ANNUAL REPORT 2009/2010

HEIDELBERG 2009/2010

THE FINANCIAL YEAR IN

Q1 2009

APRIL

Amsterdam Print Media Academy (PMA) Opens Its Doors
Heidelberg, together with the Company's sales and service representative, Tetterode, opens a PMA in the Netherlands. A total of 19 PMAs are now active in 16 countries.

Sixty Years of Steel Folders from Ludwigsburg
The Ludwigsburg plant celebrates the 60th birthday of its folder production. The former company Stahl & Co, which was founded in 1949, was acquired by Heidelberg in 1999.

MAY

China Print 2009
At the China Print 2009 trade show, Heidelberg presents comprehensive solutions for the entire sheetfed offset printing added-value chain while simultaneously taking into account the special needs of the Chinese high-potential growth market.

PacPrint 2009
Heidelberg also introduces its range of services at Australia's most important trade show, PacPrint, which is held in Melbourne. Heidelberg focuses on consumables and consulting services.

JUNE

Packaging Days
At the second international Packaging Days, more than 160 customers inform themselves about Heidelberg's innovations in packaging printing. The event is held in Hall 11 of the Print Media Center in Wiesloch-Walldorf.

Graphitec 2009
Despite the difficult economic situation, the Paris-based Graphitec trade show is a great success. Over 11,000 people visit the trade show in order to see our industry's innovations! Heidelberg's stand focuses on sustainability and product differentiation.

Q2 2009

JULY

2009 Annual General Meeting
Approximately 1,700 shareholders attend the Annual General Meeting in Mannheim, representing some 57 percent of Heidelberg's capital share. The Management Board explains how it is countering the impact on the Group of the financial and economic crisis.

Heidelberg News Awarded
Heidelberg News again wins silver in the largest competition for corporate publications in Europe. Over 600 publications entered the competition for the "Best of Corporate Publishing Awards".

AUGUST

The Printing Press as Darkroom
A new printing process called High Definition Skia Photography is introduced in an exhibition at the Heidelberg Print Media Academy. This process produces prints of photos directly from negatives without the need for a darkroom.

New Financing Structure
The Heidelberg Group has access to credit facilities totaling € 1.4 billion through mid-2012. Comprising these facilities are a loan from Kreditanstalt für Wiederaufbau (KfW) of € 300 million, a credit of € 550 million backed up by guarantees, and a line of credit from a banking syndicate amounting to € 550 million.

SEPTEMBER

Beginning of Job Training Period
Heidelberg invests in trainees. Throughout Germany, on September 1 a total of 193 young people begin their training in one of 14 training professions or one of seven study programs.

High-Performance Control Station Wins InterTech Award for 2009
The 2009 InterTech Award goes to the newly developed Prinect Press Center, which was introduced at drupa 2008 for the first time. As the panel of judges explained their decision, this product considerably simplifies the operator's interaction with the printing press.

REVIEW

Q3 2009

OCTOBER

JGAS 2009 in Tokyo
At the JGAS 2009 trade show, Heidelberg focuses primarily on new service products, thereby introducing, among others, the Systemservice area's partner program.

Open Houses in Germany
"Exploiting Potential. Securing Leading Positions" – this is the slogan of the 2009 Open Houses in Germany. Some 1,400 visitors inform themselves about the Heidelberg product portfolio during these events.

NOVEMBER

New Corporate Structure
Heidelberg's Management Board and Supervisory Board approve the Company's reorganization as of April 1, 2010. The new organization, which comprises the Heidelberg Equipment Division, the Heidelberg Services Division, and the Heidelberg Financial Services Division, supports the Group's strategic alignment.

Speedmaster XL 145 Meets Expectations
The on-line portal, Flyeralarm, together with its printing facility, Druckhaus Mainfranken, placed an order for two Speedmaster XL 145-4 models with Inpress Control. The second printing press is also now operating in three shifts. The high degree of automation as well as the availability of large-format printing presses in particular ensure an immediate payoff for Web-to-Print providers.

DECEMBER

First Speedmaster CD 102 from China
The Chinese print shop Yantai Dong Ming Printing puts into operation the first Speedmaster CD 102 constructed in Qingpu, thereby augmenting its printroom.

International Prinect End-User Days
The first international Prinect End-User Days were a success. Over 80 customers attend the presentation at the Heidelberg Print Media Academy. During a panel discussion, three customers respond to questions concerning the introduction of Prinect and outline their experience with this software.

Q4 2010

JANUARY

New Management Board Member
As of January 1, 2010, Marcel Kiessling, who had previously been in charge of Heidelberg's North and South America sales regions, was elected to the Group's Management Board. He assumes responsibility for the Heidelberg Services Division under the new corporate organization.

Sixty Years of Cooperation between POLAR and Heidelberg
In the beginning, POLAR and Heidelberg had common sales and service representatives. The companies can now look back on 60 years of cooperation. Even today, POLAR high-speed cutters supplement Heidelberg's product range.

FEBRUARY

First Speedmaster XL 75 in Taiwan
The Taiwanese print shop Hon Mei Printing & Co. Ltd. invests in the future. This packaging printer supplements its range of machinery with two Speedmaster XL 75 models and one Speedmaster CD 102.

MARCH

Honorary Senator Bernhard Schreier
Bernhard Schreier, who graduated from the Baden-Wuerttemberg Cooperative State University in Mannheim (formerly Vocational College), is named Honorary Senator of the university.

Favorable Appraisal of Heidelberg's Purchasing Organization
The Fraunhofer Institute for Production Technology – together with four other institutes – favorably appraise Heidelberg's purchasing organization. A total of 80 companies were examined in the study.

< THE FINANCIAL YEAR IN REVIEW

NEW STRUCTURES

HEIDELBERG EQUIPMENT | HEIDELBERG SERVICES | HEIDELBERG FINANCIAL SERVICES | MARKETS

Slips of paper have been used in print shops for generations, as is shown on the cover page – for example, in order to assign a stack of paper to a particular printing job. Yet a glance at traditional or printed products – a book is a book – hides the extent to which the underlying conditions for print shops and the printing processes have changed. Traditional, medium-sized workshops have been transformed into industrialized companies with changed requirements.

The economic crisis has substantially accelerated the process of structural change in our industry. Our customers are being confronted by new challenges. We have adapted the organization of the Group, and in the future will focus on the two business areas Heidelberg Equipment and Heidelberg Services. Based on a global sales network that we have restructured and our sales financing offerings, we will also continue to support our customers in the future to the best of our ability – while simultaneously taking advantage of the opportunities that are available to us in the changed environment.

HEIDELBERG 2009/2010

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BERNHARD SCHREIER
Chairman of the Management Board
Heidelberger Druckmaschinen Aktiengesellschaft

INTRODUCTION BY THE CHAIRMAN OF THE MANAGEMENT BOARD

Dear Reader,

Last year's financial and economic crisis had a severe impact on many venerable German companies. Our Company was also not spared during financial year 2009/2010. We consequently introduced and implemented comprehensive countermeasures in order to successfully guide Heidelberg through the deepest crisis ever of the printing press industry.

In my view, the Heidelberg Group is a venerable company in the best sense of the term, with customers and investors as closely engaged with the Company as its employees. The enormously strained order situation already at the beginning of the financial year and the extremely uncertain business prospects, which was an immense burden, especially on the printing industry, forced us to set off on a difficult road in 2009. Within the shortest possible time, drastic cost-reduction measures considerably reduced our structural costs in all divisions, and, among other things, resulted in a further cutback of some 4,000 jobs worldwide – an extremely painful but necessary turning point. We have had short-time work at the German locations for over a year. We took up a government guarantee and together with the banks, renegotiated Heidelberg's financing through 2012.

The impact of the economic crisis demonstrated the importance of our policy of never resting on the laurels of our successes in technology, quality, and market leadership. We knew that services are becoming increasingly important for the customers. Over the past ten years, we expanded our offerings to become the most comprehensive available in our industry. With our determination to ensure a customer-driven focus, our sales network is more tightly meshed than those of the competition. This approach makes it possible for us on the one hand to make better use of the emerging markets' potential, and on the other hand our close customer contacts worldwide help us expand the sales of consumables and services. We are – still – the only European printing press manufacturer producing in China. Five years ago we inaugurated a production site in this country, which we have been continually expanding due to vigorous demand. Overall, the numerous orders from China were able to cushion the dramatic declines in other markets. In recent years, we also developed an integrated solution for large-format packaging printing, which is a relatively non-cyclical growth market.

From the strategic point of view, we have therefore had a strong base from which to operate. We thus succeeded in purposefully orienting the Group to a changed market environment. We have focused our business on: emerging markets, new products, with which we offer the best cost-benefit ratio in our industry due to our superior technologies, and on the more non-cyclical area of services and consumables. In order to best reach our targets, we have restructured our sales and reoriented the Group. We have spotlighted additional potential for improvement in processes within the framework of the reorganization, which we will also quickly implement. This approach makes it possible for us to save a further € 80 million annually.

The Management Board of Heidelberger Druckmaschinen Aktiengesellschaft

Bernhard Schreier

CHAIRMAN

Born in 1954. Engineering graduate (Diplomingenieur, BA); active at Heidelberg in various management positions, including five years spent abroad. Member of the Management Board since 1995. Chairman of the Management Board since 1999.

Dirk Kaliebe

FINANCE

Born in 1966. Degree in Business Administration (Diplomkaufmann), tax consultant, auditor. Active at Heidelberg since 1998, initially heading Finance and Accounting and Investor Relations. Member of the Management Board since October 2006; responsible for Finance and the Heidelberg Financial Services Division.

In addition, we will use our competitive advantages and expertise to penetrate new areas of business for the Group. We continue to pursue areas that traditionally characterize Heidelberg and ensure the Company's success, namely continuing to ensure the highest quality and supporting our customers by word and deed as is embodied in Heidelberg's approximately 6,000 service, sales, and marketing specialists worldwide. At the IPEX trade show in the UK, we again introduced many innovations that meet customers' needs for greater savings and more ecological friendliness and are in line with all the important trends in our industry.

We can therefore now look confidently to the future. This is primarily thanks to our employees, who implemented all the innovations and remain strongly committed to Heidelberg. I can hardly thank them enough for this!

The printing industry is currently undergoing an upward trend. The current year will nevertheless not be an easy one, for although the industry has reduced excess capacities, competition is strong. We believe that demand from our customers for printing presses will only again pick up to a greater extent next year. Because we have the best product portfolio in the industry as well as numerous strategic competitive advantages, we will benefit more from an upswing than our competitors.

Marcel Kießling

HEIDELBERG SERVICES

Born in 1961. Degree in Business Administration (Diplomkaufmann). Active at Heidelberg in various positions, last as the head of the North America and Latin America regions. Member of the Management Board since 2010.

Stephan Plenz

HEIDELBERG EQUIPMENT

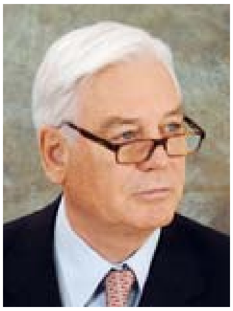
Born in 1965. Graduate in mechanical engineering (Diplomingenieur, BA), focus on production. Active at Heidelberg since 1989, initially as a quality engineer, subsequently in various executive positions. Member of the Management Board since 2008, at first responsible for Technology.

We have created a solid foundation in order to decisively improve the Group's earnings position. We have considerably lowered our break-even point – and we will continue to reduce it even more. We intend to achieve a break-even operating result in an environment of stable economic development already during the current financial year.

I am certain that you will share in our confidence once you have read this report – even though economic developments during the financial year reflect all too clearly the fact that Heidelberg has survived the most difficult year in the Company's history. At this time, once again I would like to expressly thank all those who supported us during this time!

B. Schreier

BERNHARD SCHREIER
Chairman of the Management Board



DR. MARK WÖSSNER
Chairman of the Supervisory Board

REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,

Despite the sustained economic and financial crisis, which has resulted in a further approximately 20 percent decline in sales from the previous year, we have meanwhile been successful in stabilizing the position of the Company with the help of comprehensive restructuring measures. This was reflected in the price of the Heidelberg share, which during the second half of the financial year held steady at a price of around € 5.50. We are of course not happy with this price development, but at least the Company's position has improved somewhat following the difficult period at the beginning of the financial year.

Heidelberg's dependency on global economic developments and the cyclical nature of our business continues to be a weak point for us – one we intend to overcome. A sound basis for this is our success in initially securing the Company's financing requirements through mid-2012, which we were able to achieve in August 2009 with a banking syndicate providing our credit facilities and with the help of government support. This support was provided by the German Federal Government and the German States of Baden-Wuerttemberg and Brandenburg in the form of guarantees. Heidelberg has not received any direct government financial assistance or subsidy, but rather is paying market interest for the guarantees and for the indemnity. The government support helped us arrange the proposed refinancing, and we are very grateful for that – especially in view of the jobs that have thereby been protected. It is now up to us to move forward with the Company’s recovery in order to reduce the extent of government support and to be in a position to relinquish this support entirely at the soonest possible time.

We reorganized the Group during the financial year in order to achieve this recovery. Heidelberg cut back the number of employees by approximately 20 percent. Thanks to the additional assistance of short-time work, we were able to considerably reduce the staff costs and keep the loss under control. With stable economic developments, operationally the Company is striving for a break even result in the current financial year. We are confident that we can reach this goal. The Management Board has reorganized the Company, separating our business into two business areas – specifically the Heidelberg Equipment Division and the Heidelberg Services Division. The third division, the Heidelberg Financial Services Division, remains largely unchanged. Above all the less cyclically sensitive service and consumables business will be expanded and strengthened with this new corporate organization. Heidelberg has designed the processes in the sales and service organization to be more efficient and continues to be a dependable partner for its customers in the print media industry in a total of 170 countries.

Heidelberg has been able to protect the quality of the Company’s overall offerings of products and services during the crisis. As before, customers remain satisfied with our outstanding technical solutions as well as the convincing makeup of the product portfolio.

Nevertheless, Heidelberg suffered enormously from its customers’ reluctance to invest at the beginning of the financial year. With considerable effort, the Management Board – in collaboration with the employees and their representatives – succeeded in reducing capacities to the necessary degree. I wish to expressly emphasize once again that considerable sacrifice was required from the employees in particular.

The intended cost savings under the Heidelberg 2010 program of a total of € 400 million annually were realized more quickly than had been expected. Since the economic upswing has not yet taken hold to the extent we had all hoped for, painful cutbacks have again become necessary in the structure and the number of employees. I have the impression that as in the past, the cohesion and dedication of the Heidelberg employees nevertheless remain undiminished despite the fact that the crisis is of course also creating frustrations. We perceived a slight upswing in business towards the financial year-end. This development gives us confidence in a further, albeit gradual turnaround during the current financial year. Our employees, just like you yourselves, our shareholders, hope that the hardships of the past two years and the impressively demonstrated endurance will now bear fruit and allow us to put the crisis behind us. Corporate management relied particularly on a realistic assessment of the situation and the constructive cooperation with the staff representatives during this period. The Supervisory Board wishes to express its appreciation and special thanks to all our employees and their representatives on the Supervisory Board, in the works councils, and in the Speakers Committee!

As already in the previous year, the Supervisory Board paid considerable attention to supporting the Management Board in implementing required measures and in finding solutions to difficult problems during the reporting year. We undertook this at meetings of the Supervisory Board and of the Supervisory Board committees as well as in meetings with shareholder representatives and staff representatives. We intensively discussed together all the important issues and measures. Shareholders and the staff representatives assembled separately in several meetings in order to analyze the developments in view of the respective interests and concerns.

We extensively advised and monitored the Management Board in its management of the Company and its transactions, and fulfilled all the responsibilities incumbent on us under legal provisions and the Articles of Incorporation. This continuing close cooperation between the Management Board and the Supervisory Board was not limited to the four ordinary meetings of the Supervisory Board, at which the Management Board promptly informed us in appropriate detail about the Company's business development and financial position. This was also reflected in numerous working discussions with the Chairman of the Management Board and his colleagues between meetings. Due to my close contact with the Chairman of the Management Board during the financial year, I was continually kept informed of significant developments and available options at an early stage, and together with the Chairman of the Management Board could ensure that the Supervisory Board and the Management Board were in a position to collectively and credibly represent the interests of the Company. We were always quickly and extensively informed about all significant decision-making procedures. We also passed resolutions in writing for projects that necessitated a quick decision. The work in our committees was again of particular importance. For example, the Human Resources Committee met five times – among others, due to the new legal requirements on the appropriateness of the remuneration of the Management Board; a decision was made by circulation. The Management Committee held six meetings and the Audit Committee met five times, with the latter also taking a decision by circulation. The Nomination Committee did not meet, nor did the Mediation Committee need to be summoned under the terms of 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 reporting year.

Focus of the Supervisory Board's Discussions

As in the previous year, our discussions during the financial year focused mainly on securing the Company's liquidity and shareholders' equity, as well as on the restructuring measures which were implemented successfully. The development of sales and earnings as well as Heidelberg's financial position were a regular focus of discussion in the Supervisory Board during the financial year.

Within the framework of the discussions on liquidity, shareholders' equity, and the Company's restructuring, the Supervisory Board also turned its attention on the status of the negotiations for the credit agreements, the successful conclusion of which was at no time in doubt. The Supervisory Board gave its approval to the granting of collateral security.

The further expansion of the service and consumables business, which was launched already during the previous year, was also the subject of reporting by the Management Board. The competitive environment and the development of certain markets, especially the emerging markets, was also discussed regularly.

In our meeting held on March 31, 2010, we focused on the planning process for the current and future financial years. This planning continues to be shaped by considerable uncertainty concerning future developments. In view of the stabilization as well as the slight upward trend in the second half of the reporting year, the Supervisory Board is cautiously optimistic about the current financial year. We expect to achieve a break-even operating result in an environment of stable economic development, and we assume that the additional structural and human resource measures will be successfully implemented. The Management Board and the Supervisory Board are in agreement that the planning process must be adapted if it becomes necessary because of changes in underlying conditions.

Finally, the Supervisory Board addressed on numerous occasions and intensively the structure of the Management Board's remuneration following corresponding preparation by the Human Resources Committee. A number of adjustments will be made at Heidelberg in line with the statutory changes. We consulted with an independent external remuneration expert. We examined and approved the appropriateness of the remuneration of the Management Board and the extent to which it is in line with generally accepted standards.

Corporate Governance

The corporate governance of the Company was a regular subject of our discussions in the Supervisory Board. The new legislative provisions for determining the remuneration of the Management Board and the implementation of these provisions was a priority of the Supervisory Board's work during the second half of the financial year. We adapted our Rules of Procedure several times in order to bring them in line with the new provisions of legislation and the German Corporate Governance Code. Within the framework of a recent comprehensive efficiency control of our work, we examined the following topics: cooperation between the Management Board and the Supervisory Board; the information flow; procedures at Supervisory Board meetings, including work between the meetings; the membership structure of the Supervisory Board and cooperation with its committees; corporate governance; and general aspects of the Supervisory Board's work. Compared with the results of the last comprehensive survey, which had been taken during financial year 2004/2005, we are able to identify further improvements in all areas. Our practice of regularly giving serious thought to these aspects and, if necessary, making improvements, is beneficial. A current need for improvement exists only in the details of the information flow. Corresponding measures have been agreed upon with the Management Board and initiated. The Corporate Governance Report on pages 14–17 provides further information about the Company's corporate governance.

Work in the Committees

The Supervisory Board has established a total of five committees in order to fulfill its responsibilities. During the past financial year, our committees, especially the Management Committee and the Audit Committee, met more frequently than ever before. They decisively assisted the Supervisory Board in its work by preparing the discussions and its decisions, thereby facilitating their processing at the meetings of the Supervisory Board. In certain cases, the Supervisory Board granted the committees decision-making authority. At meetings of the Supervisory Board, the chairmen of the committees reported on their work in detail concerning all significant discussions of the committees. The current composition of the committees is shown in the Notes to the Financial Statements.

At its meetings held during the reporting period, the Management Committee informed itself in particular about the options available for taking action to improve the situation of borrowed funds and shareholders' equity. The Management Committee furthermore discussed the current restructuring measures. The Audit Committee examined questions arising on a quarterly basis and as circumstances required concerning the net assets, financial position, results of operations, and the Company's risk reporting. 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 of 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 23, 2009 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 2009/2010 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 23, 2009. The overall annual financial statements, the consolidated financial statements, the Management Report for the Company, and the Management Report for the Heidelberg Group were immediately submitted to the Supervisory Board after they were prepared. The reports of the auditors were circulated to all the members of the Supervisory Board in time for the meeting to discuss the annual financial statements on June 1, 2010. 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 as well as on the fact that there are no significant failings of internal control or risk management systems as related to the accounting process. They made themselves available to the members of the Supervisory Board to answer questions in greater detail. The auditor furthermore provided information on services that were provided over and above the audit of the financial statements and confirmed that no circumstances exist that could call its impartiality into question. 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 June 1, 2010, 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, 2010.

Composition of Management Board and Supervisory Board

The Composition of the Supervisory Board was unchanged during the reporting year. 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 currently difficult situation, the Supervisory Board will continue to focus intensively on the interests of the Corporation and its long-term development, and will do everything in its power for Heidelberg's benefit.

There were two changes in the Management Board in the past financial year. After nearly two decades of successful work for Heidelberg in various management positions, Dr. Jürgen Rautert retired from the Management Board in November 2009 by full mutual agreement with the Supervisory Board. As of January 1, 2010, Mr. Marcel Kießling was appointed to the Management Board, where he now heads the Heidelberg Services Division, a responsibility for which we wish him much success! The same applies to Mr. Stephan Plenz, who since April 1, 2010 has held management responsibility for the Heidelberg Equipment Division.

The Supervisory Board also wishes to thank the members of the Company's Management Board and all the Company's employees for their very good and – despite all the difficult circumstances – successful work during the past year!

Munich, June 1, 2010

For the Supervisory Board

DR. MARK WÖSSNER
Chairman of the Supervisory Board

CORPORATE GOVERNANCE

> **Heidelberg Satisfies All the Recommendations of the Code**
> **Structural Changes in the Remuneration of the Management Board**
> **Efficiency Examination Implemented**

New provisions of the Corporate Governance Code were released on August 5, 2009. The focus of these provisions was once again on the remuneration of the Management Board. Moreover, the Act on the Appropriateness of Management Board Remuneration (VorstAG) also introduced a series of statutory changes. We report on the remuneration of both the Company's Supervisory Board and the Management Board on pages 41–53 in the section "Remuneration Report".

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

The Management Board and Supervisory Board issued a declaration of compliance under the terms of the German Corporate Governance Code on November 26, 2009. Heidelberg adapted the Rules of Procedure to the new requirements of the Code, implemented Items nos. 4.2.2 through 4.2.4 of the Code, and extensively changed the structure of the remuneration of the Management Board. As in the previous years, Heidelberg can therefore state that the Company has been in full compliance during 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 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 of the Code.

The recommendations in Items 3.6 and 6.8 cannot be fully carried out. 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.

Efficiency Examination 2009

The Supervisory Board regularly monitors the effectiveness of its actions. Provision is made in the Supervisory Board's Rules of Procedure for at least one such examination during each term of office of the Supervisory Board. If appropriate, measures for improvement are implemented. In general, as during the financial year, these resulted in adjustments to the Rules of Procedure of the Supervisory

Board; in suggestions for improvement of processes and procedures that are directed to the Management Board; or in the committees addressing certain practical matters more deeply or to the creation of task forces for particular issues. The Supervisory Board implemented a comprehensive efficiency examination at the beginning of financial year 2009/2010. The members of the Supervisory Board were questioned in detail about cooperation with the Management Board and the flow of information; about cooperation within the Supervisory Board itself and with its committees; about the work of the Supervisory Board during and between meetings; and about corporate governance as well as additional general aspects of Supervisory Board work. In some cases, it proposed that documents could be sent sooner and discussions could be further improved in the meetings, and that targets for the Management Board could be set in an even more transparent manner. The Management Board and the Supervisory Board addressed the results of the efficiency examination and came to an agreement on needed improvements – which have meanwhile already been implemented.

The questionnaires that the members of the Supervisory Board filled out within the framework of the efficiency examination were reviewed anonymously by Heidelberg's notary. The result was more than satisfactory. All aspects of the survey were largely evaluated as being favorable and applicable.

Remuneration of the Management Board an Important Issue at the Meetings of the Supervisory Board

On numerous occasions, the Supervisory Board intensively addressed the structure and individual form of the remuneration of the Management Board during the financial year. The Human Resources Committee prepared corresponding recommendations and proposed decisions. With the support of an independent external remuneration expert, a structured paper was initially drafted, which brought together the statutory provisions of the Act on the Appropriateness of Management Board Remuneration (VorstAG) and of the Code as concrete objectives for the future remuneration structure. On this basis, all the Management Board contracts were updated and standardized during the financial year. The Supervisory Board then addressed the extent to which the remuneration of each individual member of the Company's Management Board is customary, balanced, and appropriate. The Supervisory Board basically approved the individual remunerations and undertook adjustments in certain cases. By mutual agreement and on the recommendation of the Human Resources Committee, the Supervisory Board also checked, determined, and approved the extent to which targets are reached and targets are set for the variable remuneration components of the Management Board. For the evaluation of the appropriateness of the remuneration of the Management Board, the Supervisory Board again relied on an expert opinion by an external remuneration specialist. This expert opinion analyzed the individual remuneration components and compared them with the remuneration structures of other companies. The Supervisory Board's own examination did not result in any doubts about the appropriateness of the remuneration of Heidelberg's Management Board.

? Details of the individual, previous, and future structure of the Management Board remuneration can be found on pages 41 – 53 of the Remuneration Report.

Our financial calendar, which is disclosed in the annual report, in the quarterly reports, and in the Internet at www.heidelberg.com, lists all the significant scheduled dates of our Company. Under the “Investor Relations” link, our Internet page provides access to current information concerning Heidelberg. In addition to key performance data, publications, and actions subject to reporting, we also report here about the Company’s corporate governance and disclose the so-called annual document and the declarations of compliance from prior years.

External Communications

During the reporting year, we undertook intensive communications with the capital market, with our banks that are providing our financing, with the trade and financial press, and with analysts. The crisis and the development of the price of the Heidelberg share necessitated extensive discussions on the diverse impacts of the financial and economic crisis on our Company. Despite the difficult situation, which only brightened up somewhat at the end of the reporting year, we believe we have succeeded in recovering a large part of the confidence that had been lost. We are continuing to work on this. We regularly disclose quarterly reports and intensively discuss current issues with the trade and financial press.

Comprehensive transparency includes the ongoing control of significant transactions concluded between members of the Heidelberg Group and members of the Company’s Management Board, members of the Supervisory Board, or related parties. 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 again worked especially closely together in a relationship based on trust during the reporting year. Additional details are included in the Report of the Supervisory Board on pages 8–13.

Securities transactions subject to reporting by the members of the Company’s Supervisory Board and Management Board under Section 15a of the Securities Trading Act (WpHG) are promptly disclosed and published on Heidelberg’s Internet site. No such transactions occurred during the financial year.

Information Concerning Shareholdings and Communications on Share Transactions

The members of the Management Board and the Supervisory Board do not hold either shares or financial instruments that are based on shares in the Company, either individually or collectively, that exceed 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.

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

Both of these programs are no longer being offered and did not result in any payment to the participants in the past. 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. In addition, Note 43 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. No new tranche of the LTI was made available during the reporting period.

Opportunity and Risk Management expanded

The Company already undertook structured risk management and risk reporting procedures that were oriented to practical requirements in the past. These procedures were updated during the financial year and selectively further enhanced. Within the framework of this updating, the internal guidelines and management bodies that deal with opportunity and risk management were updated and revised in order to improve effectiveness and the division of labor. This helps the Company recognize risks early on, to assess them, and to quickly introduce necessary countermeasures. On numerous occasions, the Company's risk management was successful in light of the ongoing financial and economic crisis.

?
We report on the risk management system and current corporate risks on pages 36 – 37 and pages 115 – 120 in the Management Report.

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, May 25, 2010

For the Supervisory Board:	For the Management Board:
Dr. Mark Wössner	Bernhard Schreier

HEIDELBERG

NEW STRUCTURES

HEIDELBERG EQUIPMENT

Page 20 Sheetfed offset print shops of all sizes and strategic alignments get all their required equipment from Heidelberg for every stage of the printing process. Printing presses are the Group's core business, and Heidelberg is the undisputed world market leader in this area.

