholder return method) between the issue and the exercising of the subscription rights (as defined in more detail below) outperforms the value of the Dow Jones Euro STOXX Index (hereinafter referred to as the 'Index') as calculated on the basis of the total shareholder return method. The target shall be deemed to have been reached if the performance calculated thus exceeds that of the Index. If subscription rights are not exercised despite the target having been reached they cannot be exercised again until the target has once more been reached.

Exercise price

The exercise price is defined as the average closing price of the Company's shares on the last ten consecutive trading days in Frankfurt am Main before the relevant subscription period for the respective subscription rights (the exercise price). If the closing price of the shares in the electronic trading system of Deutsche Börse Aktiengesellschaft (which is used to determine the target price) is more than 175 percent of the exercise price determined in accordance with the above section (the threshold amount) on the last day of trading before the subscription rights are exercised (the relevant market price), the exercise price shall be increased by the amount by which the relevant market price exceeds the threshold amount. This does not affect the provisions of Article 9 (1) of the German Stock Corporation Act (AktG).

Non-transferability/dividend rights of new shares

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

Tranches for 2002 to 2004

The main key conditions for the various tranches are shown in the following table:

	End of vesting period	End of term	Exercise price in €	Number of stock options[1] 31-Mar-2008	Number of stock options[1] **31-Mar-2009**
Tranche 2002	11-Sep-2005	11-Sep-2008	42.08	375,460	–
Tranche 2003	12-Sep-2006	12-Sep-2009	22.26	1,374,870	1,321,620
Tranche 2004	18-Aug-2007	18-Aug-2010	25.42	525,735	502,485
				2,276,065	1,824,105

1) Including stock appreciation rights (SARs)

The development of entitlements to stock options that have been granted is shown in the following table:

	2007/2008		**2008/2009**	
	Number of stock options[1]	Weighted average exercise price in €	**Number of stock options[1]**	**Weighted average exercise price in €**
Outstanding options at the beginning of the financial year	2,632,540	29.95	2,276,065	26.26
During the financial year				
Granted	–	–	–	–
Returned	–	–	76,500	23.22
Exercised	–	–	–	–
Forfeited	356,475	53.52	375,460	42.08
Outstanding options as of the end of the financial year	2,276,065	26.26	1,824,105	23.13
Exercisable options as of the end of the financial year	–	–	–	–

1) Including stock appreciation rights (SARs)

Servicing the subscription rights

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

Accounting policies

The provisions of IFRS 2: Share-Based Payment are applied to the relevant tranches (Tranche 2003 and Tranche 2004, as well as the SARs of Tranches 2002 to 2004).

The total income from the stock option program amounted to € 34 thousand in the reporting year (previous year: € 905 thousand). Provisions and the capital reserves amounted to € 1 thousand (previous year: € 35 thousand) and € 9,431 thousand (previous year: € 9,431 thousand) respectively as of the balance sheet date.

The amount of liabilities for the tranches to which IFRS 2 applies was calculated using a Monte Carlo simulation taking into account the relative target of the option plan. The significant tranches were measured on the basis of the following parameters:

	Tranche 2003	Tranche 2004
Measurement date	12-Sep-2003	18-Aug-2004
Exercise price in €	22.26	25.42
Price of Heidelberg shares in €	25.44	23.90
Expected dividend yield	2.16 %	2.43 %
Risk-free interest rate	3.61 %	3.52 %
Volatility of Heidelberg shares	39.11 %	39.13 %
Volatility of EURO STOXX	24.73 %	23.98 %
Correlation between Heidelberg share price and EURO STOXX	0.26	0.26
Fair value in €	5.76	4.87

Volatilities and correlations were determined on the basis of historical end-of-day prices. The actual remaining term was used for the expected term in the option pricing model. Furthermore, upon reaching the relative target in the simulation it was assumed that the options were exercised early in all cases in which the gain on exercise exceeds the discounted amount of 75 percent of the original exercise price over the option's remaining term.