HEIDELBERG SERVICES

Page 54 Customers benefit from our comprehensive services worldwide. This division includes not only our Prinect software, but high-quality consumables, comprehensive maintenance and consulting services, training and advanced training offerings, and the assured and rapid delivery of service parts as well.

HEIDELBERG FINANCIAL SERVICES

Page 82 In a number of countries, it is especially difficult for medium-sized companies to obtain appropriate financing. We arrange for a financing partner and, if necessary, also provide financing solutions from Heidelberg.

MARKETS

Page 108 Ensuring a customer-driven focus in 170 countries; keeping printing presses running; expanding strategic business areas – we have restructured our sales network in order to achieve a substantial reduction in costs.

HEIDELBERG

EQUIPMENT

The HEIDELBERG brand name stands for technological leadership and reliability worldwide – in all format classes. Our printing presses are at the core of our solutions. This page shows part of our approximately 30 meters long Speedmaster XL 162. We have established new standards in large-format printing with this model, and thereby improved our position in packaging printing.

Our offerings include not only highly automated and highly productive printing systems for industrial printing, but printing presses with a low degree of automation for customers in emerging markets as well. We have always guaranteed the **highest quality** for all our products and services. Our printing presses, which weigh tons, operate with the precision of a high-quality Swiss watch. This presupposes a high level of precision for every individual part – and a modern printing press has up to 100,000 parts!

In order to achieve success in the market, **differentiation** is also the top priority for print shops. This is achieved with an especially high level of productivity, considerable flexibility, special coating technologies – and with print shops demonstrably printing in an especially environmentally friendly manner. We have the right offer for every requirement. In the finishing area as well, we provide all the equipment that permits print shops to profitably enhance their offerings in order to rise above the market.

Our combining the development and the production of our solutions within a single division, addresses the growing significance of **comprehensive solutions**. Print shops can optimize products and processes through closely coordinated systems. Especially in packaging printing, which is the strategic focus of this division, print shops can thereby operate not only considerably more economically, but at the same time in an ecologically responsible manner.

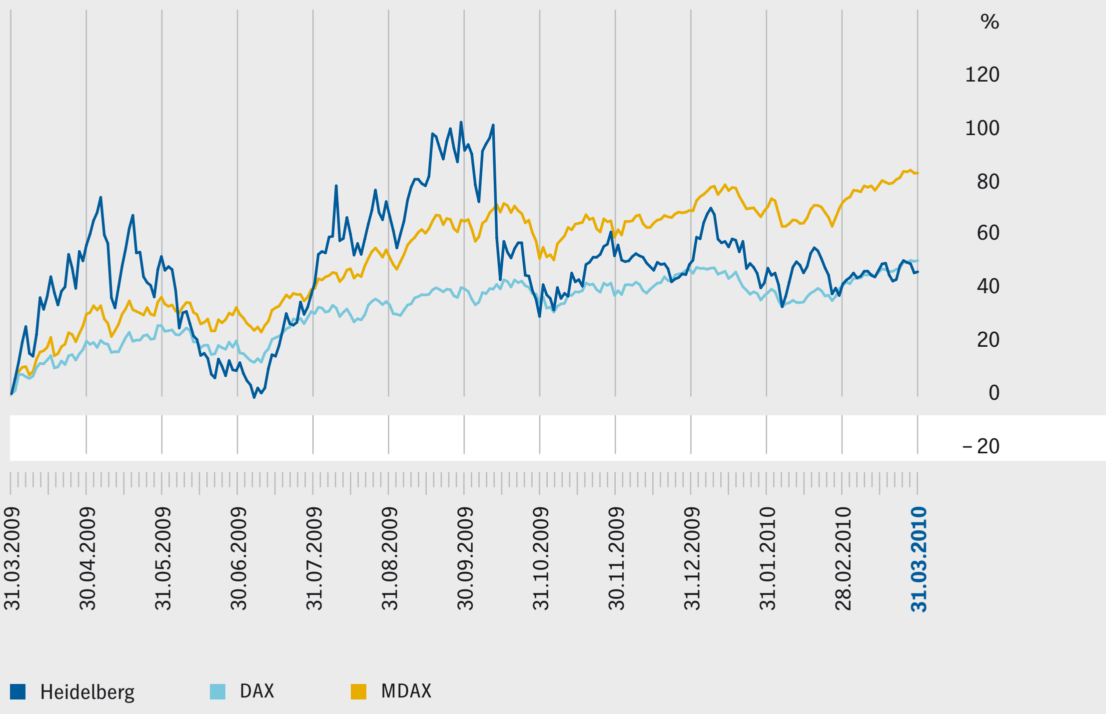

HEIDELBERG
Speedmaster

SHARE, STRATEGY, AND MANAGEMENT

One of our most important goals during the financial year was to stabilize the Group's position, as well as to ensure that future economic downturns will have less of an impact on the profit situation. Our various measures, together with a modest improvement in the printing industry, resulted in a recovery of Heidelberg's share price from its historic low.

PERFORMANCE OF THE HEIDELBERG SHARE

compared with the DAX / MDAX (index: April 1, 2009 = 0 percent)



THE HEIDELBERG SHARE – STABLE PRICE AT A LOW LEVEL

> **Year's High at € 7.40; Low for the Year at € 3.59**
> **Annual General Meeting Agrees to Proposals; No Dividend Payment for the Financial Year**
> **Information in Accordance with Section 315 Paragraph 4 of the Commercial Code**

Following last year's extended stock market downswing worldwide, which was caused by the financial market crisis, share prices were on the rise again during the reporting year, with government economic stimulus packages showing an initial impact. However, volatility remained quite high on the capital markets. Uncertainty continued to reign on the potential for the return of an economic slump. Whereas share prices in the emerging markets at times generated considerable growth during 2009, the share indices of the industrialized countries remained considerably below their former record levels. Investors initially focused on the risks associated with further cyclical trends. It was only during the course of the first quarter of 2010 that a stable upward trend was evident in these countries as well, with demand increasing and low interest rates favorably impacting the stock market. But most importantly, there was an overall return of investor confidence.

Development of the Heidelberg Share: Upward Trend

During the previous year, as the stock markets followed the downward spiral of the financial market crisis, the price of the Heidelberg share suffered even more dramatic price declines than the DAX and MDAX. The overview seen on the left shows that the price trend stabilized after additional financing for Heidelberg was secured. By and large, the Heidelberg share price subsequently followed the trend of the DAX, thereby rising by 46 percent for the financial year as a whole.

Market Capitalization Up Again; Trading Volumes Decline

During the previous year, due to the low share price, Heidelberg fell to 43rd place in the index ranking of Deutsche Börse based on the criterion "Market Capitalization Based on Free Float". As of the end of the financial year, Heidelberg only attained 52nd place. Compared with the extremely low figure of € 284 million in the previous year, as of March 31, 2010 Heidelberg's market capitalization was again higher, rising to € 416 million. For the first time in over five years, the average daily trading volume of Heidelberg's share declined. As a consequence, based on the criterion "Stock Market Volume", the Heidelberg share fell to 34th place among the 50 companies listed on the MDAX, compared with 16th place the previous year.

KEY PERFORMANCE DATA OF THE HEIDELBERG SHARE [1]

	08/09	09/10
Earnings per share	– 3.20	– 2.94
Cash flow per share	– 3.06	– 2.30
Share price – high	18.06	7.40
Share price – low	2.81	3.59
Share price – beginning of financial year	15.42	3.85
Share price – financial year-end	3.64	5.33
Market capitalization – financial year-end – in € millions	284	416
Number of shares in thousands [2]	77,643	77,643

[1] Prices are financial year-end prices in Xetra trading; source: Bloomberg
[2] Weighted number of outstanding shares

Broad Coverage of the Heidelberg Share; Ongoing Open and Transparent Capital Market Communications

The Heidelberg share continued to be widely covered during the financial year. Because of the serious impact of the economic crisis on the printing industry as well as on our Company, analysts' "sell" recommendations largely predominated during the financial year.

Following our participation in eleven capital market conferences and the organization of numerous road shows during the financial year, we will continue to approach investors and analysts in an open and transparent manner during the current financial year. We help familiarize these interested parties with the distinctive features of the various segments of the printing press market. We will augment the discussions with plant tours or visits to our Print Media Center.

We are pleased that our open reporting to all our stakeholders has been appreciated. We were awarded second place among all the firms listed on the MDAX in the competition held by the business publication manager magazin for the best annual report.

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

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

Annual General Meeting 2009 Approves All Decisions; Proposal to the Annual General Meeting 2010: Again No Dividend Payment

The Annual General Meeting for financial year 2008/2009 was held on July 23, 2009 at Mannheim's Rosengarten Congress Center. Approximately 1,700 shareholders, representing approximately 57 percent of the share capital, participated. The shareholders agreed to all proposals of the Management Board by a large majority. In the next section, we go into detail on the decisions concerning authorized capital.

The Annual General Meeting decided not to pay any dividend for the previous year. Since underlying conditions continued to be extremely difficult and we again suffered a substantial net loss, we will propose to our shareholders that no dividend be paid for the reporting year.

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 71b 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 to the transfer of shares.

As of the March 31, 2010 reporting date, **free float** was nearly 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 amounted 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.

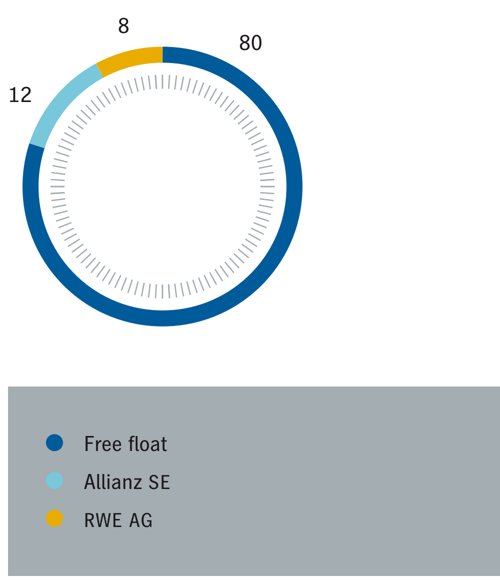
Heidelberg may only acquire its own shares in accordance with Section 71 (1) nos. 1–6 of the Stock Corporation Act. With the consent of the Supervisory Board, the Management Board is authorized to undertake the following actions vis-à-vis the Company's own shares held as of March 31, 2010 under exclusion of the subscription right of the shareholders:

> to sell the Company's own shares if the transaction is 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 exclusion of subscription rights 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 the Company's own shares to third parties if investments are thereby acquired in companies or divisions of companies, or if mergers are thereby implemented;

SHAREHOLDER STRUCTURE

Figures in percent



- to offer and transfer the Company's own 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 Company's Annual General Meeting on September 29, 1999 under Agenda Item 8;
- to make use of the Company's own shares in fulfillment of obligations arising from convertible bonds and/or bonds with warrants that have been, or will be, issued by a member of the Heidelberg Group; and
- to make use of the Company's own 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 the Company's 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.

With the consent of the Supervisory Board, up to July 1, 2014 the Management Board is authorized to 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, up to a maximum amount of € 39,958,236.16; the subscription right of shareholders may be excluded. Details concerning "**Authorized Capital 2009**" can be found in Section 3 (9) 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. As of March 31, 2010, total still exercisable subscription rights issued by the Management

Board on the basis of this authorization totaled 493,860 options, of which 30,750 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 bearer options and/or convertible bonds up to July 20, 2009 in the 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 subscription right of the shareholders may be excluded. 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. The convertible bond that was issued via a wholly owned subsidiary of the Group was repaid in full on March 30, 2010. Details of this transaction can be found in Notes 25 and 28 of the consolidated financial statements.

> 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 the 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 concerning "**Contingent Capital 2006**" can be found in 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.

All syndicated credit lines of Heidelberger Druckmaschinen Aktiengesellschaft have standard "**Change of Control**" clauses that grant the contracting parties additional rights to information and cancellation should a change occur in the control over or the majority ownership structure in the Company. Equally standard provisions granting the contracting parties the right of cancellation and early repayment are provided for in the two remaining borrower's note loans.

And 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.

No compensation agreements 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.

Statement of Corporate Governance

The Statement of Corporate Governance may be viewed at any time on our Internet Website at **www.heidelberg.com** in the section "Investor Relations" under "Corporate Governance".

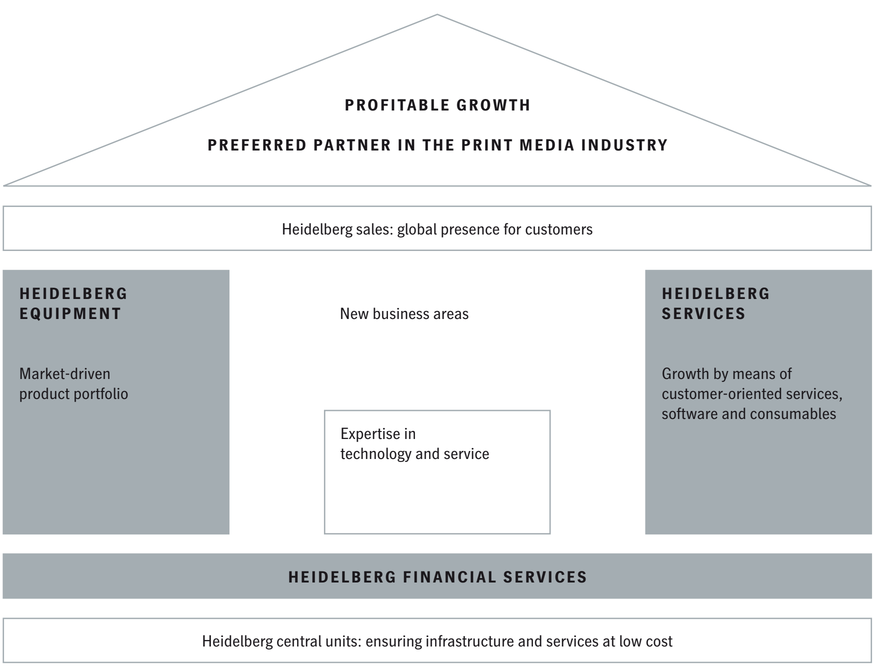
STRATEGY – STRATEGY 2015 APPROVED

> **Taking Advantage of the Upswing in the Equipment Business**
> **Expanding Market Share in the Service Business**
> **Penetrating New Areas of Business**

The impact of the financial market crisis on the global economy has affected the printing sector throughout the world. As a consequence, print shops' investments in printing presses plunged to an extremely low level in almost all markets. Moreover, the structural change of the printing industry further intensified in the industrialized countries.

We are determined, and we expect, to benefit from the upswing in our industry to a greater extent than the competition. Our product portfolio is especially well adapted to the requirements of our various target groups, and we enjoy an outstanding market position. Through our products' technological lead, we will grow rapidly in the **equipment area**, especially in the area of new equipment. We see considerable opportunities for Heidelberg in the relatively non-cyclical area of packaging printing. We are purposefully utilizing our strong position in the emerging markets and we are further expanding our market share in the service and consumables area. We will also make use of our strategic competitive advantages and expertise in order to take full advantage of **growth potential outside our core area of business**.

STRATEGY 2015



Our presence in eight lead markets helps us stay in close contact with our customers around the globe; our new organization efficiently supports business developments in all areas.

Financial Year’s Priority: Stabilizing the Situation, Lowering the Break-Even Point, Creating Structures for Profitable Growth

During the financial year, our top priority was primarily to compensate for the consequences of the downturn in orders and sales. The highest priority was initially to restore the financial stability of the Group and to reduce the break-even point as quickly as possible. We implemented our Heidelberg 2010 program earlier than originally planned, thereby achieving annual cost reductions of approximately € 400 million. We intensively focused our transactions with a view to profitable growth, thereby adapting all our structures to this goal. We restructured sales operations, so that we can now make the whole range of our offerings available worldwide on a more efficient basis. We tailored our organization to our strategic goals. We will continue to optimize processes within the framework of the reorganization, thereby further reducing structural costs.

Focus in the Heidelberg Equipment Division: New Equipment, Packaging Printing, Emerging Markets

? We discuss our strategic priorities on pages 84 – 107, and describe our new sales structure on pages 108 – 109.

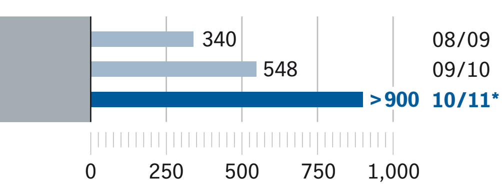
The competitive advantages that we offer print shops are becoming even more evident under the changed underlying conditions. According to our estimates, we have therefore been able to expand our market share during the crisis. At the beginning of the current financial year, we introduced important **technical innovations** at the year’s most important industry-specific trade show, IPEX in the UK. These innovations address the growing need of print shops for more economy and ecology. **Packaging printing** is one of this division’s priorities, an area where we intend to continue considerably expanding our market position.

Print shops in the **industrialized countries** will need to undertake investments over the next few years in order to remain competitive. Moreover, an economic turnaround will cause a considerable rise in the capacity utilization of the print shops as well as in their demand for printing presses.

Our focus continues to be on promising **emerging markets**. Our market position is considerably stronger than that of the competition in many emerging markets. We will benefit from the strong economic growth in these regions. We are the first, and so far only, non-Chinese printing press manufacturer to set up its own manufacturing facility in **China**, where we produce standard equipment for printing and finishing. Demand for our products in China, including those manufactured in Qingpu, has increased considerably, as can be seen in the graphic. We are therefore further expanding the site.

PRODUCTION VOLUMES AT QINGPU

Number of printing units



* Planned

Heidelberg Services: Reducing the Group's Dependence on Cyclical Fluctuations

We make use of our large installed base and our closely meshed service and sales network in order to expand our market share in business areas that are particularly stable in economic periods of weakness as well. We consequently increased the sales volume arising from added-value **services** and **consumables** in all regions and markets. We direct our focus on "Availability Services", which serve to optimize our customers' equipment readiness, as well as "Performance Services", which allow customers to better utilize efficiency potentials in all areas of their company. We are also expanding our offerings, which are already the most comprehensive in our industry. Our consulting and service offerings support print shops in the changing market and help them achieve long-term success. We present the entire offerings of this area in the section "Heidelberg Services" on pages 97 to 99.

Sales financing from the Financial Services Division support the business of the Equipment Division and the Services Division. The principal focus here is on arranging financing between customers and financing partners.

Taking Advantage of Potential for Growth outside the Core Business Area

Although the printing industry is undergoing an upswing, it is unlikely that demand for printing presses will return to its pre-crisis level. We are therefore seeking out new areas of business.

Our considerable expertise in precision engineering and in the development of mechatronic systems is well known, even beyond the printing industry. We are taking advantage of our expertise and our capacities in order to considerably expand our **job manufacturing** for business partners. We intend to expand the sales of this area to € 100 million by 2014. More information on this topic can be found on page 105.

We will offer new services and products in the future via our sales network. We see special opportunities that are available in new and existing **cooperative agreements**. We are currently investigating the potential of establishing cooperative sales agreements with various suppliers of digital printing presses, to include integrating the printing presses within our workflow as well as supplying customers with consumables and technical services.

Supplementing our offerings with digital printing presses serves to further reinforce our presence as comprehensive solution providers as well as to expand our addressable market.

ORGANIZATION AND PRODUCT PORTFOLIO – STRATEGIC GOALS ARE CRUCIAL

> **New Organization Launched at the Beginning of the Current Financial Year**
> **Shift in Focus to Services**
> **Product Portfolio Precisely Meets Customers' Requirements**

Although the financial and economic crisis severely impacted the Heidelberg Group, our position as the world market leader in the sheetfed offset area was nevertheless reinforced. Our product portfolio precisely satisfies the requirements of customers, in particular in the changed competitive environment, as a result of which we were successful in expanding our market share in our strategic business segments and in key markets.

As of the beginning of the current financial year, we introduced a new corporate structure, on whose foundation we will market even more purposefully and make available more efficiently our comprehensive services, thereby reaching our strategic goals much faster.

Adapting the Organization to the Strategic Agenda

As of April 1, 2010 we changed the Group's structural organization and workflow management, thereby reorganizing our business operations into three divisions: Heidelberg Equipment, Heidelberg Services, and Heidelberg Financial Services. With this move, we take into account the changed market environment. Services are becoming increasingly significant for print shops worldwide, and at the same time we are shifting our organizational focus to that business area. This will help us reduce the Heidelberg Group's dependence on cyclical fluctuations. Integrated profit responsibility and unambiguous decision-making authority will help us to quickly attain our targets, even with a considerably reduced staff.

ORGANIZATIONAL CHART

BERNHARD SCHREIER Chairman of the Management Board	DIRK KALIEBE Finance	STEPHAN PLENZ Heidelberg Equipment	MARCEL KIESSLING Heidelberg Services
Sales Corporate Development Human Resources Communications Enterprise Governance	Controlling Finance IT Investor Relations Sales Financing	Press and Postpress Equipment Linoprint Patents Quality	Systemservice Service Parts Consumables Consulting and Training Prinect Software and CtP Remarketed Equipment

Stephan Plenz is responsible for “Heidelberg Equipment”, and “Heidelberg Services” is headed up by Marcel Kießling. The previous Press and Postpress Divisions have been merged into the new divisions. The international sales network is the responsibility of the Chairman of the Management Board Bernhard Schreier, and Dirk Kaliebe, Chief Financial Officer, retains responsibility for the Heidelberg Financial Services Division.

The **Heidelberg Equipment Division** develops, produces, and markets precision printing presses and print finishing equipment. Our offerings are rounded out by Linoprint, our solution for the personalized decorating and marking of folding cartons, labels, and blister packs based on inkjet technology.

In the area of machinery and equipment, merging the various phases of the printing processes within the Equipment Division addresses the increasing importance of integrated solutions. Finely tuned processes make available considerable optimization potential to customers. An overview of our product portfolio can be found in the Internet at **www.heidelberg.com** as well as on page 102.

In addition to Heidelberg’s proven Systemservice and the guaranteed availability of service parts in all regions, the **Heidelberg Services Division** supplies Saphira consumables to customers worldwide as well as Prinect software solutions, platesetters, and consulting services to help companies in the print media industry achieve long-term success. Priorities have been set on increasing equipment readiness, on raising both productivity and process effectiveness, and on consulting services for environmentally friendly printing. In addition, we support our customers throughout the entire product life cycle, all the way to the worldwide marketing of remarketed equipment. Over 5,800 Heidelberg worldwide service team employees are available to customers in some 170 countries.

Heidelberg’s overall sales financing operations continue to be organized within the **Financial Services Division**. In addition to supplemental direct financing solutions, the principal focus of our Group-owned print finance companies is primarily on the intensive mediation of financing that is provided for medium-sized customers via Heidelberg’s financing partners.

The Most Comprehensive Product and Service Offerings in Our Industry

Worldwide, we intend to be the preferred partner for sheetfed offset print shops of every size and category. In the past, we had therefore rounded out and modernized our product and service offerings, thereby purposefully implementing our strategic solutions-provider approach.

The sole supplier of comprehensive solutions in our industry. Only Heidelberg offers customers everything from a single source – from prepress, printing and finishing all the way to software, comprehensive consulting and services, and consumables. In this manner, we significantly increase the production and investment security of customers.

For the past ten years, we have focused on **providing solutions ranging from prepress and printing all the way to finishing for various target groups**, which can be entirely **interlinked via our Prinect software** and are equipped with the latest state-of-the-art measuring devices. We thereby make it possible to undertake extremely efficient print production with little spoilage. Since we have built up our whole range of offerings on a modular basis, we can arrange for a suitable solution for every customer. With open interfaces, we make it possible, for example, for our customers to efficiently integrate digital printing presses within

In the industrialized countries, integrated, highly automated and optimized processes in production and administration are essential for the business success of print shops. Environmentally friendly production methods are becoming increasingly important. Sales channels via the Internet offer not only opportunities, but present new challenges for our customers as well.

their processes. We are currently seeking out partners who are able to supply our customers worldwide with appropriate digital printing presses together with consumables and services. Moreover, for small print runs, our Speedmaster 52 Anicolor is a low-cost and environmentally friendly alternative to digital printing, which offers the ultimate in print quality and very short set-up times.

In recent years, we focused in particular on expanding our range of **packaging printing** solutions. Not only our products in the finishing area, but our new printing press generation as well have been favorably received by the market. Due to their high degree of productivity, the Speedmaster XL 145 and Speedmaster XL 162 are also highly valued by our customers in other segments. Our largest format category also ensures considerable competitive advantages in both the letterpress and the web-to-print business.

We offer standard printing presses with a low degree of automation and high print quality for our customers in **emerging markets**. We also make use of OEM products in the finishing area. Demand for our printing presses manufactured in China is showing substantial growth. We are the only European supplier to produce locally in that country.

We reacted to changing structures in the global print media industry with a comprehensive range of **service offerings**, including financing services as well. We intend to continually expand our offerings in line with market conditions. Our goal is to thereby support Heidelberg's customers with services that enable them to sustainably enhance their profitability. We additionally offer customers high-quality and tested **consumables** under our own Saphira brand name. Customers benefit from Saphira consumables because they are finely tuned to Heidelberg printing presses and thereby enable optimal results – even at the very high production speeds of 18,000 sheets per hour that are reached by our high performance printing presses. Supporting our customers in applications technology issues by means of our global network of printing specialists is a unique feature of Heidelberg's services.

MANAGEMENT AND CONTROL – FOCUS ON FINANCIAL GOALS

> **Clear-Cut Requirements Facilitate Groupwide Management**
> **Vigorous Implementation of Heidelberg 2010 Program**
> **Adapting Risk Management System**

Due to the extremely difficult economic environment, which caused drastic downturns in sales and in the result, the clear principal focus of the Group's management and control during the financial year was on financial goals and key performance data. We are aware that this entails risk. To a greater extent than previously, therefore, we monitored the development of the qualitative risks through our risk management system and we also undertook counter-measures. Our guidelines, which are applicable and binding throughout the Group and which we set up in the past for all areas, helped to reduce risk and to manage the Group.

Strategic Goals Supported by Management Processes

Since it has become clear that the Group would be severely impacted by the results of the financial and economic crisis, the principal focus of our strategy as well as our management and control system has been to rapidly reduce costs on a sustained basis. In creating our Heidelberg 2010 program in 2008, our attention was on securing our strategic competitive advantages to the greatest possible extent despite the cost-reduction measures. For example, although we considerably reduced our selling costs, we nevertheless maintain the most tightly meshed sales network in our industry, especially in promising emerging markets.

In order to attain our cost-cutting goals to their full extent and as quickly as possible as well as to better assess liquidity risks, we controlled the operating units during the financial year more closely than usual. We monitored the implementation of measures once a month at every unit and inquired whether the established objectives were attained for various management control components; these included sales, profit margins, EBIT, and free cash flow, among others.

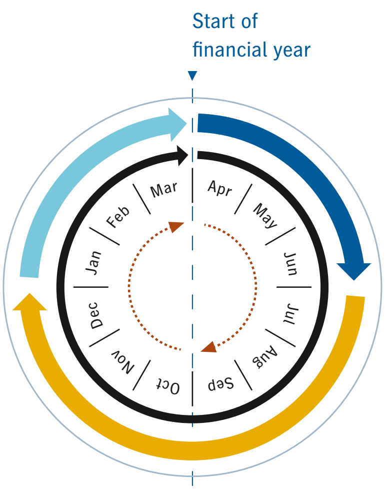
We adapted our organization to our strategic thrusts, thereby specifying profit responsibilities in the Services and Consumables Division. This will put us in a better position to control the progress of this strategically increasingly important business area.

During the financial year, our management activities focused primarily on cushioning the impact of the global economic crisis and enhancing the Group's independence from cyclical fluctuations. We reduced the break-even point of the Heidelberg Group – however, not to the detriment of the HEIDELBERG brand name, which is our most important intangible asset.

The goals for the individual plans of all corporate units are derived, fixed, and elaborated with concrete measures on the basis of the strategic agenda.

Even though we are not implementing the usual survey of customer satisfaction due to cost factors, we nevertheless continue to evaluate service protocols and service calls and monitor various early warning indicators in order to strengthen our position in the market. Among others, we analyze developments that make it possible to draw conclusions regarding customer loyalty and to measure the quality of our products under normal operating conditions.

PLANNING CLOCK



- Strategic planning
- Medium-term planning
- Operative planning
- Continuous management

Value Management, Risk Management, and Opportunity Management: Integral Components of Strategic Planning

The management of risks and opportunities is an integral part of our strategic planning, of our medium-term planning process, and of all the annual controlling and reporting processes. We considerably shortened the planning cycles of our management system the previous year. We further increased the frequency of our comparison of targets vs. actual performance for all developments that are of significance for our business development. Based on the figures that were obtained as well as on data from the corporate environment, we generate scenarios on an ongoing basis in order to undertake countermeasures against risks and take advantage of opportunities. Both our risk and our opportunity management take advantage of our **dual track approach**, under which on a local basis, concrete risks and opportunities are directly recorded, quantified, accumulated, and reported onwards. On the other hand, however, we ensure to an even greater extent than in the past that all management bodies at all management levels frankly and proactively address qualitative risks and opportunities. As we mentioned above, the focus on financial goals entails an increase in qualitative risks – for example, in the human resources area due to the substantial job cutbacks. On the one hand, our guidelines and organizational directives stipulate a strictly formal **process**, on the basis of which we systematically record both individual risks and the overall risk of the Group, thereby noting, assessing, and quantifying opportunities. And on the other hand, all cross-sector units are required to regularly address risks and opportunities, even apart from the formal process. This shortens the reaction time at Heidelberg required by these management bodies to undertake extensive decisions for 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 ranking in risk categories is based on the potential impact on the net profit or the liquidity of the individual entities. Reporting thresholds are set on a uniform basis. Non-quantifiable risks are also registered. Each lead market is assigned a

The Big Risk Committee draws up a risk catalog comprising the principal risks. The Small Risk Committee comprises two members of senior management from each Management Board area of responsibility and determines, among others, materiality limits. Moreover, feedback from the areas is discussed and validated here, and prepared for presentation to the Management Board and the Supervisory Board.

risk catalog, which is filled out in dialog with the associated entities and reported back to the Group. Risk controlling summarizes the reported risks three times a year at the Group level, thereby determining the greatest risks to the Group. The reports are submitted to the entire Management Board as well as the Audit Committee of the Supervisory Board. We publish an **organizational directive** and underscore the procedures in a corporate guideline to ensure adherence to our requirements for addressing risks and opportunities on a uniform basis. Binding requirements have also been established covering how accounting risks are addressed; we describe these requirements in more detail in the next section. Directives and guidelines are updated regularly and are accessible for 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). The systems governing our monitoring system can be continually adapted to changed general conditions and further developed.

Risks are quantified in accordance with the key parameters “probability of occurrence”, “extent of loss upon occurrence”, and “expected risk development during the planning period”. Responsibility is assigned to each entity’s top management. Moreover, during the financial year we established for the first time Groupwide responsibilities for the management of the greatest risks.

We undertake exceptionally close monitoring of **financial risks** not only due to the financial market crisis. The centralized Corporate Treasury area 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 other 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 on these measures and the impact of the hedging of foreign currency and interest-rate transactions can be found in the consolidated financial statements. The **functional separation** of trading, processing, and risk control 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 cut back the financing arrangements 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 comprise both debt-specific and transaction-specific components.

→ ? The Risk Report, which begins on page 115, outlines the development of risks compared with the previous year.

Global Internal System to Control Accounting Operations

Deliberate or accidental errors in accounting could theoretically result in an unrealistic view of net assets, financial position, and the results of operations. We systematically undertake countermeasures to avoid this risk, as well as additional risks that could arise. The control system that we created for this purpose is based on the framework for internal control systems of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). We set our highest priority on preventing errors to the greatest possible extent in the consolidated financial statements and in the Group management report by means of systematic controls and established processes that, among others, stipulate examinations based on spot checks. We undertake this by adequately ensuring

> that the presentation of the consolidated financial statements is in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union, and furthermore, in accordance with Commercial Law under the provisions of Article 315 a (1) of the Commercial Code; and

> that the information prepared for external financial reporting is reliable and of relevance for the reader's decision-making.

Heidelberger Druckmaschinen Aktiengesellschaft undertakes central responsibilities in the area of accounting, such as the consolidation of the financial figures and the examination of any loss in value of capitalized goodwill. The Company also regularly monitors whether the account books are properly maintained and the Groupwide guidelines adhered to in drawing up the financial statements, thereby ensuring that the financial information corresponds to regulatory requirements. Additionally, the internal auditors, who have access to all data, examine individual areas and subsidiaries on the basis of spot checks. In doing so, the auditors examine whether the internal control system has been implemented or transactions controlled, and whether dual control is adhered to in all areas. The latter is stipulated and binding – for example, for every order that is placed, for every invoice that is presented, and for every investment that is made. The observance of all other internal guidelines and directives that have an impact on accounting operations are also monitored.

Risks are also reduced by a number of automated controls. Authorization models have been entered into the IT system, which is uniformly applicable throughout the Group. If a unit is examined by the internal auditors, these authorization models and their implementation are reviewed as well. Automated controls and plausibility checks ensure the completeness and correctness of data inputs, and in some cases data is validated and discrepancies brought to light on a fully automatical basis.

All divisions and regions report their financial data for consolidation to the Group in accordance with a reporting calendar that is uniformly applicable throughout the Group. Consolidation controls are implemented as well as controls on whether tax calculations are appropriate and have been approved, and whether items related to tax that are included in the annual financial statements have been recorded correctly. Overall, these procedures ensure that reporting on the business activities of the Group is consistent worldwide and is in accordance with the approved accounting directives. The effectiveness of the internal accounting control system is regularly monitored by the internal auditors.

Binding Guidelines for All Areas and Functions; Obligatory Observance of Social Responsibility and Environmental Standards throughout the Group – for Suppliers As Well

In prior years we had already established binding regulations throughout the Group and ensured that they were accessible to all employees. These regulations range from the Company's general values and principles – for example, quality standards or codes of conduct – all the way to guidelines covering various topics, including the selection criteria for suppliers, invoice verification, the handling of sensitive data, and the observance of comprehensive environmental protection provisions.

Heidelberg has assumed a pioneering role in so-called "Ecological Printing" and intends to benefit from the trend towards more environmental awareness in the printing industry. Our systematic environmental philosophy also includes suppliers at all our local units, who are required to adhere to environmental standards that are similar to those at Heidelberg and to support Heidelberg in the implementation of the Company's environmental strategy.

Our principles and guidelines, which apply worldwide, ensure adherence to high standards of social responsibility and safety. The Heidelberg Code of Conduct is also applicable throughout the Group. We monitor the observance of various standards among our suppliers as well.

We attribute the low number of on-the-job accidents in our plants to these binding guidelines as well as to the solid training of our employees. Our plant in China is proof that the accident statistics are not a consequence of low capacity utilization during the financial year. For example, we did not record any on-the-job accidents at that plant despite the fact that we noticeably expanded production there at a relatively rapid pace. The number of on-the-job accidents measured in terms of hours worked was also in decline at our main production site in Wiesloch-Walldorf.

Environmental protection has been a corporate goal since all the way back in 1992. Environmental management systems based on ISO14001 have been established at most of Heidelberg's locations. Independent consulting experts monitor adherence to statutory performance targets as well as to voluntary, self-imposed obligations. Local units register a considerable volume of environmental data. This documentation can be viewed in the Internet at **www.heidelberg.com/eco**.

The key strategic factors for success at Heidelberg include our wholly network-capable product portfolio, our leading technological position, our manufacturing expertise, our good relationships with suppliers, our highly qualified employees, our tightly meshed global service and sales network, and our pioneering role in environmentally friendly printing.

Value Management: Expanding Strategic Factors for Success; Value Contribution Again Negative Due to the Economic Environment

As in the past, we intend to increase the value of the Company on a sustainable basis. We have thereby maintained our strategic factors for success in times of crisis, thereby retaining our leading position ahead of the competition. Due among others to cost factors, we have increasingly relied on cooperative agreements in order to strengthen our market position.

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. We determine the return on capital employed based on 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, with the weighting in line with the proportion of the respective capital components. To ascertain the average cost of capital, we use a risk-free interest rate of 4.0 percent, a market risk premium of 5.0 percent, and a beta factor of 1.4. This method of calculation remained in effect during the financial year.

Due to overall underlying conditions, we fell far short of our financial goals. The result worsened further vis-à-vis the previous year's figure, with **ROCE** amounting to – 8.8 percent during the financial year. Nevertheless, through strict controls and asset management, which served to quickly reduce operating assets, we succeeded in limiting the impact of the economic crisis on the development of value. Primarily because of the decline in the equity ratio, the average cost of capital fell to 9.8 percent and the cost of capital declined to € 153 million. The **value contribution** of € – 291 million deteriorated further compared with the previous year.

FIVE-YEAR OVERVIEW – ROCE AND VALUE CONTRIBUTION

Figures in € millions

	2005/06	2006/07	2007/08	2008/09	**2009/10**
Operating assets (average)	1,911	1,879	1,887	1,771	1,564
EBIT [1]	260	295 [2]	254	– 63	**– 138**
– ROCE in percent of operating assets	13.6	15.7	13.5	– 3.6	– 8.8
Cost of capital	176	185	183	206	**153**
– in percent of operating assets	9.2	9.9	9.7	11.6	9.8
Value contribution	84	110	71	– 269	**– 291**
– in percent of operating assets	4.4	5.8	3.8	– 15.2	– 18.6

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

REMUNERATION REPORT – MANAGEMENT BOARD AND SUPERVISORY BOARD [1)]

The total structure as well as the amount of 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.

The share-based remuneration will be replaced with a long-term variable remuneration component in the future, which will be calculated on the basis of the attainment of certain goals over a period of several years that are grounded on defined parameters. The weighting of the variable remuneration components among each other will shift in favor of long-term variable remuneration.

In the case of an operational revocation of the mandate of a member of the Management Board or of a justified resignation of a member of the Management Board, all service contracts contain the following uniform provisions: the service agreement shall be terminated upon expiration of the statutory period of notice in accordance with Section 622 (1, 2) of the German Civil Code (BGB). In the case of an operational termination of mandate, the member of the Management Board receives a severance payment at the time of termination of the service agreement in the amount of his or her previous compensation package in accordance with the service agreement for two years, at the most, however, in the amount of the remuneration for the period of the originally contracted term to termination of the service agreement including the pro-rata reimbursement of long-term remuneration. The right to extraordinary notice of termination for good cause in accordance with Section 626 of the Civil Code remains in effect.

The severance payment is to be paid on a quarterly basis in accordance with the originally contracted term to maturity – at most, however, in eight quarterly installments. This payment to former members of the Management Board is subject to an offset against other remunerations, which are to be certified to the Company, during the originally contracted term to maturity as is provided for under Sections 326 (2) page 2 and 615 (2) of the Civil Code.

1) The Remuneration Report is also part of the Corporate Governance Report.

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 the total amount. The amount of the bonuses and thereby their share of the 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).

In the future, the percentage of the base pay accounted for by the personal bonus will be up to 30 percent, the percentage accounted for by the corporate bonus up to 30 percent, in case of overfulfillment up to 60 percent, and the percentage of the base pay accounted for by the long-term bonus of several years up to 90 percent. The long-term bonus of several years will be available for disbursement for the first time after financial year 2011/2012. In any case, the remuneration of the Management Board may at most amount to 280 percent of the annual fixed basic compensation.

Already at the beginning of financial year 2009/2010, the members of the Company's Management Board stated in advance that they will forgo half of the bonuses to which they are entitled for financial year 2009/2010 under the terms of their contracts.

The remuneration structure for the Management Board of Heidelberger Druckmaschinen Aktiengesellschaft will continue to comply with the statutory requirements of the Stock Corporation Act (AktG), of the Act on the Appropriateness of Management Board Remuneration (VorstAG), and of the German Corporate Governance Code. In view of the above provisions, the remuneration structure will be modified accordingly as of financial year 2010/2011. Although it will continue to comprise a fixed basic compensation and several variable remuneration components, the composition of these components will differ. Although the variable components will comprise valuation bases with an annual reference, they will largely be based on a period of several years. The new remuneration system applies to all the members of the Company's Management Board. It will be introduced in more detail at the Annual General Meeting in 2010 and submitted to the shareholders for their approval in accordance with Article 120 (4) of the Stock Corporation Act.

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

Details on the Previous Variable Remuneration Components with Long-Term Incentive Effects Up until Now

In line with the previous remuneration structure, the members of the Management Board additionally received **variable remuneration components with long-term incentive effects** within the framework of the stock option plan and the long-term incentive plan (LTI).

Stock option plan: The stock option plan of the Company was issued for the last time with the tranche of 2004, which due to its demanding prerequisites in the past, did not result in the exercise of subscription rights. Again in the case of the final tranche in 2004, it appears highly unlikely that subscription rights will be exercised. The prerequisite for the granting of 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") – with both share price and the Index calculated on the basis of the total shareholder return method. The target is deemed to have 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 only be exercised if the target is 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, 2002, and 2003 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 (LTI) Plan: There has not been any payment or delivery of shares under the LTI Plan because its various targets could not be met. 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 no-par 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 the LTI 2007, respectively, were designated on April 1, 2006 and April 1, 2007, respectively; as in the previous year, 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 expired on March 31, 2010. Since the targets of the LTI 2006 and LTI 2007 were not attained, no disbursement was or is being made.

Detailed Remuneration of the Members of the Management Board

BERNHARD SCHREIER

Figures in € thousands

	2008/2009	2009/2010
Performance-neutral components		
Base salary	500	500
Remuneration in kind	30	6
Performance-based remuneration		
Bonus for the financial year	150	250[3]
Cash remuneration	680	**756**
Components with long-term incentive effects	–	–
Remunerations	680	**756**
Number of PSUs under the LTI	9,000	4,500
Number of PSUs under the stock option program	31,500	10,500
Pension plan		
Expected pension per annum at retirement age[1]	371	371
Defined benefit obligation	3,380	4,485
Pension plan according to IFRS[2]	291	310

[1] In accordance with the situation for pension-capable remuneration as of March 31
[2] Service cost and interest cost
[3] Already at the beginning of the reporting year, the members of the Management Board stated in advance that they will forgo half of the bonuses to which they are entitled for financial year 2009/2010 under the terms of their contracts

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

In Mr. Schreier's current service and pension contract, the following provisions have been excluded by mutual agreement:

> Inclusions to the pension before reaching retirement age if 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.

> Change of Control Clause in the form of a special right of employment termination should the Company have a new majority shareholder.

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. Ongoing payments will be adjusted in the same percentage relationship as the basic pay of salary group B9 for civil servants in Germany. No provision is made for a guaranteed adjustment by at least 3 percent every two years, as is the case with employee remuneration. 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. A claim for committed benefits under the Company's pension provisions remains in force even in the case of an early termination of employment. Otherwise, the statutory full vesting periods are deemed to have been fulfilled. The payment of the retirement pension is fully secured by a reinsurance policy, with the resultant claim against Mr. Schreier pledged as collateral.

DIRK KALIEBE

Figures in € thousands

	2008/2009	**2009/2010**
Performance-neutral components		
Base salary	292	330
Remuneration in kind	18	18
Performance-based remuneration		
Bonus for the financial year	88	165[3]
Cash remuneration	398	**513**
Components with long-term incentive effects	–	–
Remunerations	398	**513**
Number of PSUs under the LTI	9,000	4,500
Number of PSUs under the stock option program	20,250	6,750
Pension plan		
Accrued pension capital at financial year-end	262	366
Pension contribution for the reporting year[1]	88	96
Defined benefit obligation	371	519
Pension plan according to IFRS[2]	103	118

[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
[3] Already at the beginning of the reporting year, the members of the Management Board stated in advance that they will forgo half of the bonuses to which they are entitled for financial year 2009/2010 under the terms of their contracts

Dirk Kaliebe's term of office as a regular member of the Management Board runs for three years.

As of October 1, 2009, Mr. Kaliebe's fixed annual salary increased from € 310,000 to € 350,000.

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 to 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 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 or the pension) contingent on the amount of the last basic remuneration. In the case of a disability benefit, 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 that 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.

Marcel Kießling has been a member of the Management Board since January 1, 2010. His term of office as a regular member of the Management Board runs for three years.

Pension plan: The pension contract for Mr. Marcel Kießling 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 38 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 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 or pension) contingent on the amount of the last basic remuneration. In the case of a disability benefit, 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 that 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.

MARCEL KIESSLING

Figures in € thousands

	1-Jan-2010 to 31-Mar-2010 2009/2010
Performance-neutral components	
Base salary	75
Remuneration in kind	26
Performance-based remuneration	
Bonus for the financial year	38[4]
Cash remuneration	**139**
Components with long-term incentive effects	**–**
Remunerations	**139**
Number of PSUs under the LTI	1,800
Number of PSUs under the stock option program	6,750
Pension plan	
Accrued pension capital at financial year-end	153
Pension contribution for the reporting year [1]	34
Defined benefit obligation	271
Pension plan according to IFRS [2]	41

[1] For the period of membership on the Management Board during the period January 1 – March 31, 2010
[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
[4] Already at the beginning of the reporting year, the members of the Management Board stated in advance that they will forgo half of the bonuses to which they are entitled for financial year 2009/2010 under the terms of their contracts

STEPHAN PLENZ

Figures in € thousands

	1-Jul-2008 to 31-Mar-2009 2008/2009	2009/2010
Performance-neutral components		
Base salary	225	313
Remuneration in kind	7	9
Performance-based remuneration		
Bonus for the financial year	68	156[3]
Cash remuneration	300	**478**
Components with long-term incentive effects	–	–
Remunerations	300	**478**
Number of PSUs under the LTI	3,600	1,800
Number of PSUs under the stock option program	20,250	6,750
Pension plan		
Accrued pension capital at financial year-end	178	290
Pension contribution for the reporting year[1]	76	103
Defined benefit obligation	299	457
Pension plan according to IFRS[2]	82	120

[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
[3] Already at the beginning of the reporting year, the members of the Management Board stated in advance that they will forgo half of the bonuses to which they are entitled for financial year 2009/2010 under the terms of their contracts

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.

As of January 1, 2010, Mr. Plenz's fixed annual salary increased from € 300,000 to € 350,000.

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 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 or pension) contingent on the amount of the last basic remuneration. In the case of a disability benefit, 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 that 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.

JÜRGEN RAUTERT

Figures in € thousands

	2008/2009	1-Apr-2009 to 26-Nov-2009 2009/2010
Performance-neutral components [1]		
Base salary	344	262
Remuneration in kind	11	8
Performance-based remuneration [1]		
Bonus for the financial year	103	175 [4]
Cash remuneration	458	**445**
Severance payment (performance-neutral)	–	**2,133**
Components with long-term incentive effects	–	**–**
Remunerations	458	**2,578**
Remunerations (excluding severance payments)	458	**445**
Number of PSUs under the LTI	9,000	4,500
Number of PSUs under the stock option program	–	–
Pension plan		
Expected pension per annum at retirement age [2]	205	205
Defined benefit obligation	1,790	3,084
Pension plan according to IFRS [3]	177	206

1) For the time of membership on the Management Board during the period April 1 – November 26, 2009
2) In accordance with the situation for pension-capable remuneration as of March 31
3) Service cost and interest cost
4) Already at the beginning of the reporting year, the members of the Management Board stated in advance that they will forgo half of the bonuses to which they are entitled for financial year 2009/2010 under the terms of their contracts

Dr. Jürgen Rautert was a member of the Management Board through November 26, 2009. He resigned his position as a Management Board member on November 26, 2009. His service contract, including further payment of his monthly basic compensation totaling € 29,167, was terminated by mutual agreement upon expiry of the service contract period as of December 31, 2009.

In this connection, Dr. Rautert received a severance payment amounting to € 700,000, or two annual base salary payments. He will further receive bonuses up to the original time of the termination of the contract on June 30, 2012 – in other words, for financial years 2009/2010, 2010/2011, and 2011/2012, as well as proportionately for financial year 2012/2013 – however, only to the extent that bonus payments are made to active members of the Company's Management Board. The waiver of one-half of the initially reduced bonus opportunities in financial year 2009/2010 and the following financial year within the framework of the new remuneration structure, therefore, will also apply to Dr. Rautert. Beginning on September 1, 2013, Dr. Rautert will begin receiving pension payments on the basis of 60 percent of his pension-applicable annual salary. Until he reaches the earliest-possible pension-eligible age in August 2013, beginning on January 1, 2012 Dr. Rautert will receive monthly transition payments amounting to the gross amount of € 14,584.

In addition, Dr. Rautert is to receive reimbursement of € 3,373.53 for attorney's costs that arose in connection with his resignation from the Company.

The annulment agreement with Dr. Rautert provides, finally, for a comprehensive covenant not to compete and consideration provisions in case Dr. Rautert takes up other employment.

Basic Characteristics of the Supervisory Board's Remuneration

The remuneration of the Supervisory Board is governed by the Articles of Association and approved by the Annual General Meeting. It comprises two components: a fixed 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 VAT) is as follows:

THE REMUNERATION OF THE SUPERVISORY BOARD (EXCLUDING VAT)

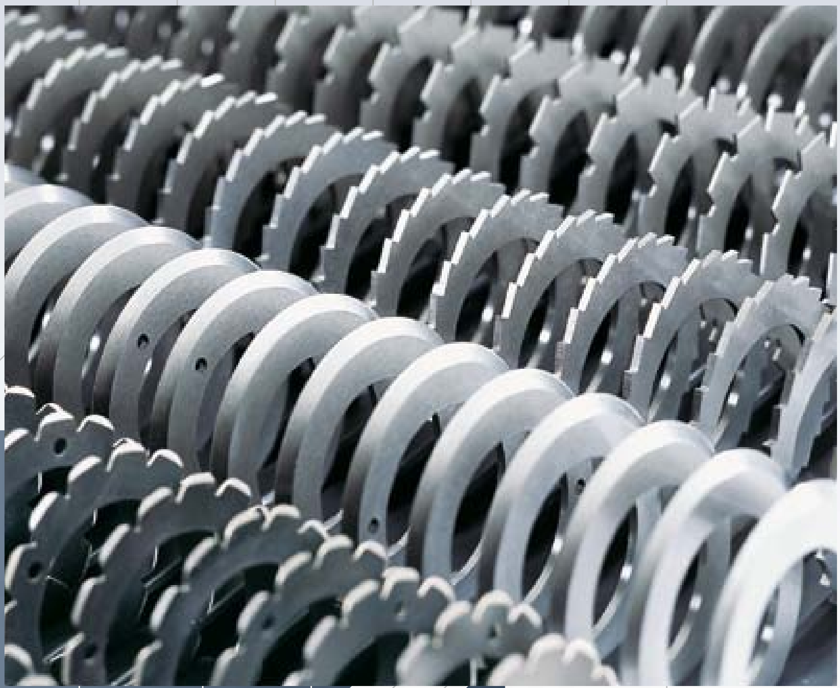
Figures in €

			2008/2009			2009/2010
	Fixed remuneration	Variable remuneration	Total	Fixed remuneration	Variable remuneration	Total
Dr. Mark Wössner [1]	39,493	0	39,493	40,646	0	40,646
Rainer Wagner [2]	31,000	0	31,000	32,000	0	32,000
Martin Blessing [3]	8,000	0	8,000	0	0	0
Dr. Werner Brandt [4]	19,375	0	19,375	26,000	0	26,000
Edwin Eichler [4]	14,500	0	14,500	19,000	0	19,000
Wolfgang Flörchinger	20,000	0	20,000	20,500	0	20,500
Martin Gauß	24,500	0	24,500	26,500	0	26,500
Mirko Geiger	26,500	0	26,500	28,000	0	28,000
Gunther Heller	20,000	0	20,000	20,500	0	20,500
Dr. Jürgen Heraeus [3]	9,000	0	9,000	0	0	0
Jörg Hofmann	19,509	0	19,509	20,000	0	20,000
Dr. Siegfried Jaschinski	19,500	0	19,500	20,000	0	20,000
Robert J. Koehler	20,000	0	20,000	20,000	0	20,000
Uwe Lüders [3]	7,000	0	7,000	0	0	0
Dr. Gerhard Rupprecht	23,500	0	23,500	26,000	0	26,000
Beate Schmitt	20,000	0	20,000	20,500	0	20,500
Prof. Dr.-Ing. Günther Schuh [4]	15,000	0	15,000	20,000	0	20,000
Dr. Klaus Sturany	31,879	0	31,879	32,000	0	32,000
Peter Sudadse	20,000	0	20,000	20,000	0	20,000
Total	388,756	0	388,756	391,646	0	**391,646**

[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

HEIDELBERG SERVICES

Print shops in the industrialized countries must further differentiate their offerings and more purposefully market them. At the same time, they want to produce in an environmentally friendly manner at lower cost. Consulting services and automation are therefore becoming increasingly more important for them. The high quality of our consumables and our prompt help in case of equipment failures enhance the investment and production security of our customers around the globe.



If end customers are to be able to find a new supplier at all times, the ability to always meet deadlines, to ensure absolute color fidelity, and to provide an all-around perfect and affordable final printed product are key factors in the success of print shops. With our worldwide guaranteed **delivery of service parts** in just a few hours and our highly qualified **service technicians**, we provide customers our support 24 hours a day. Our **Systemservice contracts** and remote services reduce the cost of service and maintenance for our customers – and for us as well.

Management, prepress, printing, and finishing were traditionally separate areas of operation in print shops. Our interlinking everything via **Prinect** automates all stages of the printing process, which results in the avoidance of errors and enhanced profitability. Heidelberg's offerings are unbeatable particularly in color management. Moreover, Prinect makes it possible to utilize our **remote services** which allow for maintenance and repair via the Internet – often even during the printing process!

Our time-tested Saphira **consumables** ensure complete stability, even with production at the maximum speed that our printing presses attain of 18,000 impressions per hour. Our employees support print shops, among others in technical questions related to product application, and advise them in **environmental protection**. We intend to considerably increase our sales in the service and consumables areas and thereby reduce the Group's dependence on cyclical fluctuations.


+ 1
+ 2
+ 3
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+ 11

BUSINESS DEVELOPMENT

We undertook countermeasures to the greatest possible extent in order to cushion the impact on the Group of the global economic crisis. Nevertheless, our strategic expansion of the service and consumables business as well as the expansion of our plant in China were only able to moderate the – unexpectedly heavy – falloff in demand in the printing industry. We cushioned the consequences of the decline in sales through intensive asset management and our Heidelberg 2010 program. We have already implemented the provisions of the program sooner than had been planned. The graphic below shows how we achieved annual cost reductions of approximately € 400 million through these measures. We intend to realize additional cost reductions of € 80 million through boosts in efficiency within the framework of our reorganization. We will adapt these planning measures if it becomes necessary because of changes in underlying conditions.

OVERVIEW OF BUSINESS DEVELOPMENT

KEY PERFORMANCE DATA OF THE HEIDELBERG GROUP

Figures in € millions

	1 HY	2 HY	Financial year
Financial year	1,013	1,293	2,306
Special items	1,084	1,287	2,371
Free cash flow [1]	– 128	– 2	– 130

[1] Excluding special items

The financial market and economic crisis had a stronger impact on the advertising expenditures of companies, and thereby on the print media industry, than had been expected. Moreover, although the economy began recovering halfway through the reporting year, in the industrialized countries the upswing was considerably weaker than had been projected. As a consequence of the difficult **underlying conditions**, our customer's propensity to invest, and thus our **incoming orders** as well, remained quite weak over the entire reporting period.

We had projected a further **decline in sales** due to the general economic expectations in our previous annual report. However, we had not expected a decline of 23 percent. On the one hand, we had not anticipated such a weak first half-year. And on the other hand, we had expected the economic situation in the printing industry, and thereby our sales, to pick up again considerably beginning in the second half of the financial year. As it became evident that the upswing would not occur to the originally expected extent, we revised our projected sales growth and communicated this in a press release on October 9, 2009.

In this press release, we also referred to the impact of the considerably weaker sales trend on our **result of operating activities** and specified our projected earnings for the financial year as a whole at between € – 110 million and € – 150 million. Profit contributions failed to materialize to a far greater extent than we had expected in our information about future prospects in the previous year. Moreover, the share of sales accounted for by products with lower profit margins was higher during the financial year because in the industrialized countries, commercial print shops hardly undertook any investments. In the end, the result that we booked for the financial year of € – 130 million was in the middle of the above-mentioned range.