43 Long-term incentive plan (LTI) [1]

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

Participants

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

Performance share units (PSUs)/investment on own account

The plan grants performance share units (PSUs) to employees. This is dependent, however, on employees investing on their own account. A requirement for participation is that employees hold shares in Heidelberger Druckmaschinen Aktiengesellschaft on their own account. The actual number

[1] The comments on the Long-term incentive plan (LTI) are also part of the Corporate Governance Report (see page 13 ff)

of PSUs granted depends on certain performance criteria. Final PSUs are provided either in the form of cash payments or delivery of shares in the Company.

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

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

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

Term of performance share units

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

Performance criteria

Performance criteria comprise the average arithmetical free cash flow rate (free cash flow divided by sales) achieved by the Company during the term of the performance share units on the one hand and, on the other, the arithmetical average EBIT percentage rate (EBIT divided by sales) achieved by the Company during the term in line with the following table:

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

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

Disbursement

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

Cap

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

Tranches 2006 / 2007

The development of LTI entitlements is shown in the following table:

	2007/2008 Number of PSUs	**2008/2009** Number of PSUs
Outstanding PSUs as of the start of the financial year	110,250	212,400
During the financial year		
Granted	102,600	–
Returned	450	2,250
Exercised	–	–
Forfeited	–	–
Outstanding PSUs as of the end of the financial year	212,400	210,150
Exercisable PSUs as of the end of the financial year	–	–

Accounting policies

Tranche 2006 and Tranche 2007 of the LTI were measured on the basis of IFRS 2. The LTI is to be settled in cash. The provision for this is € 0 thousand (previous year: € 547 thousand). The total income from the LTIs amounted to € 547 thousand in the year under review (previous year: total expense € 248 thousand).

The amount of liabilities was calculated on the basis of a Monte Carlo simulation. For the prior year, LTI 2006 and LTI 2007 were measured on the basis of the following parameters:

	LTI 2006	LTI 2007
Measurement date	31-Mar-2008	31-Mar-2008
Initial value in €	36.88	36.06
Price of Heidelberg share in €	17.01	17.01
Expected dividend yield	5.94 %	6.11 %
Interest rate	3.56 %	3.52 %
Volatility of Heidelberg share	46.94 %	38.91 %
Fair value in €	16.21	14.93

To ensure a long-term procedure based on objective criteria, the historic volatility is used for volatility. The calculation was based on closing prices for Heidelberger Druckmaschinen Aktiengesellschaft shares. The remaining term of PSUs was used as the time window for calculating volatility. This arises from the term of the program plus the reference period.

44 Exemption in line with Article 264 (3) of the German Commercial Code

The following subsidiaries exercised the provisions of Article 264 (3) of the German Commercial Code with regard to disclosure of the exemption regulation in the period under review:
Heidelberger Druckmaschinen Vertrieb Deutschland GmbH, Heidelberg;
Heidelberg Postpress Deutschland GmbH, Heidelberg;
Heidelberg China-Holding GmbH, Heidelberg;
Heidelberg Boxmeer Beteiligungs-GmbH, Heidelberg;
Print Finance Vermittlung GmbH, Heidelberg;
Heidelberg Consumables Holding GmbH, Heidelberg.

45 Auditors’ fee

In the reporting year, the following expenses were incurred for services by the auditors:

Fee for	2007/2008	**2008/2009**
Audits of financial statements	773	811
Other assurance or valuation services	100	400
Tax advisory services	4	–
Other services	2	343
	879	1,554