Most of the loss, an amount of € – 128 million, was generated during the first half of the financial year. The result of operating activities of € – 2 million during the second half of the year was nearly break-even. On the one hand, sales were up, while on the other hand the measures included in our **Heidelberg 2010 program** showed perceptible successes. We had launched this program in financial year 2008/2009 in order to cut back structural costs and thereby quickly reduce the Heidelberg Group's break-even point. Thanks to Heidelberg 2010 already during the financial year we reached our target of € 400 million in annual savings. Within the framework of the **reorganization**, we analyzed all the processes within the Company and identified the potential for additional annual cost-reduction measures totaling approximately € 80 million. The expenses for **special items** for the Heidelberg 2010 program as well as for additional measures within the framework of this planned boost in efficiency amounted to € 28 million during the financial year.

As expected, the **financial result** deteriorated slightly to € – 127 million during the financial year. The financial result was burdened by higher financing costs as well as a book loss that arose from the sale of our corporate income tax credit. By contrast, the market values of hedging transactions developed favorably. Overall, we suffered a **net loss** of € – 229 million during the financial year – considerably more than we had originally expected and projected.

We limited the impact of the poor development of sales and earnings on **free cash flow** by undertaking numerous measures to curb the commitment of funds. The inflow of funds from net working capital was especially high. In addition, we sold our corporate income tax credit during the first half of the financial year. Since we severely cut back investments, limiting them almost exclusively to outlays for required replacement capital, the outflow of funds was very moderate during the financial year. Overall, we were thereby successful in considerably improving free cash flow compared with the previous year, even though underlying conditions during the financial year were much more unfavorable than in the previous year. Free cash flow of € – 62 million was nevertheless negative.

Financial liabilities rose to € 816 million through the end of the financial year. We were successful in repositioning our financing structure during the first half of the financial year. Credit facilities of € 1.4 billion are available to us through mid-2012.

UNDERLYING CONDITIONS – PRINTING INDUSTRY SUFFERING HEAVILY FROM THE GLOBAL ECONOMIC CRISIS

> **Extremely Low Advertising Outlays Result in Extended Crisis in the Printing Industry**
> **Numerous Print Shop Insolvencies in Industrialized Countries**
> **Excess Capacities among Equipment Suppliers to the Printing Industry**

At the end of 2009, many people thought the end of the global economic crisis was just around the corner, for the economic situation in the Western industrialized countries also began to pick up. Print shops and equipment suppliers to the printing industry, on the other hand, only experienced a slight upswing. Most companies maintained their rigid belt-tightening measures, into which they had been forced by sales downturns, excess capacities, and financing difficulties, so they were still not prepared to increase their advertising budgets. Commercial print shops therefore had to struggle with the ongoing low outlays for the print media and thus invested hardly at all in new printing presses.

The incipient growth trend is perceived as being unstable in all sectors of the economy. This can be seen in the overall extremely low propensity to invest, which has further worsened due to more restrictive lending provisions. In addition, stock markets were extremely volatile and reacted nervously to changes in underlying conditions worldwide. The debt crisis in Greece at the end of the reporting year and the loss in value of the euro have further worsened the uncertainty regarding further economic developments. Nevertheless, private consumer spending increased. As a consequence, capacity utilization of packaging print shops again began to slowly rise.

Global economic growth is crucial for our business development, with approximately 80 percent of our sales coming from abroad. Moreover, since we generate approximately half of our sales outside the euro zone, the development of exchange rate structures plays an important role for us.

Global Economy and Regions: Only Some Markets Altogether Pull through the Crisis

The current and expected expenditures for print ads have a significant impact on the investments of commercial print shops. The amount companies spend on advertising heavily depends on economic growth. The development of the gross domestic product (GDP) therefore plays a crucial role for us in our principal markets. We present an overview of developments in the table.

High levels of government spending as well as private consumer spending revitalized the global economy at the end of 2009. Some emerging markets returned to a growth trend at mid-year 2009 as economic stimulus packages began having an impact. Global exports stabilized, support was offered to private consumer spending and the economy, and the financial sector was protected from collapse.

GROSS DOMESTIC PRODUCT [1]

Change from previous year in percent

	2007	2008	2009
World	3.9	1.7	**– 2.1**
USA	2.1	0.4	– 2.4
EU	2.9	0.6	– 4.2
Germany	2.6	1.0	– 4.9
UK	2.6	0.6	– 5.0
Eastern Europe	5.6	3.1	– 4.0
Russia	8.1	5.6	– 7.9
Asia [2]	8.7	5.8	4.5
China	13.0	9.6	8.7
India	9.1	6.1	6.6
Japan	2.3	– 1.2	– 5.2
Latin America	6.5	5.1	– 0.6
Brazil	6.1	5.1	– 0.4

[1] Source: Global Insight: WMM; April 2010
[2] Excluding Japan

We describe on pages 85 – 90 how the general state of the economy as well as particular regional features had an impact on the printing industry and its investment behavior in various regions and markets.

The industrial countries showed initial, delayed signs of recovery. Numerous negative factors have taken their toll – to name just a few: a high level of unemployment, the extremely low capacity utilization of companies, and significantly more restrictive lending provisions by banks.

In the **US**, the first country to experience the crisis, the impact on the economy has been greater than in past recessionary periods. The situation remains difficult, especially for companies. Capacities continue to fall far short of full utilization. Moreover, low levels of profits are preventing required investments.

In **Europe**, although most economies only felt the impact of the crisis considerably later than in the US, the effect was extremely severe. Incoming orders and industrial output collapsed completely and the weak demand worldwide created a heavy burden for export-oriented companies. The economic situation was highly varied in various countries. Greece, Portugal, and Spain have been especially hard hit by the crisis. Nevertheless, the end of the year saw slight improvement in Europe overall, with at least economic indexes indicating comprehensive stabilization.

Not only the Western industrialized countries have felt the full force of the crisis. In **Japan**, the situation was aggravated by the fact that the government economic stimulus packages only had a partial effect. Exports, investments, and consumer spending collapsed. Moreover, the strengthening of the yen prevented a turnaround when growing demand from Asia provided a favorable impetus.

Although in the short term the declines in exports in the rest of **Asia** were also immense, this region was impacted by the crisis to a considerably lesser extent and for a shorter period of time than had been anticipated. Contributing among others to this effect was the huge economic stimulus package launched by **China**. The emerging markets – in particular China – represent the engine for a global economic upswing.

Latin America, with its relatively independent and low-debt economies, came through the crisis quite well – excluding Mexico, which is closely tied to the US economy. The slowly accelerating rate of production towards the end of the year worldwide led to higher demand once again for raw materials and thereby higher prices.

The economic situation in **Eastern Europe** benefited from this as well. In particular Russia suffered enormously from the declines in the raw materials market. Some 60 percent of Russia's export proceeds come from oil. Moreover, the Russian banking system had considerable problems. High asset deterioration, the lack of demand from Western Europe, and the downturn in consumer spending and investments were heavy burdens on this region throughout the year.

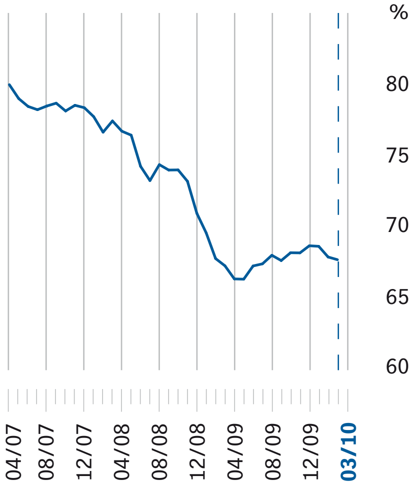
Capacity Utilization of Print Shops in the Industrialized Countries at Historic Lows; Print Shops in Emerging Markets and Packaging Printing Considerably More Robust

The printing industry is directly dependent on advertising, and thereby on the overall economy. Advertising products account on average for over 60 percent of print shop production. A glance at the capacity utilization of print shops in the US makes clear the considerable extent that companies cut back on expenditures during the crisis, especially in their advertising outlays. In the industrialized countries, this resulted in a historic low volume of expenditures. From the second half of 2008, all the business activity indicators of the printing industry literally collapsed – business expectations as well, as the graph shows. The course of the various indices now reflects at least stabilization at a low level.

Packaging print shops have been able to benefit to a greater extent from the recovery of the economic situation – and they suffered considerably less from the crisis, even though their orders also declined in 2009. Due to their extremely low capacity utilization, demand by print shops in the industrialized countries for consumables was lower than in the past.

The crisis considerably accelerated the trend towards consolidation of the printing industry in the industrialized countries. The print shops that remained are undergoing a process of transformation from traditional workshops to modern industrial enterprises. They are industrializing their processes and specializing in profitable business models. In order to meet the competition, they are investing in the optimization of their overall processes – for example, by means of software-based process integration. The crisis has temporarily put a brake on the growth of the printing industry in most of the emerging markets.

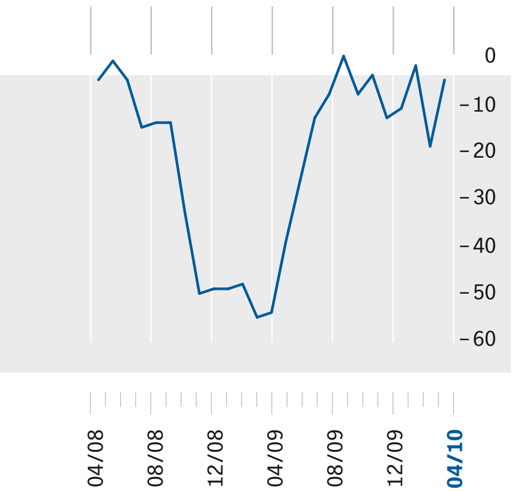
CAPACITY UTILIZATION IN THE US PRINTING INDUSTRY



Source: Global Insight

BUSINESS EXPECTATIONS – GERMAN PRINT SECTOR

Balance of responses in percent



Source: Ifo Institute for Economic Research

In Germany, all the competitors active in the sheetfed offset area strove to limit the impact of the lack of profit contributions on their results of operating activities by means of job cutbacks and short-time work. Japanese suppliers were also operating in the red.

Machinery and Equipment Suppliers to the Print Media Industry: Cutbacks in Capacity

The overall economic situation was originally expected to improve more sustainably in the industrialized countries following the crisis. A renewed, marked strengthening in demand in advertising printing – and, as a consequence, a higher propensity to invest by print shops – can only be expected when further developments appear to be less uncertain. All the machinery and equipment suppliers in the print media industry have been hit hard by the print shops' restrained level of outlays due to the crisis. According to the VDMA (Association of the German Engineering Industry), the printing press equipment industry suffered a 41 percent downturn in orders in Germany! Excess capacities had to be reduced throughout our industry.

Heidelberg's Market Position Continues Unmatched

In addition to our two principal German competitors in the sheetfed offset area, König & Bauer and manroland, several Japanese competitors are also active – for example Komori, Ryobi, and Mitsubishi. In the finishing area, the market is characterized by many small and three larger suppliers, who each maintain a market share of over ten percent. Heidelberg is one of the latter firms. In the services and consumables area, up to the present no larger supplier has arisen who is active worldwide.

The few gratifying reports during the financial year show us that we have chosen the right strategic path. In our view, we have been successful in considerably expanding our market share for large-format packaging printing. Demand for our printing presses manufactured in China is growing rapidly – we continue to be the only European manufacturer producing locally in China. In the services and consumables segment, we have been able to partially compensate for the slight market decline.

Up to now, the European printing press manufacturers were hardly able to benefit from favorable exchange rate developments vis-à-vis the Japanese competitors because the propensity of print shops to invest has been too low. However, we assume that European suppliers will benefit to a greater extent from the expected market turnaround. Due to our particular product portfolio as well as to our tightly meshed service and sales network, especially in emerging markets, among others, we will be in a position to further expand Heidelberg's market position. Starting on page 114 we discuss market trends and our competitive advantages in more detail.

BUSINESS DEVELOPMENT – MARKED DECLINE IN INCOMING ORDERS AND SALES

> **Economic Crisis Considerably Trims Customers' Propensity to Invest**
> **Moderate Upward Trend in the Second Half of the Financial Year**
> **Continued Business Success in China**

The impact of the financial market and the economic crisis heavily influenced Heidelberg's business development during the financial year. Declining advertising outlays, the low capacity utilization of print shops in the industrialized countries, and uncertain business prospects resulted in persistent restrained investment activity by our customers. Print shops only again began investing more beginning in the middle of the third quarter. This incipient upswing, however, was nevertheless very restrained. During the financial year, the strong interest in our solutions for large-format packaging printing, which we introduced at the drupa trade show in 2008, as well as the heavy demand for our products in China, represented bright spots. After Germany, China has meanwhile become Heidelberg's market with the highest volume of sales.

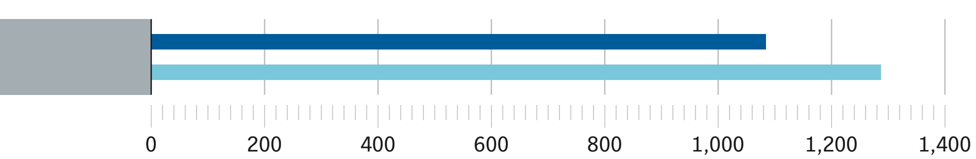
Incoming Orders: Falling Considerably Short of the Previous Year's Volumes

During most of the financial year, our customers' investment activity was so weak that incoming orders declined by 18 percent from the previous year. The overall volume of orders amounted to € 2,371 million. Fortunately, an upswing was evident during the second half of the financial year, with incoming orders amounting to € 1,287 million – 19 percent more than during the first half-year.

Since nearly all **markets** were impacted by the financial and economic crisis, the incoming orders in our regions fell far below their previous year's figures – on average by approximately 30 percent. The decline was considerably less severe in the Latin America region. The incoming orders of the Asia/Pacific region even grew by 8 percent because that region benefited from the favorable development

INCOMING ORDERS

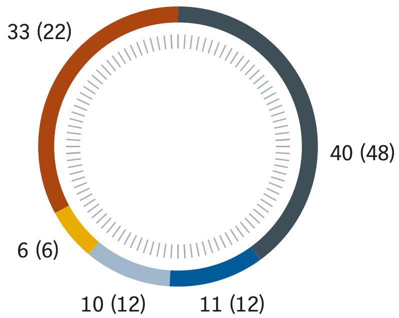
in € millions



1 HY	1,084
2 HY	1,287
Financial year	**2,371**

INCOMING ORDERS BY REGION

Proportions in percent of the Heidelberg Group
(in parenthesis: previous year)

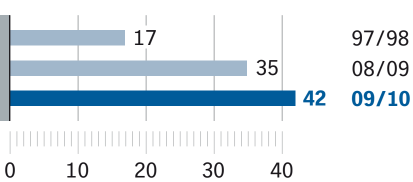


Figures in € millions

	2008/09	**2009/10**
Europe, Middle East and Africa	1,382	956
Eastern Europe	336	249
North America	359	245
Latin America	174	151
Asia/Pacific	655	770
Heidelberg Group	2,906	**2,371**

SALES PORTION EMERGING MARKETS

In percent of Group sales



of the Chinese market, where the previous year's volume of orders was exceeded by over 50 percent! Some smaller markets also developed against the general trend – for example Italy, Turkey and India. These developments, however, were only sufficient to slightly cushion the overall decline.

While the incoming orders of the **Press** Division fell by a considerable 17 percent, the **Postpress** Division even booked a 27 percent decline. In this division, the favorable development of our industry in China was inadequate to compensate for the extremely restrained level of consumer spending in the industrialized countries. In Chinese print shops, automation is still of extremely minor importance. Moreover, the share of services and consumables, which was able to cushion the decline posted by the Press Division, is considerably lower in the Postpress Division. The only gratifying news in the two divisions was the development of demand for solutions that target principally the packaging market. Especially in view of the underlying conditions, the upswing in sales was considerable for large-format printing presses and also to a slightly more modest degree for die-cutters. As expected, the order figures fell in the **Financial Services** Division, where direct financing declined and interest income decreased from the previous year.

Sales: Improvement during the Second Half-Year

Due to our customers' low propensity to invest, we suffered a 23 percent sales decline during the financial year. The sales volume of € 2,306 million represented the Heidelberg Group's lowest figure in over ten years. At least sales rose again during the second half of the financial year after its falloff to the extremely low level of approximately € 1.0 billion in the first half-year. Sales increased by some 28 percent during the final six months of the financial year, with the fourth quarter posting a volume of € 716 million – the highest quarterly volume of sales during the financial year.

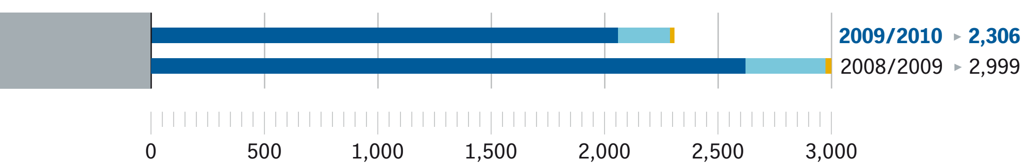
In particular the favorable business developments in China resulted in a boost of the share of sales of the **emerging markets** in the Heidelberg Group's overall sales during the financial year from 35 percent to 42 percent. Other emerging markets such as Brazil and Poland also came to terms with the impact of the financial market and economic crisis more quickly than the industrialized countries. We intend to continue to benefit to a greater extent than our competitors from the higher growth potential of these emerging markets.

All format categories in the **Press** Division, except for the new large format equipment, posted sales declines from the previous year. The 35 percent decline in the **Postpress** Division was considerably greater than in the Press Division. The weak sales posted by the **Financial Services** Division result from the curtailed financing portfolio, which led to a falloff in interest income.

Beginning in the current financial year, we are reporting on the business development of our services, service parts, consumables, remarketed equipment, and our prepress products including the Prinect workflow software within the framework of the **Heidelberg Services** Division. This area's sales declined only moderately during the financial year to € 1,016 million. Yet its share in the Group's overall sales increased from 36 percent the previous year to 44 percent due to the dramatic declines suffered by **Heidelberg Equipment**.

SALES BY DIVISION

Figures in € millions



	2008/09	**2009/10**
Press	2,621	2,058
Postpress	353	229
Financial Services	25	19
Heidelberg Group	2,999	**2,306**

Order Backlog Falls below Previous Year's Low level

The Heidelberg Group's order backlog had already fallen to its historic low point at the previous year-end as a consequence of the sudden plunge in incoming orders during the second half of the financial year. Due to the difficult situation in the printing industry during the reporting year as well, the order backlog declined further to € 596 million as of March 31, 2010 – 8 percent below the previous year's figure. The length of the order backlog increased to 3.1 months, due primarily to more favorable business developments in the second half of the year and the overall lower volume of sales.

FIVE-YEAR OVERVIEW – BUSINESS DEVELOPMENT

Figures in € millions

	2005/2006	2006/2007	2007/2008	2008/2009	**2009/2010**
Incoming orders	3,605	3,853	3,649	2,906	2,371
Sales	3,586	3,803	3,670	2,999	2,306
Order backlog (March 31)	1,017	1,018	874	650	596
Length of the order backlog [1]	3.4	3.2	2.9	2.6	3.1

[1] Order backlog divided by average monthly sales

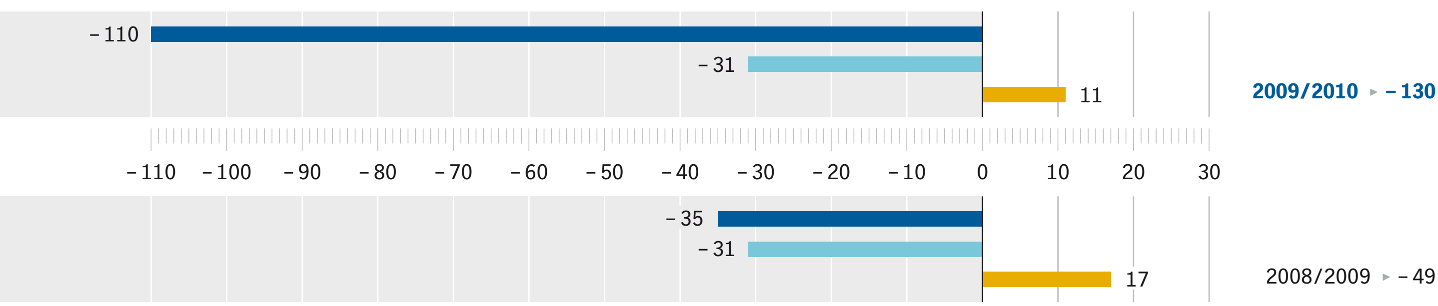
RESULTS OF OPERATIONS – COST-CUTTING GOALS FULLY REALIZED

> **Total Operating Performance Down 29 Percent**
> **Result of Operating Activities Noticeably in the Red**
> **Heidelberg 2010 Program Successfully Implemented; Break-even Point Lowered**

Already in the previous year, we had begun implementing the Heidelberg 2010 program in order to considerably lower the break-even point of the Heidelberg Group. Although we reached the program's full cost-cutting goal during the financial year, we were only able to partially compensate for the further considerable decline in sales.

RESULT OF OPERATING ACTIVITIES [1]

Figures in € millions



	2008/2009	**2009/2010**
Press	– 35	– 110
Postpress	– 31	– 31
Financial Services	17	11
Heidelberg Group	– 49	**– 130**

[1] Excluding special items

Income Statement: Result of Operating Activities Totals € – 130 million

Thanks to the attained cost-reduction measures, which improved the operating result, the second six-month reporting period reached a nearly break-even result of € – 2 million. By contrast, during the first half of the financial year we suffered a loss of € – 128 million. For the financial year as a whole, the **result of operating activities** excluding special items amounted to € – 130 million. During the previous year the operating loss had amounted to € – 49 million. The structural cost-reduction measures ensuing from implementation of our Heidelberg 2010 program considerably improved the financial year's result. Staff costs also fell due to the introduction of short-time work. The considerable decline in earnings was primarily due to the low level of sales and the lack of profit contributions. Overall, the total operating performance fell by nearly € 900 million – down by 29 percent from the previous year! In addition, the average profit margin of our sales decreased from the previous year because the share of highly automated printing presses with complex features, which are generally in demand in the industrialized countries, fell off considerably during the financial year. At the same time, the share of sales accounted for by the emerging markets rose considerably, with customers in these countries ordering primarily standardized printing presses with fewer features. Furthermore, the sales volume in the lower-margin remarketed equipment business remained virtually unchanged from the previous year, as a result of which its share in overall sales was up.

In the **Press** Division, the result of operating activities excluding special items worsened from € – 35 million the previous year to € – 110 million. The cost-reduction measures that have already been realized in the **Postpress** Division cushioned the decline in sales, as a result of which this division's result of operating activities did not worsen further and amounted to € – 31 million as in the previous year. Although the financing volume continued to decline in the **Financial Services Division**, this division was again able to generate a favorable result of € 11 million during the financial year. As expected, however, this figure was lower than in the previous year.

Income Statement: Operating Loss and Negative Financial Result Produced a Net Loss

Due to the considerable decline in sales, the **cost of materials** also fell considerably during the financial year. In terms of the total operating performance, the ratio of the cost of materials to total operating performance rose slightly due to the changed sales mix from 45.6 percent the previous year to 47.3 percent during the financial year. Within the framework of the Heidelberg 2010 program, we expanded our purchasing operations in foreign currency as planned in order to make us more independent of exchange rate fluctuations.

Staff costs also declined considerably – by a full 23 percent! We introduced short-time work throughout Germany during the complete financial year. We also cut back the overall number of employees by 2,400 during this period. During the past two financial years, the number of employees was thereby reduced by 4,000 people on a comparable basis.

We had already curtailed investments to a minimum the previous year. We accordingly adjusted the useful lives, and thus the depreciation periods, of intangible assets, tangible assets, and investment property. As a consequence, the level of **depreciation and amortization** corresponds more or less to the previous year's figure.

Thanks to our comprehensive cost reduction measures, we were also successful in considerably cutting back **other operating expenses**. In the previous year, this item had included costs for our presence at the drupa trade show.

Overall **special items** amounted to a total of € 28 million during the financial year. In connection with the Heidelberg 2010 program, we had booked non-recurring expenditures of € 179 million the previous year. Although we were able to release a portion of the provisions of € 42 million during the financial year, additional special items occurred in connection with new measures with which we will develop processes more efficiently within the framework of our re-segmentation.

INCOME STATEMENT

Figures in € millions

	2008/2009	2009/2010
Net sales	2,999	**2,306**
Change in inventories/Other own work capitalized	79	– 128
Total operating performance	3,078	**2,178**
Result of operating activities [1]	– 228	**– 159**
Financial result	– 119	– 127
Income before taxes	– 347	**– 286**
Taxes on income	– 98	– 58
Net loss	– 249	**– 229**

[1] Including special items totaling € 179 million in financial year 2008/2009 and of € 28 million in financial year 2009/2010

The **financial result** worsened from € – 119 million the previous year to € – 127 million during the reporting year. This item was burdened by higher refinancing costs as well as the carrying amount loss arising from the sale of the corporation income tax credit. The development of the market values of hedging transactions had a favorable impact. We generated tax income during the financial year, for which deferred tax assets were carried in the appropriate amounts in connection with the loss carry forwards. The **tax rate** of 20 percent was considerably lower than in the previous year. Overall, we suffered a **net loss** of € – 229 million during the past financial year, which was slightly improved compared with the previous year's figure. Earnings per share amounted to € – 2.94, compared with € – 3.20 the previous year.

FIVE-YEAR OVERVIEW OF THE RESULTS OF OPERATIONS

Figures in € millions

	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
Result of operating activities [1]	277	362	268	– 49	– 130
– in percent of sales	7.7	9.5	7.3	– 1.6	– 5.6
Special items	–	–	–	– 179	– 28
Financial result	– 48	– 62	– 69	– 119	– 127
Net profit/loss	135	263	142	– 249	– 229
– in percent of sales	3.8	6.9	3.9	– 8.3	– 9.9

[1] Excluding special items

NET ASSETS – COMMITMENT OF FUNDS DOWN SUBSTANTIALLY

> **Net Working Capital Falls**
> **Investments Minimized**
> **Equity Ratio at 20 Percent**

We attained one of our key goals during the financial year: to curtail the commitment of funds of the Heidelberg Group and thereby further improve the Company's liquidity. Despite the ongoing weak business developments we succeeded in limiting the increase in the net financial debt – on the one hand through successful asset management, primarily in the area of net working capital, and on the other hand by keeping investments to a minimum.

ASSETS

Figures in € millions

	31-Mar-09	31-Mar-10
Fixed assets	998	924
Inventories	1,034	827
Trade receivables	451	396
Receivables from sales financing	273	212
Other assets	406	399
Cash and cash equivalents	79	121
	3,241	**2,879**

Assets: Total Assets Down Considerably

As of March 31, 2010, the total assets of the Heidelberg Group amounted to € 2,879 million, compared to € 3,241 million with financial year-end previous year. We were thereby successful in reducing this item by € 362 million as well as the commitment of funds in the course of the financial year.

As the overview above shows, we reduced **fixed assets**. We limited investment expenditures to urgently needed replacement capital investments. We only invested to a greater extent at our Qingpu manufacturing facility, near Shanghai in China. We expanded our capacities there because of the considerably higher demand, again, for the standard printing presses that we manufacture in China.

In addition to folders and printing presses in small and medium formats, since the second half of the financial year we have also been producing 70×100 format printing presses in China. Whenever it makes economic sense, we rely on 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.

Through March 31, 2010, we were successful in bringing down our **inventories** to € 827 million from the high level they had reached in connection with the expected upswing following the drupa trade show in calendar year 2008. In addition, with our Net Working Capital Program we are striving to reduce even further the capital commitment in the future.

In particular the lower level of sales, but our intensive receivables management as well, resulted in a decline in our **trade receivables** during the financial year. They amounted to € 396 million as of March 31, 2010. **Receivables from sales financing** of € 212 million were also in decline. The expected increase in direct financing by our customers to compensate for a large credit crunch failed to arise during the past financial year. Thanks to our close cooperation based on trust with our long-standing financing partners, we were largely successful in outsourcing new investment projects. We continue to strive to mediate financing solutions for our customers to the greatest possible extent from third parties. Mainly because we sold our corporation income tax credit in the amount of € 81 million during the first quarter, **other assets** also declined during the financial year.

Equity and liabilities: Greater Financing Requirements

The **shareholders' equity** of the Heidelberg Group amounted to € 579 million at financial year-end, declining during the financial year primarily because we again suffered a considerable net loss. In terms of total assets, the Company's

EQUITY AND LIABILITIES

Figures in € millions

	31-Mar-09	**31-Mar-10**
Shareholders' equity	796	579
Provisions	973	938
Trade payables	182	132
Financial liabilities	760	816
Other liabilities	530	414
	3,241	**2,879**

equity ratio fell from 24.6 percent the previous year to 20.1 percent at the end of the financial year.

The **provisions** declined from the previous year. We utilized € 39 million of the provisions for restructuring measures under the framework of the Heidelberg 2010 program, which amounted to € 152 million the previous financial year-end. During the financial year, we were able to release provisions totaling € 42 million, which had been formed in the previous year. In the course of the Company's restructuring, processes were optimized and the overall organization slimmed down. Moreover, we have again also adapted our production capacities to the economic environment. New provisions were formed totaling € 38 million for these measures. The sales-related provisions from the sales and service sector as well as warranties declined as a consequence of the low level of sales.

Trade **payables** also fell due to the lower volume of production.

The weak development of business as well as disbursements in connection with the Heidelberg 2010 program resulted in an increase in **financial liabilities** to € 816 million as of the March 31, 2010 financial year-end, compared with € 760 million as of the previous year's reporting date. We were nevertheless able to largely limit the increase based on our measures curtailing the commitment of funds. Net financial debt rose by only € 14 million to € 695 million during the financial year.

Our **contingent liabilities** under guarantees and warranties, which totaled € 4 million, were down substantially from the previous year. **Other financial commitments**, which comprise leasing liabilities and investment commitments, declined during the financial year by € 25 million and amounted to € 383 million at financial year-end.

FIVE-YEAR OVERVIEW – NET ASSETS

Figures in € millions

	2005/2006	2006/2007	2007/2008	2008/2009	**2009/2010**
Total assets	3,281	3,339	3,507	3,241	2,879
Shareholders' equity	1,138	1,202	1,193	796	579
– in percent of total assets	34.7 %	36.0 %	34.0 %	24.6 %	20.1 %
Net working capital	1,199	1,276	1,193	1,212	1,031
– in percent of sales	33.4 %	33.6 %	32.5 %	40.4 %	44.7 %
Net financial debt [1]	491	467	402	681	695

[1] The balance of financial liabilities and cash and cash equivalents

FINANCIAL POSITION – NEGATIVE FREE CASH FLOW REDUCED CONSIDERABLY

> **Credit Facilities Secured**
> **Asset Management Sets Free Financial Resources**
> **Minor Outflows of Funds Due to Investments**

Our financing policy is aligned to ensuring the solvency of the Heidelberg Group at all times and to maintaining its financial independence. The successful conclusion of the negotiations for the new financing structure and the consistent implementation of our Heidelberg 2010 program created a stable financial basis for the Company during the financial year.

Cash Flow Statement: Considerably Curtailed Outflow of Funds

The high net loss is the main cause for the significantly negative **cash flow** of € – 179 million during the financial year. Nevertheless, this represented improvement over the previous year.

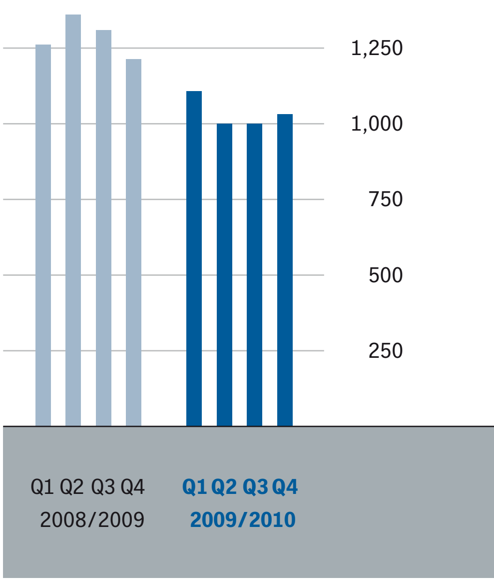
Already in the previous year, we had implemented comprehensive measures to reduce the commitment of funds, as a result of which we booked an inflow of funds of € 138 million in the item **other operating changes**. We benefited from the success of our measures to an especially high degree with net working capital, in particular inventories. Moreover, we sold our corporation income tax credit during the first half of the financial year. This item was burdened by outflows of funds in connection with the comprehensive job cutbacks and the interest portion of the convertible bond.

During the financial year, with the exception of the expansion of our Qingpu-based production site, we limited our investments in tangible and intangible assets to urgently needed replacement capital investments. We thereby succeeded in curtailing the **outflow of funds from investment activity** to € – 22 million!

Although **free cash flow** of € – 62 million continued to be negative, compared with the previous year we succeeded in rigorously limiting the outflow of funds despite the fact that underlying conditions during the financial year were considerably worse than in the previous year.

DEVELOPMENT OF NET WORKING CAPITAL

Figures in € millions



	2008/09	2009/10
Q1	1,261	1,107
Q2	1,360	1,000
Q3	1,308	999
Q4	1,212	1,031

CASH FLOW STATEMENT OF THE HEIDELBERG GROUP

Figures in € millions

	2008/2009	2009/2010
Cash flow	– 238	**– 179**
Net working capital	43	186
Receivables from sales financing	63	66
Other	128	– 114
Other operating changes	234	**138**
Outflow of funds from investment activity	– 197	**– 22**
Free cash flow	– 201	**– 62**

In order to preserve liquidity, we considerably cut back on investments during the financial year. In the previous year, the outflow of funds had included an amount of € – 197 million for the acquisition of Hi-Tech Coatings. This purchase served to considerably improve our market position in the strategically important area of inks and coatings.

Additional information concerning our **credit conditions**, foreign currency liabilities, currency and interest rate hedging transactions, as well as a description of our main characteristics of our financial management can be found in the Notes to the Financial Statements.

Financial Structure Reorganized

The impact of the financial market and economic crisis on our business and our results led to a considerable decline in the Heidelberg Group's capital base over the past two financial years. At the same time, financial liabilities, and thereby demand for borrowed funds, were up. Already at the beginning of the financial year, we therefore undertook comprehensive discussions with the banks that are providing the financing. The basis for these discussions was a detailed financing concept. The negotiations were concluded and the corresponding credit agreements were signed in August 2009. Through the middle of 2012, we have access to credit facilities totaling € 1,400 million, comprised of three integral parts: a loan in the original amount of € 300 million from the Special Program of the KfW (Reconstruction Loan Corporation) for large companies; a € 550 million line of credit that is 90 percent supported by guarantee pledges from the Federal Government and the States of Baden-Wuerttemberg and Brandenburg; and a syndicated line of credit from a bank underwriting syndicate totaling € 550 million. Within the framework of the refinancing of our convertible bond, during the fourth quarter of the financial year a total of € 291 million was borrowed in full under the KfW loan facility.

The financing package is supported by comprehensive collateral, including land charges, shareholdings in subsidiaries, and a pledge of brand names and patents.

The financing contracts contain financial covenants customary in the market with reference to the financial position of the Heidelberg Group, which relate to five key financial figures. In order to adapt the originally contracted financial covenants to a level corresponding to the changed economic environment, in March 2010 Heidelberg obtained consent to an amendment request ("amendment of the originally contracted financial covenants") from the relevant banks.

Moreover, two borrower's note loans toaling € 62 million run through 2013. During financial year 2007/2008, we had taken down a long-term loan in the original amount of € 75 million. Of this, € 62 million was still outstanding at financial year-end. This loan is secured by usufructuary rights on three developed plots of land.

Most investors holding our convertible bond exercised their right to accelerated repayment during the third quarter of the financial year. The repayment amount was refinanced largely by the loan from Kreditanstalt für Wiederaufbau (KfW), which was granted for this purpose within the framework of our new financing concept.

? We go into more detail on how we monitor and control **liquidity risks** on page 37 and in the financial statements.

FIVE-YEAR OVERVIEW – FINANCIAL POSITION

Figures in € millions

	2005/2006	2006/2007	2007/2008	2008/2009	**2009/2010**
Cash flow	345	398	290	– 238	**– 179**
Other operating changes	61	– 73	127	234	138
Outflow of funds from investments	– 257	– 96	– 202	– 197	– 22
Free cash flow	149	229	215	– 201	**– 62**
– in percent of sales	4.2	6.0	5.9	– 6.7	– 2.7

DIVISIONS – PRESS, POSTPRESS, AND FINANCIAL SERVICES

- **Results of the Press and Postpress Divisions Considerably in the Red; Financial Services Still in the Black**
- **Packaging Printing Area Expands Market Shares**
- **Strong Market Position at the IPEX Trade Show Highlighted by Innovations**

? Our new organizational structure is being launched on April 1. You can read more about this on pages 32 and 33.

The downturn in demand in the equipment area had a strong negative impact on the Press and Postpress Divisions. The relatively non-cyclical Services and Consumables area was able to cushion the impact somewhat. Comprehensive services, offerings of consumables, and the remarketed equipment business are included in both the Press Division and the Postpress Division.

In order to counter these developments, we cut back investments in these divisions to the greatest possible extent, reduced capacities, brought down our structural costs by means of the Heidelberg 2010 program, and cut research and development outlays. We were nevertheless able to introduce promising innovations in all areas at IPEX, which was held during May 18–25, 2010 in Birmingham, UK, thereby strengthening our leading market position in sheetfed offset printing.

In the Spotlight at the IPEX Trade Show: Economics and Ecology

At IPEX, the most important industry-specific trade show this year, we offered visitors opportunities to take advantage of new business options. The topics presented included: Web-to-Print, Differentiation through Creative Print Applications, Short-Run Printing, Innovative Finishing, and Packaging Production. We utilized the trade show as an opportunity to emphasize the fact that using our advanced solutions, print shops are able to produce even more economically and in a more environmentally friendly manner.

For example, we offer improved color and quality management as well as **Prinect** modules for greater transparency. The new version of the Prinect Pressroom Manager makes it possible to effectively link up the printroom with prepress or with an outside supplier's management information system. In the **prepress area**, we displayed a dual-top loader that can be loaded with two various plate sizes and operates wholly automatically. This model series uses considerably less electricity than comparable models offered by the competition.

In the area of **printing**, we launched the Speedmaster CX 102, which takes its place between the Speedmaster SM 102/CD 102 and the Speedmaster XL 105 and thereby rounds out our offerings in this format category. We also showed a new delivery system for the end users of the Speedmaster XL 105. This new system makes it possible to considerably further boost productivity as well as the processing security of the printing press because pile management is separated from the operator. The CleanStar, which can reduce fine dust pollution in the printroom by up to 80 percent, is now also available for the Speedmaster XL 75. In short-run printing, we introduced a Speedmaster SM 52 Anicolor, which has a new coating unit as well as a high pile delivery with a DryStar Coating dryer. This printing press, which provides for an especially economic introduction to coating technology, has been shortened by over 80 centimeters and requires less space and energy.

In the area of **finishing**, we presented for the first time the saddle stitcher Stitchmaster ST 450 with newly developed feeders. Our new pneumatic twin lay system on the TD-94 buckle plate folder generated considerable enthusiasm. With the introduction of two innovations, we were able to boost the productivity of this equipment by 30 to 40 percent! The POLAR's CutManager now makes possible the online linkup of high-speed cutters with the Prinect Postpress Manager, and consequently integration within the entire Prinect Printshop Workflow.

In the center of the trade show stand, visitors could obtain information about our comprehensive **service offerings**. Visitors could also see the capabilities of **Saphira consumables** for themselves. For example, the Saphira Chemfree Plate can process imaging more quickly, does not use any chemicals, and uses less water. Washing and dampening solutions as well as inks and coatings based on natural ingredients are available for highly varied applications.

Press: Overall Decline in Business Volume; Rise in Orders Only in Largest Format Category and Printing Presses from China

The Press Division included all prepress, sheetfed offset, and flexo printing products as well as our sales activities in web offset printing and parts of our business in services, consumables, and remarketed printing presses. Following a dramatic falloff in demand the previous year as well as extremely weak demand during the first two quarters, the third quarter saw an overall upswing in the machine area, albeit a still very modest one. Only in China was the economic environment so favorable that print shops again began heavily ordering printing presses beginning at mid-year. Demand for our largest format also developed favorably. We succeeded with acquiring new customers among packaging print shops and in our view, considerably expanding our market share in the large format segment. Overall, we were nevertheless only successful in booking **incoming orders** of € 2,108 million, 17 percent below the previous year's figure.

PRESS

Figures in € millions

	08/09	09/10
Incoming orders	2,546	2,108
Net sales	2,621	2,058
Order backlog	608	543
Research and development costs	165	108
Investments	188	55
Employees	17,040	14,998
Result of operating activities [1]	– 35	– 110
Special items	– 159	– 23

[1] Excluding special items

Sales fell even to a somewhat greater extent, amounting to € 2,058 million for the overall financial year, 21 percent below the previous year's figure! In part because of the heavy demand for the printing presses that we manufacture locally in China, sales increased again during the second half of the year, with the fourth quarter posting the highest volume of sales for the financial year.

Compared with the previous year, this division's **order backlog** of € 543 million declined.

We further developed this division's products to ensure that in view of current trends and environmentally friendly printing, we are in a position to provide customers with the best the market has to offer. We introduced these innovations at IPEX. We describe on pages 91 to 93 of this report the main features of how we nevertheless succeeded in curtailing outlays for **research and development** by 35 percent to € 108 million.

The volume of **investments** of € 55 million fell far short of the previous year's level. During the financial year, we only expanded our capacities in China. We had already invested in our Chinese local unit the previous year in order to be in a position to rapidly expand our production there. We are meanwhile able to satisfy approximately one-third of the current overall demand in China from our Qingpu plant.

The number of **employees** in this division had already declined in the previous year. During the reporting year, this figure fell considerably further, dropping from 17,040 employees to 14,998. Most job cutbacks were effected at financial year-end.

We succeeded in implementing the Heidelberg 2010 program sooner than had originally been planned and in attaining the intended cost-cutting goals. Nevertheless, the **result of operating activities** excluding special items of € – 110 million fell considerably short of the previous year's figure. On the one hand, the extremely weak sales trend resulted in a lack of profit contributions. And on the other hand, the share of sales in areas with low profit margins was significantly greater than otherwise: standard printing presses for emerging markets and remarketed printing presses.

Postpress: No Offset Possible for the Decline in Industrialized Countries

The entire finishing area was included in the Postpress Division up to the end of the financial year. The economic environment had an even harsher negative impact on the business development of this division than on the Press Division. Both **incoming orders** and **sales** further declined strongly from the previous year, plunging, respectively, by 27 percent to € 244 million and by 35 percent to € 229 million below the previous year's levels. In the finishing area, demand in the Chinese market was insufficient to compensate for the considerably restrained investment activity in the industrialized countries. In China, highly automated finishing processes have not yet achieved importance.

The only gratifying development was the relatively high worldwide demand for our packaging printing solutions, which was especially strong during the second half of the year. This also resulted in the growth of this division's **order backlog** from € 41 million to € 53 million.

In **research and development**, with considerably reduced outlays we were successful in developing innovations that we introduced to the visitors to IPEX.

We substantially reduced this division's **investments**. We had already begun extensively restructuring the division two years ago, and we were able to complete many projects in the previous year. During the financial year, among other things we transferred die-cutter manufacturing from Moenchengladbach to Wiesloch-Walldorf.

The number of **employees** in the Postpress Division further substantially decreased, falling by 375 employees to a total of 1,443.

All measures contributed to compensating for the lack of profit contributions resulting from the massive sales downturn. The **result of operating activities** excluding special items remained at the previous year's level of € – 31 million.

POSTPRESS

Figures in € millions

	08/09	09/10
Incoming orders	335	244
Net sales	353	229
Order backlog	41	53
Research and development costs	21	13
Investments	10	7
Employees	1,818	1,443
Result of operating activities [1]	– 31	– 31
Special items	– 20	– 5

[1] Excluding special items

FINANCIAL SERVICES

Figures in € millions

	08/09	09/10
Net sales (interest revenue)	25	19
Cost of materials (interest expense)	1	2
Result of operating activities [1]	17	11
Receivables from sales financing	273	212
Employees	68	55

[1] Excluding special items

Financial Services: Result of the Division Still in the Black

As in the past, our sales financing services are organized within the Financial Services Division. The expected growth of direct financing for our customers to compensate for a large credit crunch failed to occur during the financial year. Nevertheless, the underlying conditions in the credit market were considerably more difficult for our customers than in the past, with financial terms worse in all areas and lending provisions more severe. Our employees' close cooperation with customers, banks, and leasing companies is therefore of considerable significance in ensuring the implementation of economically meaningful investments.

Our cooperation with financial service providers, which we have built up over a number of years, continued to function smoothly during the financial year, making it possible for us, as in the past, to largely outsource new financing arrangements. In general, we only assume direct financing after a thorough examination of the risk and if financing is not feasible from external financing partners. With this in mind, we have built up a network of Group-owned print finance companies in various currency zones. Our finance companies have focused primarily on emerging markets, which account for over 60 percent of our direct financing portfolio.

During the financial year, once again our **receivables from sales financing** declined noticeably, falling by € 61 million to € 212 million. Our **acquired counter-liabilities** also continued to decrease.

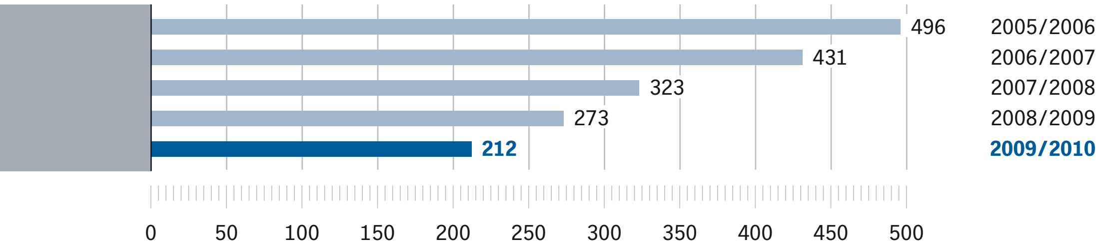
Despite the high level of capacity utilization we further optimized our processes in this division as well, which had a total of 55 **employees** at year-end – 13 fewer than in the previous year. Thanks to the dedication of our employees, within the framework of intensive receivables management there was a decline in **past due items**, which had grown substantially due to the economic crisis and the loss of currency value in some markets. This improvement was favored among others by the favorable development of the Brazilian market, where we have a relatively large directly financed portfolio. We are benefiting from our conservative approach to risk assessment, with the costs for risk provision holding steady at the previous year's level despite the deterioration in underlying conditions.

Overall, the Financial Services Division posted a **result of operating activities** of € 11 million for the financial year. The decline from the previous year's figure is due exclusively to the decrease in net interest income. Parallel with the declining volume of receivables, our interest income also declined.

Outsourcing financing arrangements to the greatest possible extent helps us shield the Group's liquidity. We cooperate with external financing partners throughout the world. For a number of years, we have also been working closely with Euler Hermes Kreditversicherungs Aktiengesellschaft to cover export financing risks.

RECEIVABLES FROM SALES FINANCING

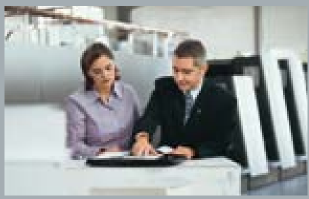
in € millions



HEIDELBERG
FINANCIAL SERVICES

Many proven procedures and structures have been retained in the new organization of the Heidelberg Group. As in the past, we extensively advise customers and support them in financing issues. We also work closely together and in an atmosphere of trust with international external financial service providers.

How long would it take for an investment to pay for itself? Does a planned investment precisely fit in with the order structure of a print shop and with the operational work shift model? Before customers sign a purchase contract, they can first obtain thorough advice from the experts in the “Business Consulting” area. After a decision has been made, the team from the **Heidelberg Financial Services** Division supports and advises the customer.



Heidelberg operates a network of print finance companies. The employees in this division maintain a worldwide presence and are well aware of the particular challenges faced by the print and media industry. Internationally, they work closely together with **external financial service providers**, who they have familiarized with the distinctive features of our industry and the challenges it faces.

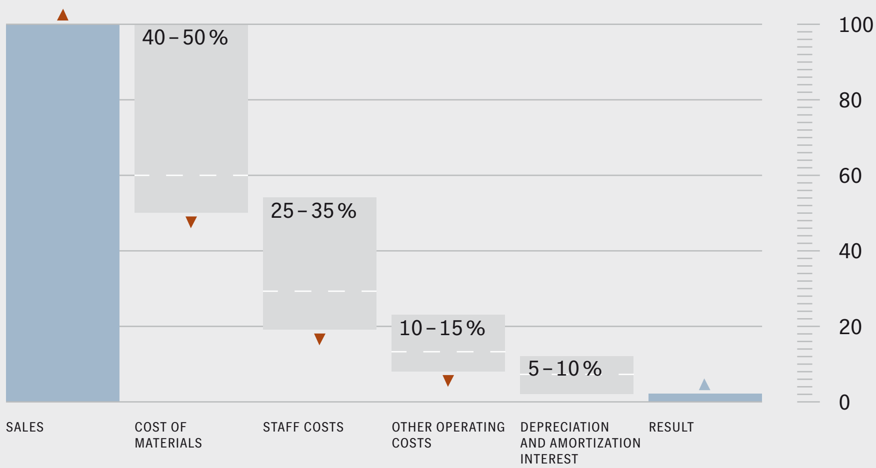
In the emerging markets, the lack of **financing opportunities** often hinders the growth in sales of print shops. In general, well planned investments also pay off quickly for our customers in the industrialized countries. Our Speedmaster SM 52 with an Anicolor inking unit provides such an economic response to falling print runs, for example, so that print shops are able to achieve enormous cost reductions merely through a reduction in spoilage.

MARKETS, PRIORITIES, AND PRODUCTS

We support print shops worldwide with our highly qualified employees and needs-based solutions. Our services make an ever greater contribution to enhancing our customers' production and investment security.

Our solutions provide our customers with measurable competitive advantages, while simultaneously addressing the highly varied requirements of various target groups. For many years, an important strategic focus in our research and development work has been on our customers' cost structure. Below, we present the typical expense items of an average commercial print shop in an industrialized country. They make clear that material and staff costs are important fine-tuning instruments for the profit situation. Our solutions are attractive due to short set-up times, straightforward operation, and little spoilage.

AVERAGE COST STRUCTURE IN THE PRINTING INDUSTRY [1)]



Value-enhancing applications Web-to-Print Consulting Training Certification	Reduction of waste Shorter set-up times Print color management Consulting	Improvement and integration of processes Automation Consulting and training	Preventive maintenance Remote services Reduced energy consumption Longer equipment running time	Financing High resale value

[1)] Information concerning the cost structure is from the German Printing and Media Industries Federation, 2007, and Heidelberg's own database

REGIONS – OPPORTUNITIES THROUGH BROAD REGIONAL DIVERSIFICATION

> **Restructuring of Sales and Service Organization**
> **Only the Asia/Pacific Region in the Black**
> **Cost Reduction Measures Implemented Worldwide**

The economic crisis accelerated the structural change of the printing industry. Regional differences in the development of the printing industry were already considerable in the years before the crisis.

The number of print shops has decreased considerably in the **industrialized countries** in recent years. Print shops are industrializing their processes, specializing in certain applications and services, and expanding their range of offerings beyond the area of printing alone – for example, to include logistics. Furthermore, print shops, which traditionally did business as regionally oriented workshops, are increasingly acquiring orders via the Internet. The less time-sensitive the production of printed matter is – as is the case with luxury goods packaging – the more likely that the print job will be placed in countries with lower wage levels.

There were nearly 14,000 print shops in Germany in 2000; by 2009 there were only approximately 10,000.

By contrast, in the **emerging markets** – for example in China and Brazil – new print shops are being established. Moreover, the share of customers able to invest in modern equipment is increasing. Print shops still largely favor standard equipment in order to satisfy the growing demand for standard printed products. However, the need for high-quality printed packaging and advertising is increasing. Up to now, our customers in the emerging economies using high tech printing presses have thereby been largely filling international orders.

Even neighboring markets often differ considerably in structure and customer priorities. For example, print shops in Italy are traditionally strong in letterpress printing whereas in Germany traditional commercial printing with short print runs predominates and in France many high-quality packages are printed.

We intend to be the preferred partner to the print media industry worldwide and provide our customers with competitive advantages. Especially in view of the diversity of customers' requirements, it is clear how important it is for us to provide them with on-the-spot access to highly trained sales and service employees. The service expertise of our sales and service companies is a principal reason for our position as the leading machinery and equipment supplier to the print media industry in all markets. Moreover, feedback from our employees is a key source of information for new and advanced product developments as well as for enhancing our service and our consumables. Preferences of customers for particular effects or inks are also widely different in various markets.

SALES AND SERVICE EMPLOYEES

Number of employees

	31-Mar-09	31-Mar-10
Europe, Middle East and Africa	3,020	2,742
Eastern Europe	614	504
North America	871	754
Latin America	326	298
Asia/Pacific	1,625	1,518
Heidelberg Group	6,456	**5,816**

Our competitors are also striving to expand in the consumables and service areas. Nevertheless, our tightly meshed service and sales network is an important competitive advantage for us.

Focus on Emerging Markets; Strategy Implemented in Eight Lead Markets Worldwide

Since the growth potential is significantly greater in the emerging markets than in the industrialized countries, we considerably expanded our service and sales network over the last two decades. We maintain a presence in 170 countries and reach our customers through the most extensive sales and service network in the print media industry. We expect the emerging markets' share of sales to reach more than 40 percent in the medium term – even should demand in the industrialized countries recover. Due to heavy demand from China, we transferred the manufacture of sophisticated products with a low degree of automation to China.

The **Heidelberg 2010 program** included a reduction in the costs of sales and service activity. We have succeeded in implementing all the measures during the financial year, thereby generating annual cost-reduction measures of € 77 million. We have maintained our principle that each customer has a permanently assigned contact person. We make this contact available to specialists who are able to advise print shops optimally regarding consumables, their utilization, and certification in accordance with ecological standards. We address internationally active packaging printing groups – as well as commercial print shops with branches in several markets – at various levels. We focus on local branches via our local agencies. Additionally, we have set up a team to advise customers globally.

We reorganized our marketing structure back in the autumn of 2009. Our new marketing organization is divided into **eight lead markets** that are responsible for the marketing of all services to the customer from a single source. We present the individual lead markets in more detail on pages 108 and 109. In every lead market, an individual has been assigned with responsibility for the business development of a particular division who is responsible for the division's strategies and for the current business plan.

Europe, Middle East and Africa: Sales Down 32 Percent

The second half of the financial year saw some gratifying trends in the markets of the EMEA region. Demand for our packaging printing solutions strengthened. We were successful in expanding our market share in various markets despite the stagnant market environment. For the larger formats this occurred primarily in France and the UK. Demand in Germany improved. Some smaller markets in this region – for example, South Africa – even recorded solid incoming orders throughout the year. The high volume of incoming orders in Italy was primarily based on termination of the Tremonti Law, which had granted special depreciation opportunities.

Nevertheless, overall conditions in the printing industry were extremely difficult, with the capacity utilization of print shops reaching a historic low. By contrast to the general expectations, those markets that had been first affected with the full force of the financial and economic crisis were not able to recover quickly. Quite the opposite: Sales collapsed entirely in Spain; and the UK suffered from additional reluctance to invest in advance of the IPEX trade show in that country. During the second half of the financial year, overall demand for our printing presses therefore rose only moderately, with incoming orders and sales for the year as a whole declining from the previous year, respectively, by 31 percent and 32 percent.

Yet the outlook in the region is promising for Heidelberg. The printing industry expects to come out of the crisis during the course of this calendar year. In the UK, the IPEX trade show already provided a solid startup – for good reason, since Heidelberg's solutions precisely meet customers' requirements for the streamlining and optimization of processes. Moreover, environmentally friendly printing is becoming increasingly more important in this region. Growing numbers of customers are arranging for certification and reducing their CO_2 emissions – among other things, as an enhancement for product marketing.

This region includes the three lead markets: Heidelberg, London, and Dealer Markets.

EUROPE, MIDDLE EAST, AND AFRICA

Figures in € millions

	08/09	09/10	
Incoming orders	1,382	956	–31%
Net sales	1,439	977	–32%

Eastern Europe: Business Volumes Collapse Here As Well

The economies in Eastern Europe are all heavily dependent on Western Europe. Numerous print shops in the region also produce for West European customers. Many markets were heavily affected by the financial and economic crisis. After years of growth, the economy collapsed, currencies lost considerably in value, and interest rates were simultaneously pushed upward. This resulted in an enormous decline in incoming orders in several medium-sized and smaller markets – among others, in the Czech Republic, Bulgaria, and Croatia. Some markets recovered comparatively rapidly despite the difficult underlying conditions – Poland, for example. In Russia, the economic upturn has so far had little impact on the printing industry.