46 Events after the balance sheet date

Comprehensive discussions were held with the banks that are providing the financing based on a detailed financing concept that is largely in agreement with the previous financing structure in type, scope, and term. The banks providing the financing granted their fundamental credit approval late in May through early June 2009, however under the condition that in accordance with the second package of measures, i.e., the ‘Pact for Employment and Stability in Germany’ (the so-called Economic Stimulus Package II), and for the loan granted by KfW collateral be provided by the Federal Republic of Germany and the States of Baden-Wuerttemberg and Brandenburg by the end of August 2009. Although the corresponding administrative units of the German Federal Government gave their fundamental consent to this, written confirmation is currently still pending. We anticipate a final decision from the Economic Committee of the State of Baden-Wuerttemberg in the near future. Based on previous negotiations, the Management Board expects a positive decision here as well. For additional information on this topic, please refer to the details provided in the Risk and Opportunity Report in the Group Management Report beginning on page 108.

Heidelberg, June 4, 2009

Heidelberger Druckmaschinen Aktiengesellschaft
The Management Board

Bernhard Schreier

Dirk Kaliebe

Stephan Plenz

Dr. Jürgen Rautert

Responsibility statement

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

Heidelberg, June 4, 2009

Heidelberger Druckmaschinen Aktiengesellschaft
The Management Board

Bernhard Schreier

Dirk Kaliebe

Stephan Plenz

Dr. Jürgen Rautert

Auditor's Report

We have audited the consolidated financial statements prepared by Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg, comprising the balance sheet, the income statement, the statement of recognized income and expense, the cash flow statement, and the notes to the consolidated financial statements, together with the Group Management Report for the financial year from April 1, 2008 to March 31, 2009. The preparation of the consolidated financial statements and the Group Management Report in accordance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Article 315a (1) HGB (Handelsgesetzbuch – German Commercial Code) are the responsibility of the Management Board of the Company. Our responsibility is to express an opinion on the consolidated financial statements and the Group Management Report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Article 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position, and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group Management Report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group Management Report are examined primarily on a test basis within the framework of the audit.

The audit includes assessing the annual financial statements of those entities included in consolidated financial statements, the determination of the entities to be included in consolidation, the accounting policies and consolidation principles used, and significant estimates made by the Company's Management Board, as well as evaluating the overall presentation of the consolidated financial statements and the Group Management Report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Article 315 a (1) HGB and give a true and fair view of the net assets, financial position, and results of operations of the Group in accordance with these requirements. The Group Management Report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

We are required to advise readers that the continued existence of the Group companies as a going concern is threatened by risks that are outlined in the section on financial risks in the Risk and Opportunity Report of the Group Management Report. This report outlines the financial position of the Group companies and the dependency of refinancing on the securities announced by the state being granted with legally binding effect.

Frankfurt am Main, June 5, 2009

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Martin Theben	ppa. Stefan Sigmann
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

> FURTHER INFORMATION

ANNUAL REPORT 2008/2009

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

Name	Location		Share in share-holders' equity in %	Share-holders' equity	Net profit after taxes	Net sales	Yearly average number of employees
Europe, Middle East and Africa							
Heidelberger Druckmaschinen Vertrieb Deutschland GmbH[1) 2)]	D	Heidelberg	100	53,616	39,889	532,102	925
Heidelberg Postpress Deutschland GmbH[1) 2)]	D	Heidelberg	100	25,617	– 44,878	150,546	982
Heidelberg France S.A.S.	F	Tremblay-en-France	100	13,257	– 14,333	144,393	270
Heidelberg Graphic Equipment Ltd.[3)]	GB	Brentford	100	16,684	– 21,787	134,355	420
Heidelberg Schweiz AG	CH	Bern	100	9,409	2,335	86,578	173
Heidelberg International Ltd. A/S	DK	Ballerup	100	38,904	– 8,102	35,123	72
Heidelberg Sverige AB	S	Solna	100	1,352	– 1,781	32,143	68
Print Finance Vermittlung GmbH[1) 2)]	D	Heidelberg	100	34,849	1,576	16,681	–
Heidelberg Graphic Systems Southern Africa (Pty) Ltd.[3)]	ZA	Johannesburg	100	– 623	– 2,191	14,993	100
Eastern Europe							
Heidelberger Druckmaschinen Osteuropa Vertriebs-GmbH[4)]	A	Vienna	100	150,825	– 9,434	85,273	36
Heidelberger CIS OOO	RUS	Moscow	100	– 10,969	– 2,172	60,590	247
Heidelberg Polska Sp z.o.o.	PL	Warsaw	100	7,563	– 1,324	60,444	141
Heidelberger Druckmaschinen Austria Vertriebs-GmbH	A	Vienna	100	137,792	– 12,721	51,608	106
Heidelberg Praha spol s.r.o.	CZ	Prague	100	3,720	304	32,047	87
North America							
Heidelberg USA, Inc.	USA	Kennesaw	100	107,936	– 17,504	263,250	851
Heidelberg Canada Graphic Equipment Ltd.	CDN	Mississauga	100	13,886	– 3,768	79,374	250
Heidelberg Print Finance Americas, Inc.	USA	Portsmouth	100	134,555	5,310	4,959	9