As in the previous year, those markets that had focused on consumables early on performed particularly well. In Turkey, which was able to even surpass the previous year's level, services and consumables have nearly a 50 percent share in the volume of orders. Overall, incoming orders and sales in the region fell, respectively, by 26 percent and 29 percent during the financial year.

EASTERN EUROPE

Figures in € millions

	08/09	09/10	
Incoming orders	336	249	–26%
Net sales	347	248	–29%

As soon as the overall economic situation stabilizes once again, the quality level of printed products and the degree of printing process automation will rise further in the entire region. It is likely to be difficult to arrange financing for print shops in many markets. Our financing services in this region are therefore an additional and often crucial competitive advantage for Heidelberg.

NORTH AMERICA

Figures in € millions

	08/09	09/10	
Incoming orders	359	245	–32%
Net sales	374	268	–28%

North America: Ongoing Low Capacity Utilization of Print Shops

In the US, the print media industry continues to suffer enormously from the consequences of the economic crisis. The restrained investment activity of print shops becomes all too clear when one recalls that two years ago our US sales volume was twice as high as it is now, and that ten years ago the US was by far Heidelberg's market with the highest sales volume but has meanwhile slipped to third place.

At any rate, with respect to the overall extremely weak previous year, market volume further considerably contracted in the US and Canada. This also enormously burdened precisely the Postpress Division, whose products are focused on the US market. Due to the extremely low capacity utilization of commercial print shops, demand by our customers for consumables fell. Nevertheless, these declines were considerably lower than in the equipment area. In the consumables area, in Canada we maintain a high market share of over 35 percent. As a result, Canada's figures were somewhat better than in the US.

It is widely anticipated that the rise of the overall economy will have a noticeable impact on the printing industry at the earliest towards the end of this calendar year. The problems of the economy must first be overcome at least to a small degree. We see considerable potential for Heidelberg's sales volume as soon as demand increases again. Our comprehensive solutions provide customers with competitive advantages in this highly industrialized and extremely competitive market, in which environmental protection is becoming an increasingly important issue. Moreover, exchange rate structures have largely shifted in favor of European suppliers compared with two years ago, when our Japanese competitors still enjoyed cost advantages of up to 30 percent in the US market.

Latin America: Decline from Previous Year; Solid Second Half-Year

Many economies of Latin America came to terms quite well with the financial and economic crisis. As a consequence, the propensity of the printing industry to invest did not decline as strongly in this region as in others. In Mexico, whose economy is closely linked to the US economy, incoming orders fell moderately. In Brazil, all format categories were again in high demand during the second half of the financial year. Business developments were also gratifying in some smaller markets – for example, in Chile. Print shops here invested, among others, in our Speedmaster XL 105 and its ultramodern solutions. On the other hand, other smaller markets such as Argentina and Colombia suffered more marked declines.

Overall, we achieved favorable levels, at least for the crisis year, of incoming orders and sales, respectively, of € 151 million and € 144 million. This represented a decline in the region from the previous year, respectively, of 13 percent and 17 percent.

We will benefit from the future growth of this region's economies to an above-average extent. In June, we will present our solutions to the most varied of customer groups at Brazil's ExpoPrint trade show. Since our Japanese competitors are disadvantaged by the exchange rate structures, we anticipate perceptible gains in market share, including in the 70×100 format category in particular. Our local presence and financing services are key competitive advantages throughout this region. Moreover, especially print shops in markets with very long distances to travel place high value on the considerable reliability of our solutions. Customers increasingly rely on our remote services, which often make possible maintenance and repair via data links. This ensures them both competitive and cost advantages.

LATIN AMERICA

Figures in € millions

	08/09	09/10	
Incoming orders	174	151	–13%
Net sales	174	144	–17%

ASIA / PACIFIC

Figures in € millions

	08/09	09/10	
Incoming orders	655	770	18%
Net sales	665	669	1%

We will reorganize our sales and service organization in Australia and Japan during the current financial year.

Beginning in the current financial year, we are offering the coatings of our subsidiary Hi-Tech Coatings to a greater extent in the Asia / Pacific region as well, thereby further expanding our consumables business.

Asia / Pacific: Incoming Orders Up 18 Percent

In no other region was the difference in the print media industry between the industrialized countries and the emerging markets as conspicuous. Whereas the market underwent a process of consolidation in Japan, for example, and print shops initially shifted their investments to the back burner, due to the fact that the economy had contracted, demand from China surpassed all forecasts. The Chinese government's huge economic stimulus package had early on and to a considerable degree jump-started growth in that country. Our standardized sheetfed offset printing presses with a low degree of automation, which we manufacture locally in that country, proved to be bestsellers. Furthermore, we also expanded our consumables and service business in the various markets.

The heavy demand, not only in China but also in other markets such as India, Malaysia, and South Korea, more than compensated for the decline in some other markets in this region. Overall, we generated an 18 percent growth in orders in the region, with sales just over the previous year's level.

The strong domestic demand in this region ensures an additional economic impetus – and will quite rapidly also serve as a thrust for growth in demand by the printing industry in the markets that up to now have continued to suffer from the economic crisis. We expect a gradual turnaround again in Japan, among others. In contrast to our Japanese competitors, we will enjoy considerable further growth prospects due to exchange rate developments. We expanded our market share in all formats already during the financial year. In the industrialized countries of the region, if print shops are to remain competitive they need to invest, with environmentally friendly printing growing in importance here as well. We also have a clear advantage vis-à-vis our European competitors because in contrast to them, we also produce locally in China. In line with our plans, we are purchasing a growing share of required parts from local suppliers in that country. The market appreciates the fact that we continue to guarantee top quality. Since the second half of the financial year, in addition to folders and printing presses in small and medium formats, we have also been producing a 70×100 format printing press in China that will generate additional sales.

This region comprises the two lead markets Beijing and Singapore. Based on this organization, we intend to more systematically exploit the potential of the various markets.

RESEARCH AND DEVELOPMENT – NEEDS-BASED SOLUTIONS

> **Completion of Projects to Improve Processes**
> **Leading Technological Position Defended**
> **Outlays Adapted to Weak Sales**

With our program BiRD (Best in Research and Development), since 2008 we have been upgrading all our research and development procedures. We thereby ask such questions as: Where can we make improvements? Where can we save valuable resources? How can we work together more efficiently? In order to find answers that we can then implement, we use, among others, benchmarks from successful companies – not only those in the engineering industry. In this way, we pursue our target – even with a considerably reduced budget – of providing customers with precisely those innovations that secure competitive advantages for them. We simultaneously increase efficiency and minimize risks in the research and development area.

Our platform strategy for product standardization was implemented as a component of BiRD. However, we are also using this program to develop new ideas. For example, we were able to announce 80 new patents during the financial year. Heidelberg thereby now holds nearly 5,000 registered and granted patents worldwide.

Again during the financial year, only a small share of our R & D costs was allocated to basic research. Nevertheless, as we show on pages 106 and 107, we were successful in introducing valuable know-how in key technologies. As a part of this process, we participate in research programs supported by the German Federal Government, we enter into partnerships with suppliers, and we work together intensively with universities.

Situation of Our Target Groups Determines Our R & D Priorities and Goals

The economic crisis has further reinforced the trend to lower print runs. At the same time, the pressure on costs increased. Heidelberg customers are in a better position to counteract these trends. Even in previous years, we were already focusing on shortening the set-up times of printing presses in all format categories and considerably reducing spoilage and production costs by interlinking our systems and developing unique color management systems. We are further developing our solutions for each of our target groups, making it possible for them to enjoy even greater competitive advantages. Sheetfed offset print shops can be roughly broken down into three groups, each of which has its own requirements.

Reducing spoilage, quickly inking up, and ensuring color fidelity are of extreme importance for all customer groups. We therefore have high hopes for many of our Prinect innovations, which we introduced for the first time at IPEX. For example, the new Prinect Image Control stands out with its significantly higher resolution in spectral image measurement and greater user-friendliness. Direct image adjustment reduces fluctuations in color and tonal values.

Developments for **packaging print shops** have been a strategic priority for us in the past. The cost of materials has an even higher share in the cost of manufacturing for this target group than for commercial print shops. Packaging printers are subject to severe international competition, because high-volume customers for packaging are international large companies with considerable market power.

We address advanced product developments and special applications in more detail in the section discussing our various divisions as well as in the section covering our services and consumables.

Since every reduction in spoilage, every improvement in quality, every process optimization as well as every reduction in costs all bear fruit for packaging print shops, our integrated and networked solutions, which have been developed by Heidelberg and which range all the way to logistics, offer them particular competitive advantages. Because we developed large-format printing solutions for prepress, printing, and postpress operations already in the past, we are now able to competitive the market for the customer group of industrial packaging print shops.

Nearly three-fourths of all print shops around the globe are **medium-sized commercial print shops**. These firms' end customers in the industrialized countries are increasingly placing standard orders via the Internet with print shops that maintain a supra-regional presence – for example, for flyers and advertising brochures. It is especially important for small commercial printing establishments that acquire their customers on a regional basis to be in a position to offer a wide range of products and to make themselves noticeable in the market with attractive special effects and niche products. In the industrialized countries, this customer group was most heavily impacted by the economic crisis, whereas in the emerging markets this group was most heavily impacted by more restrictive lending conditions. Consequently, this segment was, and continues to be, characterized by the greatest restraint in investment activity. We have therefore focused intensively on developing new special applications for consumables for this target group, thereby making it possible for smaller print shops to differentiate themselves from the competition at low cost. We are promoting this strategic business unit because our consumables provide unique features.

Industrial commercial printers also acquire customers on a supra-regional basis, and some of them have branches in several countries. They also produce a large range of printed products, however generally with higher print runs. The better the data and the production workflow is organized, the more favorable are the answers to the questions "How efficiently and appropriately are the individual printing presses operated?" and "How high is the profit for each print run?". To ensure that this customer group can optimally assign orders to various printing presses, that the productivity of their printing presses can increase, and that fewer bottlenecks occur between the prepress, printing, and finishing stages, we have improved both our Prinect software as well as our business consulting service. In addition, we have developed new modules for our large format printing presses that are specially tailored to the needs of this customer group.

Organization Restructured; Educational Level of Employees Maintained

Even before the Group underwent the restructuring process, the research and development area had been organized within the framework of a matrix based on format categories, which included such cross-platform functions as management, product safety, and software development. During the financial year, we merged various development activities and reduced the number of employees under the Heidelberg 2010 package of measures. As of the financial year-end, as in the past approximately 8 percent of our staff were active within the R & D area. They actively took advantage of qualifying opportunities during the short-time work phases.

We more heavily focused our research and development on new products. Based on our platform strategy, we are able to quickly introduce innovations arising in one format category in other format categories as well. We lower the cost of manufacturing, for example, by systematically reducing the diversity of the parts that are used. We integrate our systems partners in projects at an early stage and work together with concept customers in product development, thereby increasing the benefit of our new products to customers.

R & D Rate of up to 5 Percent in the Future

A glance at the five-year overview, below, shows the considerable extent of our lowering of R & D costs. The measures we undertook within the framework of Heidelberg 2010 contributed to this development: improving processes; foregoing the acquisition of R & D services; and considerably expanding and modernizing our product portfolio in recent years. Since we already offer the most closely integrated and networked solutions of all our competitors for each of our target groups, we will continue to be able to maintain our leading technological position over the next few years with an R & D rate of up to 5 percent in terms of the sales.

KEY FIGURES – RESEARCH AND DEVELOPMENT

	2005/06	2006/07	2007/08	2008/09	2009/10
Research and development costs in € millions	214	237	222	186	121
– in percent of sales	6.0	6.2	6.0	6.2	5.2
R & D employees	1,524	1,577	1,582	1,511	1,265
Patent applications	153	153	158	148	80

QUALIFICATIONS OF R & D EMPLOYEES

Figures in percent

	2009/2010
University degree	32
Technical college degree	28
Completed training as technicians or master craftsman	15
Skilled workers	22
Other training	3
Overall	**100**

Whereas the priorities of the 1,265 employees active in the R & D area were previously focused primarily on printing presses, today software development and the qualification of consumables are playing a more important role.

EMPLOYEES – SIGNIFICANT FACTOR FOR SUCCESSFULLY OVERCOMING THE CRISIS

- **Staff Costs Down Substantially; Short-Time Work Extended**
- **Offers of Increasing Employee Qualifications Very Well Received**
- **Highest Cost Reduction So Far with Idea Management**

The financial year was the most difficult in the Heidelberg Group's more than 150-year corporate history. Our employees were particularly affected by this. Despite massive job cutbacks and short-time work, they significantly supported and advised our customers worldwide, secured shipments of service parts, implemented new procedures in the administration, secured our capital structure, and ensured ongoing high quality in manufacturing.

Recent years have been subject to very severe cyclical fluctuations. Thanks to constructive negotiations with staff representatives in Germany, which we concluded in early October 2009, Heidelberg continues to be in a position to react flexibly to fluctuations in demand in the future.

EMPLOYEES BY DIVISION

Number of employees

	31-Mar-09	31-Mar-10
Press	17,040	14,998
Postpress	1,818	1,443
Financial Services	68	55
Heidelberg Group	18,926	**16,496**

Job Cutbacks in All Functions: Number of Employees Adjusted to Incoming Orders and Sales

Adjusted for first-time consolidations and trainees, and including temporary hirings, we reduced our total staff by nearly 4,000 positions worldwide over the course of the past two financial years, of which over 2,700 job cutbacks were undertaken at our German local units. In addition, employees agreed to forgo payments called for by the collective bargaining agreements as well as additional excess payments. Moreover, we agreed to a working time account through December 31, 2012 in order to be in a position to cope with possible peaks in demand as well. Overall, the cost reductions that have already been achieved in the human resources area correspond to the targets of the Heidelberg 2010 program, under which we had announced cutbacks of up to 5,000 jobs worldwide. The impact of the global economic crisis on our industry necessitated this deep cut.

Open and Transparent Internal Corporate Communications; Possibility of Switching to a Transfer Company Very Well Received

Structural and strategic changes in an enterprise result in a substantial increase in the informational needs of the staff – all the more so if it is necessary to terminate jobs. We have extensively informed our employees concerning the required measures and their background, as well as the progress made and the results achieved in negotiations. We promptly provided employees with information concerning additional measures – including the possibility for the effected employees to shift to a transfer company – in both the Intranet as well as in newsletters from the Chairman of the Management Board and in brochures, which were produced in conjunction with the works council.

The transfer company was established in close cooperation with the German Federal Employment Agency. Its goal is to mediate new jobs for employees. Over 99 percent of the employees in Germany that we had to dismiss took advantage of the opportunity of shifting to the transfer company as of March 1, 2010. They will be ensured employment in this company for up to twelve months; they may acquire additional qualifications for new job positions during this time.

Specialized Training Focuses on Strategic Areas; Strong Demand for Individual Specialized Training During Short-Time Work Periods

We focused our on-the-job training on strategic areas during the financial year. For example, we ensured that our sales and marketing specialists are in a position to even better advise customers on packaging printing and consumables in the future.

We continued the measures for enhancing professional qualifications at our plant in China. Intensively trained Chinese employees are meanwhile even active in successfully training each other. For example, the so-called reprint time – the length of time a mounted printing press must be reworked to produce perfect results – has been further reduced.

At the end of 2008, the Federal Government decided to promote personal specialized training during short-time work phases. We took advantage of this opportunity to develop a comprehensive advanced training offering within a short period of time. Our cross-sector training programs, such as English and IT courses, which we make available in our Intranet, have been requested over 20,000 times. Two-thirds of all employees participated in at least one course for enhancing their professional qualifications. Throughout Germany, a total of 31,000 days were allocated to staff training during short-time work. We believe that the measures also had a favorable impact on employee motivation.

Compatibility of One's Family Life and Profession: Certificate Awarded

We increasingly value the importance of compatibility of one's family and professional life on the motivation of employees. We view this as an important factor in the competition for highly qualified and committed employees, which we are

EMPLOYEES BY REGION

Number of employees

	31-Mar-09	31-Mar-10
Europe, Middle East and Africa	13,668	11,731
Eastern Europe	753	615
North America	1,176	968
Latin America	396	365
Asia/Pacific	2,226	2,117
	18,219	15,796
Trainees	707	700
Heidelberg Group	18,926	**16,496**

On page 121, we report how we will improve procedures throughout the Group within the framework of our reorganization, thereby fully realizing potential cost reductions. How we undertook measures to address the various risks arising from the staff reduction is described on pages 35 ff.

We also attribute the fact that our newest production site earns high marks in on-the-job safety and accident statistics to the highly qualified training of our employees. More information on this topic can be found on page 39.

? We report on cooperative agreements in the training area on page 107.

Ursula von der Leyen, Germany's Federal Minister of Labor and Social Affairs, awards Heidelberg the "Audit Profession and Family" certificate.

therefore striving to promote further. In view of this situation, we are highly pleased that the Amstetten local unit received the "Audit Profession and Family" certificate from the non-profit Hertie Foundation. Ursula von der Leyen, Germany's Federal Minster of Labor and Social Affairs, and a patron of this initiative, awarded the certificate to Heidelberg and other companies in June 2009.

A total of approximately 80 measures are to be implemented at Amstetten through 2012. These include not only the further enhancement of flexible working time, but also improved offers for child care during school vacations and greater support for employees who are caring for family members. We selected the Amstetten local unit in a first stage towards the Company's overall certification, since it is seen as having an exemplary production environment. The portion of our staff working on a part-time basis of 2.7 percent was down from the previous year. The share of the employees working in alternating telecommuting jobs remained unchanged at 0.7 percent.

Positions Available in 14 Apprenticeship-Based Trades and Seven Courses of Study

Despite the crisis, Heidelberg continues to place high value on outstanding training. Thus, 193 trainees began their vocational training on September 1, 2009 at the German local units; some 3,000 young people and young adults had applied for these positions. The 14 apprenticeship-based trades range from mechatronics and draftsmen all the way to packaging mechanics – the latter which was made available for the first time. A total of 23 of the junior executive employees begin their studies in one of seven bachelor's degrees on offer – for example, in engineering, digital media, and international business. The extremely low dropout rate of less than one percent speaks for the quality of training at Heidelberg – the equivalent average figure for Germany as a whole is approximately 25 percent.

Idea Management: Outstanding Suggestions for Improvement despite Short-Time Work

The many years of experience gained by employees are of great benefit in precision engineering – and are associated with considerable opportunities in the form of ideas for improvement. We systematically make use of these opportunities through our well-established idea management. Despite short-time work in many areas, some 2,300 ideas were submitted during the financial year. The implementation quota of 47 percent even exceeded the previous year's figure. The cost-reduction measures that were realized of € 4.5 million further surpassed the so far highest figure, which was realized the previous year, of € 4.2 million.

HEIDELBERG SERVICES – SERVICES, SOFTWARE, AND CONSUMABLES

> **Separate Division since the Beginning of the Current Financial Year**
> **The Most Comprehensive Offering of Services, Software, and Consumables in Our Industry**
> **Expanding More Stable Non-Cyclical Business Areas**

General and consulting services and finely tuned consumables play an increasingly important role for investment and production security as well as for the efficiency of print shops. We have considerably expanded our offerings of services and consumables over the past ten years, while simultaneously developing comprehensive Prinect software solutions that digitally link both production and our customers' management systems with our printing presses. As of the beginning of the current financial year, we brought together these offerings in their own division, which underscores their growing importance both for customers and for us. Our sales of service and consumables enabled us to compensate to some extent for the dependence on the cyclical fluctuations in the investment behavior of print shops. This is because sales of services and consumables are dependent more on the installed equipment base and less on cyclical trends. We intend to generate a 30 percent share of Heidelberg's overall sales in the new Heidelberg Services Division – even if sales in the equipment area increase once again.

Prerequisites for Growth Are Present: Service and Sales Network of Our Industry Encompasses the Entire Globe; Large Installed Base

The prerequisites for the further expansion of our service and consumables business are solid. Since we have been the world market leader in sheetfed offset printing for quite some time, the **installed base** of Heidelberg printing presses is very large. We have access to the most tightly meshed **service and sales network** in our industry; our **employees** active in the external sales organization are highly trained; and the general and specialized further training offering by our **Print Media Academy** network is unique in our industry. In the past, we expanded our global **service parts network** so that we can generally ship parts to customers in just a few hours worldwide.

Our **competitors** are also increasingly striving to boost their service business. More and more, paper manufacturers are selling consumables to print shops. Since there are no globally active dealers or service suppliers – and in general, the regional markets are also not dominated by individual suppliers – the barriers to market entry are very low. We will nevertheless be in a position to expand our market share thanks to our strategic competitive advantages.

Strategic Priority: Expanding the Consumables Business

We have set ourselves the ambitious goal of increasing our global market share in the portion of the consumables market that we address from 4 percent to 7 percent.

Decisively contributing to this is our expansion of our offerings and expertise in particular in inks and coatings, because the global trend to higher quality and multicolored printed products has ensured a growth in sales in the "Inks and Coatings" area even at times when the overall consumables market weakened due to the lower volume of printing. Our strategy of moving away from a pure dealer model to expand our portfolio has therefore been successful. We were able to win over many print shops worldwide during the financial year thanks to the innovative special and very high-quality coatings from the firm Hi-Tech Coatings, which we acquired the previous year. We also acquired the printing ink specialist Ulrich Schweizer GmbH/IPS GmbH in Waiblingen, Germany. This firm has supplied sheetfed offset consumables for over 35 years and is one of Germany's biggest dealers in services for special inks.

In the section on research and development, we discuss the process of enhancing the qualifications of consumables as well as the competitive advantages available to customers from the special applications using Saphira products.

The combination of Heidelberg services and a complete product portfolio in the consumables area, which we extensively tested and approved, ensures our customers maximum efficiency in the printroom. Our printing and applications technology expertise puts us in a position to provide extensive advice to our customers. When we sell a printing press, as a matter of principle we simultaneously offer customers complete consumables packages. Customers highly value the fact that the requirements for printing press certification under ISO 12647-2 as well as the PSO standard can be easily met with the help of so-called "Starter Kits".

? On page 86, you can learn more about our central sales support in this business area – which as a matter of principle is organized on a decentralized basis because the products are highly varied worldwide.

As in the past, we focus primarily on cooperative agreements with manufacturers in order to expand our product portfolio for sheetfed offset print shops. The volume of the market segment that we address, excluding expenditures for paper, totaled nearly € 7,700 million in calendar year 2009. Heidelberg's market share was just under 5 percent.

Consulting and Services: Entire Product Life Cycle Covered

Our services include the complete added-value chain process and extend over the entire product life cycle.

One of our priorities during the financial year was on advising our customers. Among others, within the framework of our **business consulting services** and working together with customers – also with the help of our BizModel software – we developed lucrative business models for several print shops. BizModel, which analyses the latest market analyses and data, allows us to take into account not only customers' work shift models but also their stock of equipment and their order structure as well. We show the extent of the general potential for improvement in the many case studies that we present in the Internet at http://www.businessconsulting.heidelberg.com.

Integrated maintenance and the utilization of original service parts are not only of benefit to print shops due to the resultant higher production security, but the resale value of printing presses remains stable as well. Our service contract **Systemservice36plus** is an integral solution component for newly purchased equipment. It ensures the provision of all the required service components and general services as well as basic preventive work for the first three years of operation. Moreover, for already installed printing presses and as a supplement to Systemservice36plus, we offer additional modules within the framework of the **partner program**. Our innovative Internet-based **Remote Services** noticeably reduce service costs both for our customers and for Heidelberg. Among others, Remote Services allow our service technicians to correct operating problems externally via a data link – ideally, even during the production process. Our services also include the **remarketing** of printing presses and the **service parts business**.

As in the past, our financing services are part of the Financial Services Division. Heidelberg's customers satisfy all their requirements from a single source – from advice and financing, systems for all stages of the printing process, consumables, appropriate software solutions, and maintenance contracts, all the way to remarketing of used printing presses.

PRODUCTION, PRODUCTS, AND PURCHASING – ENSURING QUALITY, CUTTING COSTS, AND PROTECTING THE ENVIRONMENT

> **Integrated Packaging Printing Solutions in All Formats**
> **Investments in the Chinese Production Site; Expansion of Purchasing Volumes Outside the Euro Region**
> **Products Included in the New Heidelberg Equipment Division in the Future**

Additional key performance data and facts are included in our Sustainability Report, which may be ordered or downloaded at **www.heidelberg.com/eco** in the Internet.

Print quality and reliability are extremely important criteria for the perception of the Heidelberg brand name by our target groups and their customers. Furthermore, the focus of the print media industry is being increasingly directed towards our systems, which compared with the competition make possible especially efficient and environmentally friendly production. Thus, despite the difficult market environment, we were successful in acquiring industrial packaging print shops as customers – a new target group for us. In recent years, we have addressed the challenge of considerably reducing the cost of manufacturing of our systems while simultaneously ensuring continuing high quality as well as compliance with both social and environmental standards. We increasingly also offer our expertise in precision engineering to other companies within the framework of job manufacturing.

KEY DATA ECOLOGY [1]

	2008	2009
Production and development sites altogether	16	16
Production and development sites with a certified environmental management system	9	9
CO_2 emissions in thousand tons	128	85
Waste recovery rate in percent [2]	94	94

[1] Figures for the calendar year
[2] Share of processed waste in total waste

Environmental Management, Production Solutions in "Ecological Printing"

Growing numbers of print shops view environmental protection as an important issue – also for the marketing of their products, because demand is growing for printed products that are made in an environmentally friendly manner. Heidelberg was already fully committed to resource-conserving production 20 years ago. Our environmental management system has won awards on numerous occasions. All internal processes are conceived to ensure that resource consumption, waste, and polluting emissions are reduced to the greatest possible extent. Moreover, our development staff is working on reducing environmental pollution resulting from our solutions in printing establishments to an unavoidable minimum in every respect.

We have been pioneers in the market for "ecological printing". As the only supplier of comprehensive solutions, we can address the issue of sustainability in the broadest sense – environmental protection, occupational safety, and profitability – throughout all levels of production. We are increasingly emphasizing the resultant competitive advantages for our customers within the framework of advisory discussions.

Packaging Printing Solutions: Clear Competitive Advantages

Our goal is to significantly increase our market share in the packaging printing area, because this segment is less cyclically sensitive and also provides greater growth potential than is offered by classical commercial printing and advertising printing. The brand name strategy of many manufacturers requires ever more exclusive packaging. Products and food in developing and emerging markets are increasingly sold packaged rather than loose. Many packaging print shops also held back on making investments during the crisis. Nevertheless, the interest in our solutions was immense: attendance at our "Packaging Days" was heavy and our demonstration print shop for packaging printing in Hall 11 at Wiesloch-Walldorf held over 300 presentations during the financial year.

The competitive advantages of our solutions win over both existing and prospective customers. Our printing presses are more productive and offer various coating options for unique packaging, and in the finishing area, our customers can additionally differentiate themselves from the competition by means of our offerings. Furthermore, our thoroughly integrated solutions offer additional opportunities. Customers can optimize all the processing steps of folding carton production – beginning with administration and data preparation, printing, surface coating, die-cutters, and gluing all the way to logistics. In packaging printing, this has an even greater impact on costs of production and the quality of the final products than in commercial printing – among others because packaging printing is very material-intensive. Print shops can realize and guarantee absolute color fidelity on a cost-effective basis with the help of our color management systems. In addition, environmental friendliness and food safety are playing an increasingly important role for the suppliers of packaging in the marketing of their products.

Since the previous year, we have been penetrating this new customer group with our new product platform in the 145 and 162 formats, which are utilized primarily by industrial packaging printers. Against the background of the economic crisis we have met with considerable success.

With our systems, customers can produce not only high-finish cardboard packaging, but simple folding cartons as well. Regardless of the size and strategic machinery and equipment a packaging print shop has, we can provide a comprehensive solution that is precisely tailored to their requirements and customer groups.

SOLUTIONS FOR THE ENTIRE PRINTING PROCESS

by Heidelberg

2 PRINT SHOP WORKFLOW

Prinect

PREPRESS

3 **Suprasetter**

Suprasetter

PRESS

Speedmaster

Format categories

1 **121 × 162**

1 **106 × 145**

1 **70 × 100**

1 **50 × 70**

4 **35 × 50**

Flexo Printing

Web Offset (Goss)

Speedmaster XL 162

Speedmaster SM 52 Anicolor

POSTPRESS

Stahlfolder, Baumfolder

(Folding)

Varimatrix, Dymatrix

(Die-Cutting)

5 **Stitchmaster**

(Saddlestitching)

Diana, Easygluer

(Folder Glueing)

Eurobind

(Adhesive Binding)

POLAR/Mohr

(Cutting)

Stitchmaster ST 350

SERVICES AND CONSUMABLES

Business Consulting, Print Media Academy, Systemservice, Remarketed Equipment and Saphira

PRODUCTIVITY

1 Customers like our high performance models thanks to their productivity of up to 18,000 sheets per hour and their short set-up times. All the **Speedmaster XL** models and format categories permit wholly automatic job changeovers at the push of a single button and are thereby easy to use, low in cost, and reliable. This is made possible not only because we make use of prepress data via Prinect, but also because within the workflow, we integrate measuring devices that are capable of immediately recognizing minimal color deviations that trigger fully automated corrections.

ENVIRONMENTAL PROTECTION – “ECOLOGICAL PRINTING”

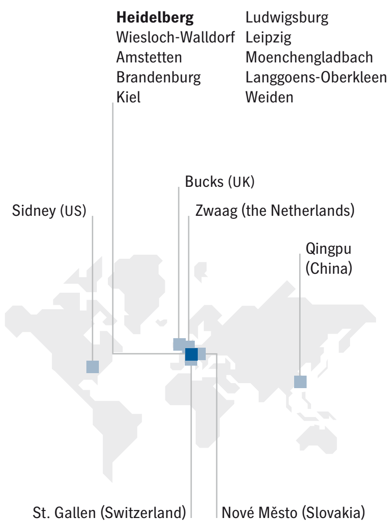
2 Spoilage is the most important factor in the environmental credentials of sheetfed offset printing. Our **Prinect Workflow** modules reduce spoilage to just a small number of sheets and do away completely with the need for control sheets.

3 The **Suprasetter A52** consumes much less electricity than similar models offered by the competition. This model generates little heat and can therefore often be used without air conditioning. It is hardly susceptible to fluctuations in humidity, so there is practically no need for energy-intensive humidifiers. Suprasetters work with conventional process-free and chemical-free printing plates available from the “**Saphira**” product line. They ensure high throughput levels and can be cleaned using water.

4 **Anicolor**, our zoneless short inking unit, is our sustainable answer to declining print runs. This unit offers, among other things, up to 40 percent shorter set-up times due to quicker job changes and a resulting maximization of flexibility; up to 25 percent more printing press capacity, which can be used for additional jobs; an up to 90 percent reduction in spoilage; ease of use; and above all, the highest in print quality.

5 In the finishing process as well, the lowest possible level of energy consumption and spoilage are the principal development goals. The **Stitchmaster ST 450** has a modular drive system that can be switched off separately and thereby saves on energy.

DEVELOPMENT AND PRODUCTION LOCATIONS



Locations: Production Network of Specialized Manufacturing Plants; Strategic Expansion of Foreign Local Units

We have adjusted our capacities to the economic environment. In Germany, we reduced and pooled production capacities and centralized the development activities of high-tech areas at Heidelberg. Furthermore, we strengthened our manufacturing facilities abroad, with the principal focus on strategic considerations for greater market penetration as well as the objective of compensating for exchange rate effects in production.

Following our establishment of the prerequisites for production in our new format category as well as our other new products in previous years, and heavily investing in our manufacturing equipment, we began considerably reducing our **investments** beginning in the middle of the previous financial year. With the exception of required replacement capital investments, we implemented above all the measures provided for in the Heidelberg 2010 program. During the financial year, we expanded our manufacturing facility at **Qingpu in China** in order to satisfy the rapidly increasing demand for our sheetfed offset printing presses in that country. We had laid the cornerstone for this plant in 2005 and initially focused on organizing and improving the qualifications of a workforce and of a pool of suppliers that have the necessary expertise.

As in the past, we continually invested in our comprehensive **Heidelberg Production System (HPS)**, with whose help we intend to reduce our controllable cost of manufacturing by approximately 5 percent annually. For example, at our foundry in Amstetten, by 2012 we will complete implementation of a program for the optimization of processes and procedures, the improvement of quality, and the reduction of fixed costs. An important principle of HPS is our pursuit of a “zero error” strategy everywhere in our production.

Vertical Integration Expanded Slightly in the Short Term

In our manufacturing, we concentrate on quality-critical parts as well as products that procure competitive advantages for us through our specialization. The number of parts that we require in production has risen over the past decade. We nevertheless increased the share of third-party supplies in our plants. Based on total cost of ownership analyses (TCO), in prepress and printing we boosted this share from approximately 50 percent to over 60 percent. The figure is considerably higher in the finishing area in view of the product mix. Since our capacities were not utilized to the full during the financial year due to the consequences of the global economic crisis, we further increased our vertical integration somewhat in the short term in order to better utilize our own capacities and produce more economically overall.

Purchasing and Supplier Policies: Quality Assurance

Our supplier base represents an important factor for success. Accordingly, we select new suppliers with care. The selection criteria include a supplier's innovative power and their capacity to invest in manufacturing facilities and jointly implement the optimization of products and processes. Close cooperation is the key to guaranteeing the delivery of the highest-quality parts and components that are precisely adapted to requirements, even should short-term fluctuations occur in the order backlog. Since we generate approximately 70 percent of our sales outside the euro zone, we are expanding our global procurement, thereby making the Group less dependent on exchange rate effects. We thereby benefit from differences in wage levels. We have expanded our non-euro procurement volume in recent years. We especially furthered local procurement at our production site in China during the financial year.

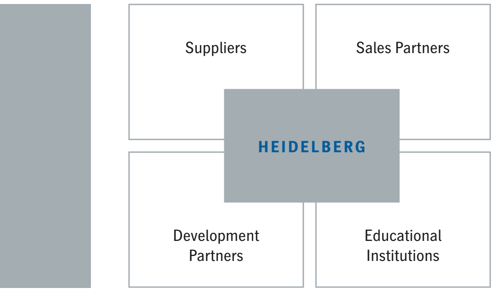
Our suppliers must comply with a wide range of prerequisites. Among other things, they must have socially acceptable policies and adhere to our high standards of environmental protection.

Heidelberg System Manufacturing: Rapid Expansion of Job Manufacturing

We understand the situation for suppliers of high-quality components – and we are determined to be a top-quality supplier ourselves. Following our accumulation of experience in job manufacturing and our determining that third-party companies benefit from our high level of expertise and efficiency in precision engineering as well as from our reliable supplier base, we intend to expand the sales of our new business unit Heidelberg System Manufacturing to € 100 million by 2014. We are able to develop mechatronic systems and assemblies for companies in growth industries, among others, as well as to develop and produce demanding mechanical prototypes, components, and series parts. We are striving for long-term partnerships with these companies, assuming that they have a high level of expert knowledge for which we can contribute our innovative power to our mutual advantage.

COOPERATIVE AGREEMENTS – SEARCH FOR ADDITIONAL PARTNERS

> **Partnerships in All Divisions**
> **Local Partnerships Not Only in Particular Regions, but Global Cooperative Agreements As Well**



We view cooperative agreements as important factors for success in the future, and we are expanding them further along the entire added-value chain. We have been working together in an atmosphere of trust with a number of companies and institutions for many years. Moreover, we are systematically seeking – also within the framework of our new “Strategy 2015” program – new partners in highly varied areas. Our experience, our expertise, and our global marketing structures make Heidelberg an attractive partner.

During the financial year, our years of close cooperation with external financial service providers and with Euler Hermes Kreditversicherungs Aktiengesellschaft to cover export financing risks was of particularly benefit to us. We continued to be in a position to largely outsource new financing arrangements despite the difficult underlying conditions.

Partners for the Sale of Digital Printing Presses

As in the past, only a very low share of the overall printing volume is printed digitally. Nevertheless, this technology offers print shops opportunities, especially for very short print runs or individualized printed matter. As a result, increasing numbers of our customers are offering digital printing in addition to offset. We are currently looking for partners in order to be in a position to offer appropriate digital printing presses to our customers worldwide. We will wholly integrate these printing presses within our workflow – and offer consumables and services as well.

R & D Partnerships with Institutions and Suppliers

For competitive reasons, we as well as our partners generally agree not to disclose the current status and the exact content of joint projects.

In research and development, we share technical expertise with a number of partners. For example, we work together on new developments, among others in laser technology and printing press assemblies.

Since we have been working together with our systems suppliers on a long-term basis and include them in development processes at an early stage, we benefit from their experience and development work. In the Prinect area, for example, we entered into a long-term cooperation agreement with alphagraph team GmbH. This firm is responsible for advanced product development of core software, whereas we ensure software localization in line with the requirements of respective markets.

As in the previous year, Heidelberg continued its work in the "Forum Organic Electronics". This cooperation among companies focuses particular expertise in the areas of automation systems, printing technologies, and electrical engineering. Working together, new materials are to be explored and developed and construction components conceived. The Forum is also striving for close cooperation in production and in the marketing of applications and services.

Partnerships with universities and institutions augment our in-house basic research. For the past two years, we have been working together closely with the Darmstadt Polytechnic University, the Institute for Printing Technology, Heidelberg University, and with partners in our industry in basic research into electronic printing. Functional layers could play an important role, especially in packaging printing.

Cooperation in Sales: Increasingly Important Worldwide

Our cooperative marketing agreement with POLAR, the leading manufacturer of cutting installations, has been in effect for decades. We have also built up a network of strong partners over a period of decades in various regions where we do not maintain our own agencies, such as in the Benelux countries and in southwestern Europe.

We will further expand our numerous supply and OEM relationships, primarily in the consumables area. We are working together closely with dealers and manufacturers in order to rapidly expand our business.

We have been cooperating with the energy supplier MVV Energie Aktiengesellschaft since the previous year. We offer an economically attractive and environmentally friendly supply of electric power from MVV's ecological electricity fund for the largely medium-sized print shops and print shop service providers in Germany.

If all our German customers switched to our partner's ecological electricity fund, CO_2 emissions would be reduced by 350,000 metric tons per year.

Cooperative Agreements in Education and Training

As in the past, the companies of the Heidelberg Group support a wide range of socially engaged projects worldwide. The Group's priorities are on educational facilities and cooperative agreements for environmental protection. Among others, we support universities and work together with schools in order to systematically raise professional capabilities and the proficiency levels of students. In the medium-term, it is foreseeable that increasing numbers of trainee positions in Germany's metalworking and electronics industry will not be filled.

Heidelberg supports the Forest Stewardship Council (FSC) as well as the climate initiative of the German Printing and Media Industries Federation (BVDM).

MARKETS

London One of the highlights of the current financial year for the London lead market was the IPEX trade show in May 2010. The Scandinavian countries are also serviced from London.

ATL

LND

Atlanta The Atlanta lead market is responsible for sales in the highly industrialized North American market and Mexico. Customers have access among others to three print media academies and a large service parts warehouse.

DEA

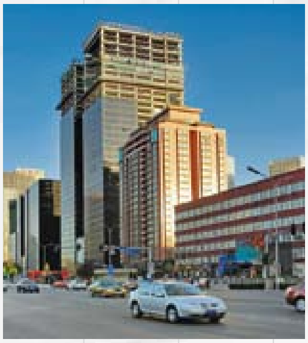
São Paulo The São Paulo lead market ensures close customer contacts in Latin America – regardless of whether the print shops are located in the biggest industrial population center of the region or far away from large cities.

Dealer EMEA Especially in the southwest European region, Heidelberg has long worked together closely with strong partners. The Dealer EMEA lead market primarily services cooperative marketing agreements.

SAO

Heidelberg The Heidelberg lead market supports print shops in the long-established countries of France, Switzerland, and Germany, thereby taking advantage of the opportunities available in the highly industrialized market to the greatest possible extent.

HEI



Assigning to eight lead markets worldwide administrative and marketing responsibility for sales in various countries, enables us to make our overall offerings considerably more effective. The lead markets are moreover responsible for ensuring that the Group's strategy is purposefully implemented in its area.

One customer – a single personal advisor. We have retained this proven Heidelberg principle. In this way, we ensure that print shops are extensively advised – in a manner that is precisely adapted to their respective situation. We delegate experts in applications technology to the permanently assigned contact as well as a team for internationally active print shops.

We offer unique general and advanced training to print shops via our network of Print Media Academies, which encompass the entire globe. Moreover, we also use this network to ensure that our sales and marketing specialists are always up to date on the latest technological developments. They also receive online training and obtain all the support that they need.

EI

Heidelberg The Heidelberg lead market supports print shops in the long-established countries of France, Switzerland, and Germany, thereby taking advantage of the opportunities available in the highly industrialized market to the greatest possible extent.

BEI

Beijing In China, the Beijing lead market is responsible for one of our strategically most important markets. A service parts warehouse services customers even in remote areas. Over 450 employees are active advising and selling for Heidelberg here.

VIE

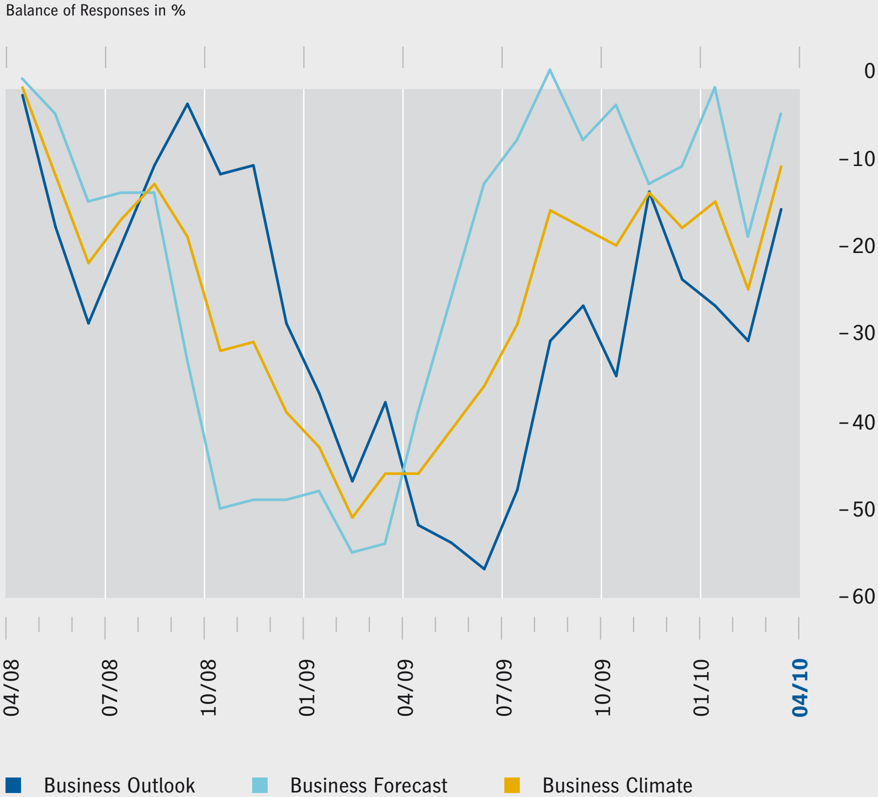
Vienna The Vienna lead market has administrative responsibility for the entire Eastern European area. Vienna also manages the sales of web offset printing presses from the firm Goss in this region.

Singapore Sales in Japan, Australia, and all the Asian countries except China are serviced by the Singapore lead market. A service parts center provides prompt help in case of equipment failure.

SGP

FORECAST, OPPORTUNITIES, AND RISKS

ECONOMIC CONDITIONS IN THE GERMAN PRINTING INDUSTRY



Source: ifo-Konjunkturtest

The crisis in the printing industry had originally been expected to take the form of a so-called V-curve. However, after bottoming out, the low point proved to be unusually broad. Currently, various indexes are again showing a clear upward trend for the printing industry even in the industrialized countries. Although demand for printing presses is generally expected to return to a high level in the next few years, it is unlikely to return to its pre-crisis volume.

OVERALL PICTURE – PROSPECTS

In view of developments in recent months, among other things, we expect business trends in the **print media industry** to continue to be stable. Because the overall economic situation is expected to recover to a greater extent in the industrialized countries as well, we anticipate a corresponding increase in investments by print shops beginning in the second half of the current financial year.

Competitive conditions among our industry's suppliers of machinery and equipment has intensified despite the cutbacks in capacity. Furthermore, the overall market is not likely to regain its pre-crisis volume in the medium term. Fortunately, we enjoy important **competitive advantages**. On the one hand, our solutions secure print shops measurable cost and productivity advantages. And on the other hand, our strong market position is not limited to the promising emerging markets. In the **sheetfed offset area**, we will therefore be able to utilize the potential offered by the turnaround in the market from its current very low level to a greater extent than our competitors. We will expand our market share in **services and consumables** by providing the most comprehensive offerings in our industry, thereby also boosting sales.

We have **adapted** the Group's **strategy**, **structures,** and **organization** to the changed market conditions and designed our processes to be more efficient. Following our reduction of the Group's annual expenses by about € 400 million based on the Heidelberg 2010 program, we are planning for additional cost reductions totaling € 80 million annually in the course of the reorganization. In large part, we intend to begin realizing these savings already in the current financial year.

We project a modest growth in sales for the current financial year and a further expansion in the following year. The profit contributions we generate will thereby considerably increase. The **result of operating activities** will benefit from these as well as other cost-reduction measures that have already been realized. During the current financial year, with stable economic conditions we are striving for a break-even operating result. In the following year, our cost reductions as well as higher profit contributions will both come into full force.

Although we continue to work on limiting the commitment of funds, the considerably higher financing costs will substantially burden the **financial result**. We therefore expect a significant **net loss** again during the current financial year.

OUTLOOK: UNDERLYING CONDITIONS – STABLE BASE ESTABLISHED; PRINTING INDUSTRY SLOWLY OVERCOMES THE CRISIS

> **High Rates of Growth in Emerging Markets**
> **Upswing in Industrialized Countries from Low Starting Point**
> **Ongoing Restrictive Lending Conditions**

In the section Underlying Conditions we go into more detail on why the printing industry as well as the suppliers to the printing industry so far have only slightly benefited from growth. As soon as growth in the western industrialized countries becomes sustainable, investments will again increase in the industrial goods sector.

Hardly any leading economic research institute doubts that the global economic growth during the fourth quarter of 2009 will continue into the current calendar year. However, opinions on the exact course of development diverge widely. The emerging markets are the big hope for rapid and sustained growth. Only a restrained economic upswing is initially anticipated in the industrialized countries. The printing industry in these countries will therefore only slowly come out of the crisis. The opportunity for an upswing nevertheless is considerably greater than the risk of a further market weakening.

GROSS DOMESTIC PRODUCT[1]

Change from previous year in percent

	2008	2009	2010
World	1.7	– 2.1	**3.0**
US	0.4	– 2.4	3.0
EU	0.6	– 4.2	0.9
Germany	1.0	– 4.9	1.5
UK	0.6	– 5.0	0.8
Eastern Europe	3.1	– 4.0	2.1
Russia	5.6	– 7.9	2.6
Asia[2]	5.8	4.5	7.2
China	9.6	8.7	10.1
India	6.1	6.6	8.0
Japan	– 1.2	– 5.2	1.5
Latin America	5.1	– 0.6	3.5
Brazil	5.1	– 0.4	4.7

[1] Source: Global Insight: WMM; April 2010
[2] Excluding Japan

Outlook for 2010 in the Industrialized Countries Continues to Be Weak

Will the economic turnaround bring with it a stable upswing in the western industrialized countries? Trend indicators and various economic indexes, which point clearly upwards following the historic low point in the crisis, point in this direction. Moreover, it appears that the upswing can continue under its own steam after the economic stimulus packages expire. Developments during the further course of the year will unequivocally show if this will be the case. It is also still unclear when companies in the industrialized countries will have enough confidence in further economic developments to begin investing once again.

Warnings were also issued in the previous year of a considerable scarcity of credit. The probability that this could happen during the current financial year has increased. Experience shows that the number of bankruptcies rapidly rises in the year following a crisis, so that the banks could suffer additional credit defaults. Moreover, the worsened corporate balance sheets for calendar year 2009 will in many cases result in rating downgrades for credit. As a consequence, capital fulfillment obligations are rising. This hinders companies that are prepared to make investments from raising the required capital.

Rate of Production Increasing Again Only Slowly

Following the global recession the previous year, the global economy and the various regions and markets will again grow across-the-board – however, as the table shows, at highly divergent rates. Production output particularly in the industrialized countries will be slow to regain the high pre-crisis level. Capacity utilization has so far only been slowly rising, as many companies are initially taking advantage of the upswing to reduce their inventory levels and often to limit their investments to just replacement capital investments. However, an upswing of demand for commodities is evident in several markets.

The financial market is gradually beginning to stabilize again in the **US**. The labor market is also finally reflecting a turnaround. More people are being hired again for the first time since the beginning of the crisis. Whereas exports are recovering, households continue to have a high propensity to save, and consumer spending is correspondingly low.

Highly under-utilized capacity in **Europe** resulted in a strong increase in unemployment. The termination of such state-supported programs as short-time work in Germany will worsen labor market risks. The ongoing uncertain outlook is putting a brake on private consumer spending. Since the economies of non-European trading partners are growing more vigorously, exports, favored by the weak euro, should grow significantly.

Economic experts believe that the situation will improve in **Japan**, although the strengthening of the yen resulted in a deflationary situation and consumer spending continues to be restrained. In particular internal Asian demand will have a stabilizing impact on the economy.

Apart from an increased danger of inflation, the business prospects of the other markets in **Asia** are outstanding. Economies such as China's are again growing as strongly as ever. Both private consumer spending and investments are on the rise, and strong internal-Asian trading is providing an additional impetus to growth.

Even in **Latin America**, where the countries have hardly any international debt, all signs point to growth. Rising raw material prices are again ensuring high rates of growth. Moreover, the economy is being driven by strong private consumer spending, growing investments, and continually higher capacity utilization by companies.

Although **Eastern Europe** will also benefit from the greater demand for raw materials, this will not compensate for the still weak demand from the other European countries. In Russia, higher government spending is expected to result in increasing consumer spending. Moreover, the construction sector will serve to reinforce the development of GDP.

Because of growing demands by end customers, more and more colors and printing plates are required on average per metric ton of paper output. At the same time, printed matter must be produced economically and in as environmentally friendly a way as possible. On pages 97 – 99, we provide extensive information on the market potential as well as offerings in packaging printing, in services, and in consumables.

Development of Heidelberg's Sales Markets

Our **commercial printing** customers in the **industrialized countries** will only begin benefiting during the current financial year from increased corporate investment in marketing activities. Since the capacity utilization of print shops is still comparatively weak, demand for new printing presses is also only rising very slowly. In this customer segment, we are therefore concentrating on expanding our service and consumables business, for which we anticipate increasing demand worldwide during the current financial year. In the **emerging markets**, the local print industry will not only benefit considerably from the high growth rates of the economies, but they will also expand and invest in printing presses.

The overall increase in private consumer spending will continue to provide incentives to invest in the **packaging printing area**. This sector is showing great medium-term growth potential in the emerging markets. Urbanization and changes in consumer behavior are causing an increase in demand for packaging. Moreover, the significance of cardboard packaging is growing rapidly as a high-quality advertising medium in those markets as well.

We address the future development of the printing industry in individual markets in the Regional Report, where we also report on how we intend to further expand our market share through appropriate offers for each region.

The Heidelberg Group Is Prepared for Changes in Market Conditions

Even should commercial printing grow considerably in the emerging markets and the packaging printing market increase worldwide, the high volume achieved by the overall printing press market prior to the economic crisis is unlikely to be regained even following an upswing. The higher productivity of machinery and equipment for print shops as well as the continually heavier utilization of communications and advertising platforms via the Internet are contributing to a trend towards consolidation in the print media industry as well.

Printing press manufacturers are continuing to reduce excess capacities. The cutthroat competition that has arisen entails risks, which we discuss extensively in the Risk Report on the following pages.

In the Future Prospects section, we highlight how we will be able to further reduce the break-even point of the Group on a sustainable basis by means of process improvements. And throughout the Annual Report, we describe how we have prepared the Group to confront the changed market environment by means of a new strategy, a new organizational structure, and an expanded product portfolio – as well as the competitive advantages that we have created for the Group.

RISK AND OPPORTUNITY REPORT – OVERALL RISK DOWN CONSIDERABLY

> **Business Cycle Risk Due to Increasing National Debt**
> **Substantial Opportunities in the Chinese Market; Turnaround in the Industrial Countries**
> **Financing Secured**

Since qualitative risks have increased, we refined our risk and opportunity management system during the financial year and relied on it to a greater extent. More information on this topic and how we undertake countermeasures can be found in the section “Management and Control” starting on page 35. We also discuss our risk management for financial instruments in that section. Details on how we handle interest rate, foreign currency, and liquidity risks can be found in the Notes to the Financial Statements.

General Statement on Risks and Opportunities

The overall risk situation improved considerably from the previous year. This resulted primarily from the fact that the financing of the Heidelberg Group is secured through July 2012, and that we considerably reduced the Group’s break-even point. No risks that could threaten the existence of the Heidelberg Group are evident either at the present time or in the foreseeable future. This applies to both the results of our already implemented economic activity as well as to operations that we plan or have already introduced.

In order to determine our overall risk, we focus on individual risks that belong together substantively. In doing to, we do not offset potential opportunities from risks. The illustration on the right shows the development of these risk groups compared with the previous year. As in the past, the impact of the economic and financial market crisis determines the risk of the Group. If a sustained economic upswing in the industrialized countries is delayed longer than we anticipate, we would not attain our sales targets in the Heidelberg Equipment Division and the Heidelberg Services Division. Risks in the risk group “Industry and Competitive Risks” increased from the previous year. The excess capacities of equipment suppliers to the printing industry as well as the vigorous fight for market share could result in heavy price competition in various market segments. The risk of a price decline contrasts with the opportunity that a competitor could be squeezed out of the market, which would result in a considerable reduction in excess capacities

DEVELOPMENT OF RISK GROUPS

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.

In past years, the already thin advertising budgets were increasingly directed to online advertising. After effectiveness studies showed that print ads have a considerably greater impact – all the more so if they are personalized and mailed – advertising strategies could move back in the direction of print again to a greater extent.

and a substantial improvement in competitive conditions. Financial risks have decreased because Heidelberg's financing is secured through 2012. The risks in connection with performance increased because we see a significantly greater risk associated with human resources due to the considerable job cutbacks. Moreover, the risk of a supplier's failure to deliver is greater. Fortunately, the products risk group continues to have a low risk. Our comprehensively networked solutions precisely meet the requirements of our target groups, especially in view of the dramatic changes in market conditions. Our product platforms are the most modern in the market. It is unlikely that a competitor could develop superior solutions. Our offerings in consumables and service are also unique in the market.

Our comprehensive product portfolio with needs-based solutions for various target groups is one of the reasons why we consider the risks that arise from our **overall strategy** to be minor at least at the moment. We continuously examine the need to modify our overall strategy. We are focusing on less cyclical areas such as packaging printing as well as services and consumables. Moreover, these divisions were not at all, or at most hardly, affected by the substitution of traditional print products with other media. There is a small risk that even in the face of increasing marketing and advertising outlays, companies will rely considerably less on the commercial printing sector in the future. Sheetfed offset printing, our core business, will continue to be the prevalent printing process, even in the future. Digital printing can only serve as a substitute for small-format offset printing to a minor extent. With the exception of small print runs, our printing presses with their very high degree of flexibility and high speed are superior to digital printing – in terms of cost as well.

Advertising and packaging printing, which are key business areas for Heidelberg, account for over half of the overall volume of printing. In particular the emerging markets are contributing to an increase in the volume printed each year. Market saturation with printed products in the emerging markets is still quite low. It is currently not clear whether in the long term, a per capita printing volume will be attained that is similar to that in the industrialized countries, or whether electronic media will replace print media to a greater extent in these countries. Nevertheless, the large population of the emerging markets alone will ensure further growth.

Risks Arising from the Economy and the Market Remain Consistently High; Country Risks in China Minimized through Local Production

Our business development would be considerably burdened by a further delay in the economic turnaround in the industrialized countries. The increasing national debt of some countries represents some risk for additional cyclical trends. A consequence could be a strong increase in inflation, which would put a brake on the economic upswing. On the other hand there is an opportunity that demand for our products might recover more rapidly than we assumed in our planning due to favorable economic developments. Our rapid expansion of the Services, Consumables, and Packaging printing business areas are making the Group's result less cyclically sensitive in the medium term.