Name	Location		Share in shareholders' equity in %	Shareholders' equity	Net profit after taxes	Net sales	Yearly average number of employees
Latin America							
Heidelberg do Brasil Sistemas Graficos e Servicos Ltda.	BR	São Paulo	100	11,844	697	42,034	270
Heidelberg Mexico Services S. de R.L. de C.V.[3]	MEX	Mexico City	100	– 3,313	– 15,210	26,799	133
Asia / Pacific							
Heidelberg Japan K.K.	J	Tokyo	100	20,905	– 1,553	168,473	398
Heidelberg China Ltd.	RC	Hong Kong	100	19,316	1,746	142,178	169
Heidelberg Graphic Equipment Ltd.	AUS	Melbourne	100	14,891	– 673	66,483	214
Heidelberg Hong Kong Ltd.	RC	Hong Kong	100	17,360	– 1,274	32,350	102
Heidelberg Graphic Equipment (Shanghai) Co. Ltd.	RC	Shanghai	100	17,328	– 2,750	27,594	224
Heidelberg Asia Pte Ltd.	SGP	Singapore	100	8,128	658	24,291	135
Heidelberg Malaysia Sdn Bhd	MYS	Petaling Jaya	100	1,530	– 872	22,356	157
Heidelberg Korea Ltd.	ROK	Seoul	100	3,455	– 616	15,399	97

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

The Supervisory Board

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Member in various Supervisory Boards, Munich
Chairman of the Supervisory Board
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Douglas Holding Aktiengesellschaft;
eCircle Aktiengesellschaft (Chairman);
Loewe Aktiengesellschaft

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

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– through July 18, 2008 –
Spokesman for the Management Board of Commerzbank Aktiengesellschaft, Frankfurt am Main
* Commerzbank Auslandsbanken Holding Aktiengesellschaft (Chairman);
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** BRE Bank SA, Poland

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– since July 18, 2008 –
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** Business Objects S.A., France;
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SAP Ireland Ltd., Ireland;
SAP France S.A., France;
SAP Hellas S.A., Greece;
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SAP Italia S.p.A., Italy;
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SAP Espana S.A., Spain;
SAP Finland Oy, Finland;
SAP Norge AS, Norway;
SAP Svenska Aktiebolag, Sweden;
SAP Portugal Sociede Unipessoal, Lda., Portugal;
SAP (Schweiz) Aktiengesellschaft, Switzerland;
SAP America, Inc., US;
SAP Global Marketing Inc., US;
SAP Andina y del Caribe, C.A., Venezuela;
SAP JAPAN Co., Ltd., Japan;
SAP Taiwan Co., Ltd., Taiwan;
SAP Middle East and North Africa, LLC., United Arab Emirates;
Systems Applications Products (Africa) (Pty) Ltd., South Africa

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– since July 18, 2008 –
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* ThyssenKrupp Nirosta GmbH (Chairman);
** ThyssenKrupp Industries and Services Qatar LLC, Qatar

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First Senior Representative of IG Metall, Heidelberg

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

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– through July 18, 2008 –
Member in various Supervisory Boards, Hanau
* Heraeus Holding GmbH (Chairman);
GEA Group Aktiengesellschaft (Chairman);
Messer Group GmbH (Chairman);
** Argor-Heraeus S.A.S., Switzerland (Chairman of the Administration Board)

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

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

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* Bundesanstalt für Finanzdienstleistungsaufsicht (Member of the Administration Board);
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KfW Kreditanstalt für Wiederaufbau (Member of the Administration Board);
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** DekaBank Deutsche Girozentrale (Administration Board);
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LBBW Equity Partners GmbH & Co. KG (Chairman of the Supervisory Board);
LBBW Equity Partners Verwaltungs-GmbH (Chairman of the Supervisory Board)

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* Benteler Aktiengesellschaft (Chairman);
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Klöckner & Co. SE;
LANXESS Aktiengesellschaft

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– through July 18, 2008 –
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* Drägerwerk Aktiengesellschaft & Co. KGaA;
Drägerwerk Verwaltungs-Aktiengesellschaft

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* Fresenius SE;
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Allianz Suisse Versicherungs-Aktiengesellschaft, Switzerland

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

Prof. Dr.-Ing. Günther Schuh
– since July 18, 2008 –
Professor and holder of the chair in production engineering at RWTH Aachen University, Aachen
* Zwiesel Kristallglas Aktiengesellschaft;
** forma vitrum Aktiengesellschaft, Switzerland (President of the Administration Board);
Gallus Holding Aktiengesellschaft, Switzerland (Member of the Administration Board);
Brose Fahrzeugteile GmbH & Co. KG (Member of the Advisory Board)

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Hannover Rückversicherung Aktiengesellschaft;
** Österreichische Industrieholding Aktiengesellschaft, Austria

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

Committees of the Supervisory Board

Management Committee

Dr. Mark Wössner (Chairman)

Rainer Wagner

Martin Blessing
– through July 18, 2008 –

Martin Gauß

Mirko Geiger

Dr. Gerhard Rupprecht

Dr. Klaus Sturany
– since July 18, 2008 –

Mediation Committee under Article 27 Paragraph 3 of the Codetermination Act

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Rainer Wagner

Martin Blessing
– through July 18, 2008 –

Wolfgang Flörchinger

Dr. Gerhard Rupprecht
– since July 18, 2008 –

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Rainer Wagner

Dr. Gerhard Rupprecht

Audit Committee

Dr. Klaus Sturany (Chairman)

Dr. Werner Brandt
– since July 18, 2008 –

Dr. Jürgen Heraeus
– through July 18, 2008 –

Mirko Geiger

Rainer Wagner

Nomination Committee

Dr. Mark Wössner (Chairman)

Dr. Klaus Sturany

The Management Board

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Bruchsal
Chairman
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Bilfinger Berger Aktiengesellschaft;
Universitätsklinikum Heidelberg
** Gallus Holding Aktiengesellschaft, Switzerland (Member of the Administration Board)

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Sandhausen
* Heidelberger Druckmaschinen Vertrieb Deutschland GmbH;
** Heidelberg Graphic Equipment Ltd., UK;
Heidelberg Americas, Inc., US;
Heidelberg USA, Inc., US;
Gallus Holding Aktiengesellschaft, Switzerland (Member of the Administration Board)

Stephan Plenz
Sandhausen
– since July 18, 2008 –
** Heidelberg Graphic Equipment (Shanghai) Co. Ltd., China
(Chairman of the Board of Directors)

Dr. Jürgen Rautert
Heidelberg
* Heidelberger Druckmaschinen Vertrieb Deutschland GmbH (Chairman);
** Heidelberg Graphic Equipment Ltd., UK
(Chairman of the Board of Directors);
Heidelberg Japan K.K., Japan;
Heidelberg Americas, Inc., US
(Chairman of the Board of Directors);
Heidelberg USA, Inc., US
(Chairman of the Board of Directors)

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

VISITORS DRAWN TO HALL 11

Presentation of Packaging Printing Solutions

Numerous potential customers were able to obtain an overview of Heidelberg's complete range of packaging printing solutions in the Visitor's Center of Hall 11. Among others, the new large-format printing press generation is assembled in the large 35,000-sq-m hall at the Wiesloch-Walldorf plant.

> PUBLISHING INFORMATION

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> FIVE-YEAR OVERVIEW – HEIDELBERG GROUP

Figures in € millions

	2004/2005	2005/2006	2006/2007	2007/2008	**2008/2009**
Incoming orders	3,700	3,605	3,853	3,649	**2,906**
Net sales	3,360	3,586	3,803	3,670	**2,999**
Foreign sales share in percent	85.3	86.9	85.1	83.8	**81.0**
Result of operating activities [1]	171	277	362	268	**– 49**
– in percent of sales	5.1	7.7	9.5	7.3	**– 1.6**
Income before taxes	106	229	300	199	**– 347**
Net profit/loss	59	135	263	142	**– 249**
– in percent of sales	1.8	3.8	6.9	3.9	**– 8.3**
Research and development costs	211	214	237	222	**186**
Investments	162	169	178	217	**198**
Total assets	3,660	3,281	3,339	3,507	**3,241**
Net working capital [2]	1,091	1,199	1,276	1,193	**1,212**
Receivables from sales financing	565	496	431	323	**273**
Shareholders' equity	1,166	1,138	1,202	1,193	**796**
– in percent of total equity and liabilities	31.9	34.7	36.0	34.0	**24.6**
Financial liabilities	615	570	543	544	**760**
Net debt [3]	484	491	467	402	**681**
Cash flow	232	345	398	290	**– 238**
– in percent of sales	6.9	9.6	10.5	7.9	**– 7.9**
Free cash flow	152	149	229	215	**– 201**
– in percent of sales	4.5	4.2	6.0	5.9	**– 6.7**
ROCE in percent [4]	7.0	13.6	15.7	13.5	**– 3.6**
Return on equity in percent [5]	5.1	11.9	21.9	11.9	**– 31.3**
Earnings per share in €	0.69	1.58	3.23	1.81	**– 3.20**
Dividends in € [6]	0.30	0.65	0.95	0.95	**–**
Share price at financial year-end in €	24.65	36.40	34.30	17.01	**3.64**
Market capitalization at financial year-end	2,118	3,023	2,735	1,328	**284**
Dividend yield in percent [7]	1.22	1.79	2.77	5.58	**–**
Number of employees at financial year-end	18,416	18,436	19,171	19,596	**18,926**

1) Before special items
2) The sum of inventories and trade receivables less trade payables as well as advance payments
3) The balance of financial liabilities and cash and cash equivalents
4) Adjusted for positive one-time effects totaling € 60 million in financial year 2006/2007
5) After taxes
6) For financial year 2008/2009 proposal of the Management Board and the Supervisory Board
7) Based on the financial year-end price in Xetra trading

FINANCIAL CALENDAR 2009/2010

June 9, 2009	Press Conference, Annual Analysts' and Investors' Conference
July 23, 2009	Annual General Meeting
August 11, 2009	Publication of First Quarter Figures 2009/2010
November 10, 2009	Publication of Half-Year Figures 2009/2010
February 9, 2010	Publication of Third Quarter Figures 2009/2010
May 11, 2010	Publication of Preliminary Figures 2009/2010
June 15, 2010	Press Conference, Annual Analysts' and Investors' Conference
July 29, 2010	Annual General Meeting

Subject to change

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