Our presence in 170 countries represents a considerable opportunity for us to rapidly further expand our market share in all business units. Due to the fact that we have the most extensive service and sales network in our industry, and that we are the only European manufacturer to produce locally in China, we have important competitive advantages in one of our strategically important markets. Moreover, production in China reduces the danger that import duties or increased regulation of the market might burden our business. By closely monitoring current developments on-the-spot in order to undertake countermeasures early on if necessary, we minimize the risk that in some other emerging markets economic or political instability may arise. In principle, the risk comprises possible government intervention, tougher customs regulations, and changes in legislation that could hamper our business development in some markets.

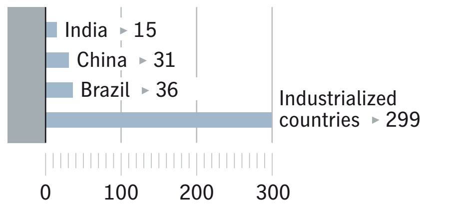
Industry and Competition: High Risks and Considerable Opportunities

The risks of industry and competition have increased in our industry due to the noticeable excess capacities.

Exchange rate fluctuations represent both an opportunity as well as some risk for us. So far, we have not been able to take full advantage of the currently favorable exchange rate structures because the propensity of print shops to invest has been too weak. There is an opportunity that we could benefit from the current exchange rate structures in the medium term as well. If the exchange rate structures shift back in favor of Japanese manufacturers, this could considerably intensify the competition with Japanese competitors, especially in 70×100 format models. Our market position, and that of our European competitors, would be weakened. By expanding our purchasing and production outside the euro zone, we reduce the risks from such a development in the medium term. During the financial year, we began to produce printing presses in this format category in China as well.

PER CAPITA PRINT VALUE (IN 2009)

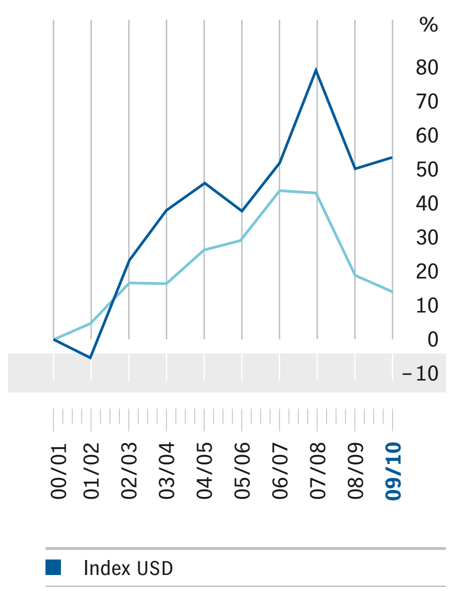
Figures in €



Sources: industry statistics, PIRA, Jakkoo Pöyry, Primir (Gamis), Global Insight

INCREASED VALUE OF THE EURO

Closing exchange rates at year-end



(Source of exchange rates: Bloomberg)

Product Risks Down from Previous Year

Since our new products are proving to be successful in the market, especially in view of the difficult underlying conditions, and because they provide true cost and competitive advantages for customers, the risks in the product area declined compared with the previous year. We have meanwhile installed printing presses in our newly developed biggest format category, the Speedmaster XL 145 and Speedmaster XL 162, in all key markets. Customers are very satisfied. We expect to noticeably expand our market share in packaging printing during the current financial year. Our integrated solutions offer a considerable advantage, for these solutions make it possible for customers to optimize both their processes as well as their packaging.

Changes in the behavior of the end consumers could further enhance the competitive advantages offered by our solutions. Demand for very high-quality printed matter is further increasing worldwide, while the significance of environment-friendly production is simultaneously rapidly growing as well.

In order to avoid undesirable developments, by necessity our priority in all R & D projects focuses on the benefit to the customer. 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. They are also based on our technology roadmap, which we apply in order 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.

As a consequence of the economic crisis and structural changes, print shops must optimize their organization and enhance their efficiency. They must also specialize and offer comprehensive services well beyond mere printing. We offer comprehensive solutions, including services and consumables for all the important trends in the market – whether Web-to-Print, Lean Manufacturing or Ecological Printing.

Financial Environment Risks: Secure Financing

As we described in the general statement on risks, financial risks declined because the financing of the Group is secured. We discuss the details of the new financial structure in the section Financial Position on page 74.

The financing package concluded during the financial year includes five financial covenants that are customary in the market. Heidelberg has contracted to adhere to these over the term of the financing. If the future income and financial position of the Heidelberg Group develop so unfavorably that these financial covenants cannot be met, this would have an adverse financial effect for us. Determination of the financial covenants is based on our current five-year planning, with the projected sales trend supported by external market analyses. The development of earnings takes into account the largely already implemented restructuring measures under our Heidelberg 2010 program as well as the additional cost-cutting measures resulting from the boost in efficiency that we announced at financial year-end. Based on existing information known to us, non-compliance of the financial covenants is at present not expected and is considered to be unlikely.

Since the previous year, we have been focusing even more closely on liquidity risks. As a delayed result of the financial crisis, if we should become subject to an expanded credit crunch and would find it necessary to take on increased direct debt, our risks would grow in this area. As in the past, there is a risk in the area of sales financing that losses could occur due to industry, customer, residual value, and country risks. Our policy for forming provisions for risks from sales financing is generally conservative. We formed an appropriate risk provision to cover recognizable risks early on. We were able to further reduce the volume of past due items in receivables arising from our sales financing during the financial year following the previous year's higher level. The risks from the counter-liabilities that we took over declined. Most of our portfolio comprises claims against customers in emerging markets. Foreign currency developments are currently making it easier for our customers to repay installments either in US dollars or in euros. Depending on developments, a shift in exchange rate structures could represent either a risk or an opportunity in this area. 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 strive to reduce the foreign currency exposure of the Heidelberg Group and thereby our overall dependency on exchange rate structures. We have partially hedged in the medium term against the risk from possible exchange rate declines of our principal foreign currencies. 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. We limit additional risks – for example compliance risks – by means of systematic controls over whether our comprehensive guidelines are being followed in all areas. More information on this topic can be found on page 38.

Thanks to our global IT management, 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.

Increased Risks Arising from Performance

We pointed out in the previous year that a substantial cutback in jobs would entail difficulties for the concerned employees and also for the overall Group – and would also result in an increase in the risks in the **human resources area**. Highly experienced teams were subject to change, and processes and procedures were redesigned. An additional factor is the risk of a loss of motivation, with Heidelberg's attractiveness as an employer possibly suffering in the longer term as well. We undertake countermeasures via modern human resources work.

In the **production area**, there continues to be an opportunity that we could realize considerable reductions in cost due to the enhancement of processes under our Heidelberg Production Systems. We see some risk that short-time work and job cutbacks could initially delay production times.

We minimize **environmental risks** through an efficient environmental management system – both in the area of product design and in the manufacturing process.

We minimize risks in connection with suppliers' failures to deliver, or a delay in the delivery of components or components of substandard quality by means of a supplier monitoring system based on key data parameters, systematic observation of all significant markets, and through a material planning system with a rolling twelve-month forecast.

Since risk management is an integral component of our supply management, we protect ourselves against many risks of **procurement** at the outset. We include our suppliers in this process. The danger of a supplier's failure to deliver due to insolvency has grown due to the effect of the economic crisis. Moreover, a renewed sudden and rapid increase in the prices of raw materials, metals, and energy entails the risk that our cost of manufacturing could be higher than planned.

Although we reduced **investments** to the greatest possible extent, we do not foresee any risks of production that could result. We undertake urgently needed replacement capital investments and make decisions with the help of our global uniform planning system, which brings together all the available information. Before each capital investment, we implement a make-or-buy analysis that is monitored by a team of engineers and financial specialists.

FUTURE PROSPECTS – THE GOAL: BREAK-EVEN OPERATING RESULT ALONG WITH STABLE CYCLICAL TREND

- **Modest Increase in Sales Anticipated**
- **Financial Result Again Burdened by High Refinancing Costs**
- **Additional Cost Reductions through Greater Efficiency**

Our planning is based on the assumption that the business upturn in the industrialized countries will continue under its own steam after the economic stimulus packages expire. An upswing of the printing industry in 2010 is supported by the fact that the printing industry's "Business Climate" and "Business Expectations" indexes have meanwhile begun to strengthen moderately. The capacity utilization of print shops has also further grown. No sustained upward trend is yet apparent with investments. Due to the modest recovery during the second half of the reporting year, however, we expect demand to stabilize. Beginning in the middle of the current financial year, we anticipate an increase of incoming orders even in the area of printing presses. We report on the risks of future developments – especially business cycle risks – in the Risk and Opportunity Report.

We assume that the exchange rate structures will not shift in favor of our Japanese competitors again. We base our planning on an assumed exchange rate for the Japanese yen of 131 and of the US dollar of 1.45. We hedged a portion of the foreign currency volumes of these two currencies. We would nevertheless benefit proportionately from a strengthening of the US dollar. Moreover, we based our calculations on the premise that during the financial year we will be able to maintain the price levels of our new printing presses due to their clear value added.

Boost in Efficiency: Additional Cost-Reduction Measures of € 80 Million to be Realized

During the financial year and in the previous year, due to the changed market environment we reduced our capacities, cut back on our costs, and changed our strategy. With our new organization, which helps us purposefully pursue our strategic goals, we focus on new products and services. Within the framework of the organizational changes, we examined all our in-house processes and uncovered potential for savings of approximately € 80 million annually through the implementation of leaner structures. We intend to realize € 60 million of this already during the current financial year. We will reduce the number of jobs in administration and sales by up to 450 positions worldwide. We additionally plan to continue maintaining our capacities in line with our industry's uncertain business developments in 2010. We will therefore eliminate up to 400 jobs at the Wiesloch-Walldorf site, predominantly in the production area. We have already begun discussions with staff representatives and the union.

In the new **Heidelberg Equipment** Division, we will benefit from both the modest recovery in the industrial countries as well as from growth in the emerging markets. Moreover, we intend to expand our market share in the new **Heidelberg Services** Division. The degree to which direct financing will increase in the **Heidelberg Financial Services** Division depends on whether the feared credit crunch occurs. We are continuing to strive to maintain a low volume of direct financing arrangements as a matter of principle.

Result Benefits from Upswing in the Printing Industry and a Lower Break-Even Point

Because incoming orders in the last two quarters of the financial year improved slightly and economic projections are cautiously favorable, we expect modest **growth in sales** compared to the low level during the reporting year. During the current financial year, we will thereby again generate higher profit contributions, and the **result of operating activities** will also benefit from the cost-reduction measures under the Heidelberg 2010 program as well as from a large part of the cost reductions that we intend to implement in the course of the reorganization. This approach makes it possible for us to compensate for negative factors, among others the higher staff costs due to the expiration of short-time work provisions. For the current financial year, we are striving for a break-even operating result in an environment of stable economic development.

In the following year, financial year 2011/2012, we expect a further upswing. Consolidated sales and profit contributions will grow accordingly. Furthermore, our programs to reduce costs will then take hold in full and will contribute to a favorable development of earnings.

In the risk report, we discuss how our solutions precisely meet customer requirements and how we can utilize many competitive advantages for us in order to further expand our market share. We expect that the share in sales of products with higher profit margins will increase once again during the current financial year. Since markets are recovering worldwide, we expect the Chinese market to account for a lower share of sales, for example, and we anticipate a falloff in the share of remarketed equipment sales. In order to maintain the prices for our new printing presses in the fight for market share, we openly emphasize the considerable efficiency and competitive advantages offered by our solutions.

We will further expand our systems approaches in the course of the next few financial years in order to secure our technological leadership. We are working on a new generation of the Color Solutions quality measuring device as well as on enhancing the integration of the Prinect workflow. We will also introduce a perfecting device for the Speedmaster XL 105-P that has a capacity of 18,000 sheets per hour. We describe our research and development activities in more detail on pages 91–93. In the future, the R & D rate is to be up to 5 percent in terms of sales.

Considerably Higher Financing Requirement Burdens the Financial Result; Net Loss Posted Again during the Current Financial Year

Special items for the new program to boost efficiency will total up to € 20 million during the current financial year. We had already formed provisions of € 38 million during the reporting year for this purpose.

Even though we reduced the commitment of funds to the greatest possible extent, our financing requirements rose further during the financial year. Moreover, financing terms have become considerably more unfavorable for us than previously. Contributing to this development, the holders of the convertible bond made use of their right to accelerated repayment. Our financing is secure – we have access to credit facilities totaling € 1.4 billion through mid-2012.

The immensely higher financing costs, which also include the costs for the guarantees under the Economic Stimulus Package II, will substantially burden the financial result during the current financial year as well as in the following year. We will therefore once again book a marked net loss during the current financial year.

Measures to Improve Net Working Capital and Additional Active Asset Management to be Continued

We intend to continue focusing on the management of net working capital in the following years, thereby strongly limiting the outflow of funds. Since we already positioned strong levers at various positions during the reporting year, the effects of our measures will be diminished in the current financial year. We still see potential primarily in the inventory volume, which we will further reduce along the entire added-value chain. Overall, we will be in a position to considerably cut back the key figure “Net working capital in terms of the sales”. This figure had amounted to nearly 45 percent at financial year-end. In the medium term, we intend to reduce it to under 35 percent.

We are again planning to strictly limit investments during the current financial year. We discuss in the Risk Report how we intend to do this throughout the Group. The top priority for our projects in the coming years will be investments in our Chinese manufacturing site, replacement capital investments to maintain our infrastructure, and the additional implementation of the “Foundry 2012” project at Amstetten, with which we will realize considerable improvements. We will invest only just over 2 percent of sales in tangible assets during the current financial year.

For the current financial year, we expect positive free cash flow before interest payments and outflows of funds for the job cutbacks. However, overall free cash flow will again be negative.

SUPPLEMENTARY REPORT

No significant events occurred following the financial reporting date.

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.

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.

Short Run Printing
Definition of small print runs – and of digital printing processes which are especially suitable for very short print runs. With Anicolor, Heidelberg is offering an environmentally friendly and cost-effective alternative to digital printing.

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.

Web-to-Print
More and more print shops are acquiring customers via the Internet – even copies are increasingly often produced online. As a result, on the one hand production-related processes in print shops are changing, while on the other hand expectations in print shops’ service and logistics features are rising.

HEIDELBERG 2009/2010

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated income statement 2009/2010

Figures in € thousands

	Note	1-Apr-2008 to 31-Mar-2009	**1-Apr-2009 to 31-Mar-2010**
Net sales	8	2,999,469	2,306,403
Change in inventories		619	– 142,640
Other own work capitalized		78,278	14,663
Total operating performance		3,078,366	2,178,426
Other operating income	9	189,683	155,521
Cost of materials	10	1,402,883	1,031,351
Personnel expenses	11	1,065,767	816,596
Depreciation and amortization	12	99,302	105,352
Other operating expenses	13	748,687	510,813
Special items	14	178,987	28,415
Result of operating activities		– 227,577	– 158,580
Financial income	16	20,594	19,897
Financial expenses	17	139,730	147,392
Financial result	15	– 119,136	– 127,495
Income before taxes		– 346,713	– 286,075
Taxes on income	18	– 98,006	– 57,568
Consolidated net loss		– 248,707	**– 228,507**
Undiluted earnings per share according to IAS 33 (in € per share)	35	– 3.20	**– 2.94**
Diluted earnings per share according to IAS 33 (in € per share)	35	– 3.20	**– 2.94**

Consolidated statement of comprehensive income 2009/2010

Figures in € thousands

	Note	1-Apr-2008 to 31-Mar-2009	**1-Apr-2009 to 31-Mar-2010**
Consolidated net loss		– 248,707	– 228,507
Pension obligations [1]		– 119,591	– 36,187
Currency translation			
Change in equity		62,182	19,601
Change in income		0	0
		62,182	19,601
Available for sale financial assets			
Change in equity		– 1,039	444
Change in income		0	0
		– 1,039	444
Cash flow hedges			
Change in equity		– 27,976	– 15,188
Change in income		– 19,416	10,306
		– 47,392	– 4,882
Deferred income taxes		26,705	32,441
Total income and expense recognized in equity		– 79,135	11,417
Total comprehensive income		– 327,842	**– 217,090**

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

Consolidated balance sheet as of March 31, 2010

> ASSETS

Figures in € thousands

	Note	31-Mar-2009	31-Mar-2010
Non-current assets			
Intangible assets	19	322,246	292,605
Tangible assets	20	645,615	595,122
Investment property	20	1,766	1,750
Financial assets	21	28,857	24,901
Receivables from sales financing	22	150,976	116,910
Other receivables and other assets	22	40,019	51,786
Income tax assets		70,862	570
Deferred tax assets	23	92,126	151,250
		1,352,467	1,234,894
Current assets			
Inventories	24	1,034,126	827,163
Receivables from sales financing	22	122,218	94,927
Trade receivables	22	450,866	395,697
Other receivables and other assets	22	157,660	171,297
Income tax assets		27,995	17,957
Securities	25	889	0
Cash and cash equivalents	25	79,117	120,696
		1,872,871	1,627,737
Assets held for sale	20	15,824	16,611
Total assets		3,241,162	**2,879,242**

> EQUITY AND LIABILITIES

Figures in € thousands

	Note	31-Mar-2009	31-Mar-2010
Shareholders' equity	26		
Subscribed capital		198,767	198,767
Capital reserves and retained earnings		846,066	608,690
Consolidated net loss		– 248,707	– 228,507
		796,126	578,950
Non-current liabilities			
Provisions for pensions and similar obligations	27	154,162	225,378
Other provisions	28	349,055	355,497
Financial liabilities	29	127,094	464,491
Other liabilities	31	148,592	142,282
Deferred tax liabilities	23	37,753	12,681
		816,656	1,200,329
Current liabilities			
Other provisions	28	469,499	357,053
Financial liabilities	29	632,824	351,055
Trade payables	30	181,920	132,073
Income tax liabilities		1,962	1,978
Other liabilities	31	342,175	257,804
		1,628,380	1,099,963
Total equity and liabilities		3,241,162	**2,879,242**

Statement of changes in consolidated equity[1]

in € thousands	Subscribed capital	Capital reserve	Retained earnings					
			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, 2008	198,767	30,005	– 3,092	– 282,324	101	30,916	1,076,692	822,293
Dividend payment	0	0	0	0	0	0	0	0
Total comprehensive income	0	0	– 106,482	62,182	– 618	– 34,217	68,009	– 11,126
Consolidation adjustments/ other changes	0	0	0	0	0	0	4,894	4,894
March 31, 2009	198,767	30,005	– 109,574	– 220,142	– 517	– 3,301	1,149,595	816,061
April 1, 2009	198,767	30,005	– 109,574	– 220,142	– 517	– 3,301	1,149,595	816,061
Dividend payment	0	0	0	0	0	0	0	0
Total comprehensive income	0	0	– 5,064	19,601	264	– 3,384	– 248,707	– 237,290
Consolidation adjustments/ other changes	0	– 10,980	0	0	0	0	10,894	10,894
March 31, 2010	**198,767**	**19,025**	**– 114,638**	**– 200,541**	**– 253**	**– 6,685**	**911,782**	**589,665**

[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	Total
852,298	141,770	1,192,835
0	– 73,761	– 73,761
– 11,126	– 316,716	– 327,842
4,894	0	4,894
846,066	– 248,707	796,126
846,066	– 248,707	796,126
0	0	0
– 237,290	20,200	– 217,090
– 86	0	– 86
608,690	**– 228,507**	**578,950**

Consolidated cash flow statement 2009/2010 [1]

Figures in € thousands	1-Apr-2008 to 31-Mar-2009	1-Apr-2009 to 31-Mar-2010
Consolidated net loss	– 248,707	– 228,507
Depreciation and amortization, write-downs and reversals [2]	111,392	112,095
Change in pension provisions	10,585	25,032
Change in deferred tax assets/deferred tax liabilities/tax provisions	– 112,580	– 88,091
Result from disposals [2]	1,756	745
Cash flow	– 237,554	**– 178,726**
Change in inventories	– 20,730	212,810
Change in sales financing	62,516	66,397
Change in trade receivables/payables	54,444	7,196
Change in other provisions	98,737	– 72,631
Change in other balance sheet items	38,707	– 75,613
Other operating changes	233,674	**138,159**
Outflow of funds from operating activities [3]	– 3,880	**– 40,567**
Intangible assets/tangible assets/investment property		
Investments	– 197,857	– 58,732
Proceeds from disposals	32,022	41,073
Business acquisitions	– 31,014	– 1,900
Financial assets		
Investments	– 803	– 2,259
Proceeds from disposals	180	18
Outflow of funds from investment activity	– 197,472	**– 21,800**
Free cash flow	– 201,352	**– 62,367**
Dividend payment	– 73,761	0
Borrowing of financial liabilities	238,902	595,599
Repayment of financial liabilities	– 33,814	– 498,532
Inflow of funds from financing activity	131,327	**97,067**
Net change in cash and cash equivalents	– 70,025	**34,700**
Cash and cash equivalents at the beginning of the year	143,943	80,006
Changes in the scope of the consolidation	1,277	90
Currency adjustments	4,811	5,900
Net change in cash and cash equivalents	– 70,025	34,700
Cash and cash equivalents at year-end	80,006	120,696

[1] For further details please refer to note 36

[2] Relates to intangible assets, tangible assets, investment property, and financial assets

[3] Includes income taxes paid and reimbursed of € 41,745 thousand (previous year: € 21,977 thousand) and € 11,101 thousand respectively (previous year: € 19,932 thousand). Interest expensed and income amount to € 117,615 thousand (previous year: € 36,565 thousand) and € 24,852 thousand respectively (previous year: € 35,861 thousand).

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CONSOLIDATED FINANCIAL STATEMENTS

Notes to the consolidated financial statements for the financial year April 1, 2009 to March 31, 2010

> 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**
2008/2009							
Intangible assets							
Goodwill	109,697	15,203	1,914	0	– 1,255	0	125,559
Development costs	259,603	0	28,632	0	0	0	288,235
Software/other rights	107,173	18,215	5,429	0	– 9	4,034	126,774
Advance payments	62	0	63	0	0	39	86
	476,535	33,418	36,038	0	– 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	0	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	0	0	0	0	0	6,650
2009/2010							
Intangible assets							
Goodwill	125,559	– 3,735	109	0	621	0	122,554
Development costs	288,235	0	2,485	– 209	0	0	290,511
Software/other rights	126,774	70	1,588	52	550	2,964	126,070
Advance payments	86	0	2	– 78	0	10	0
	540,654	**– 3,665**	**4,184**	**– 235**	**1,171**	**2,974**	**539,135**
Tangible assets							
Land and buildings	659,417	0	1,217	1,536	4,547	1,193	665,524
Technical equipment and machinery	615,170	33	14,361	23,684	2,477	24,428	631,297
Other equipment, operating and office equipment	783,291	38	31,212	2,116	3,136	74,023	745,770
Advance payments and assets under construction	32,736	0	11,498	– 25,301	11	885	18,059
	2,090,614	**71**	**58,288**	**2,035**	**10,171**	**100,529**	**2,060,650**
Investment property	**6,650**	**0**	**0**	**0**	**0**	**0**	**6,650**

[1] Includes reclassifications to "Assets held for sale" of € 1,077 thousand (previous year: € 361 thousand)

[2] Including impairment loss of € 1,564 thousand (previous year: € 2,062 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	**As of the end of the financial year**	**As of the end of the financial year**
6,492	– 6,492	0	0	0	0	0	0	125,559
118,466	0	15,308	0	0	0	0	133,774	154,461
78,425	– 106	9,385	0	582	3,652	0	84,634	42,140
0	0	0	0	0	0	0	0	86
203,383	– 6,598	24,693	0	582	3,652	0	218,408	322,246
402,345	– 54	10,803	0	790	3,073	0	410,811	248,606
485,301	– 172	20,955	0	171	41,129	0	465,126	150,044
570,658	– 66	42,835	0	2,387	46,752	0	569,062	214,229
0	0	0	0	0	0	0	0	32,736
1,458,304	– 292	74,593	0	3,348	90,954	0	1,444,999	645,615
4,868	0	16	0	0	0	0	4,884	1,766
0	0	3	0	0	0	0	3	122,551
133,774	0	21,455	0	0	0	0	155,229	135,282
84,634	23	9,307	0	290	2,956	0	91,298	34,772
0	0	0	0	0	0	0	0	0
218,408	**23**	**30,765**	**0**	**290**	**2,956**	**0**	**246,530**	**292,605**
410,811	0	10,798	78	2,018	1,005	0	422,700	242,824
465,126	9	22,726	4	1,406	16,162	0	473,109	158,188
569,062	– 34	41,047	– 1,193	2,411	41,574	0	569,719	176,051
0	0	0	0	0	0	0	0	18,059
1,444,999	**– 25**	**74,571**	**– 1,111**	**5,835**	**58,741**	**0**	**1,465,528**	**595,122**
4,884	**0**	**16**	**0**	**0**	**0**	**0**	**4,900**	**1,750**

> CONSOLIDATED SEGMENT REPORT 2009/2010 [1)]

Figures in € thousands

	Press		Postpress		Financial Services	
	1-Apr-2008 to 31-Mar-2009	**1-Apr-2009 to 31-Mar-2010**	1-Apr-2008 to 31-Mar-2009	**1-Apr-2009 to 31-Mar-2010**	1-Apr-2008 to 31-Mar-2009	**1-Apr-2009 to 31-Mar-2010**
External sales	2,621,434	2,058,477	352,830	228,622	25,205	19,304
Depreciation and amortization	91,309	98,083	5,922	5,696	9	9
Non-cash expenses	501,443	299,046	50,823	28,669	26,728	20,423
Special items [2)]	– 158,323	– 22,947	– 20,273	– 5,439	– 391	– 29
Result of operating activities (segment result)	– 192,951	– 132,418	– 51,010	– 36,884	16,384	10,722
Investments	187,842	55,630	10,010	6,842	5	0
Segment assets	2,428,793	2,212,270	230,835	186,222	280,363	219,007

1) For further details please refer to note 37

2) For further details please refer to note 14

Heidelberg Group	
1-Apr-2008 to 31-Mar-2009	**1-Apr-2009 to 31-Mar-2010**
2,999,469	2,306,403
97,240	103,788
578,994	348,138
– 178,987	– 28,415
– 227,577	– 158,580
197,857	62,472
2,939,991	2,617,499

GENERAL NOTES

1 Basis for the presentation of the consolidated financial statements

Heidelberger Druckmaschinen Aktiengesellschaft, based in Heidelberg, Germany, Kurfuersten-Anlage 52 – 60, is the 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.

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 2009/2010 (April 1, 2009 to March 31, 2010). They were approved for publication by the Management Board of Heidelberger Druckmaschinen Aktiengesellschaft on May 25, 2010.

2 Adoption 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) have issued the following new standards and interpretations as well as amendments to existing standards and interpretations, which are to be applied for the first time in financial year 2009/2010:

Standard	Publication by the IASB/IFRIC	Date of adoption [1]	Adopted by EU Commission	Effects
Amendments to standards				
IAS 1: "Presentation of Financial Statements"	06-Sep-07	01-Jan-09	18-Dec-08	> No material effects
IAS 23: "Borrowing Costs"	29-Mar-07	01-Jan-09	17-Dec-08	> No material effects
Amendments to IAS 32 and IAS 1: "Puttable Financial Instruments and Obligations Arising on Liquidation"	14-Feb-08	01-Jan-09	22-Jan-09	> None
Amendments to IFRS 1 and IAS 27: "Cost of an Investment in a Subsidiary, Jointly Controlled Entity, or Associated Company"	22-May-08	01-Jan-09	24-Jan-09	> None
Amendments to IFRS 2: "Share-based Payment"	17-Jan-08	01-Jan-09	17-Dec-08	> None
Amendments to IAS 39 and IFRS 7: "Reclassification of Financial Assets – Effective date and transition"	27-Nov-08	Retroactive to 01-Jul-08	10-Sep-09	> None
Amendment to IFRS 4: "Insurance Contracts" and "Amendments to IFRS 7: Financial Instruments: Disclosures"	05-Mar-09	01-Jan-09	01-Dec-09	> Enhanced disclosure requirements for financial instruments
Amendments to IFRIC Interpretation 9: "Reassessment of Embedded Derivatives" and Amendments to IAS 39: "Financial Instruments: Recognition and Measurement"	12-Mar-09	01-Jan-09	01-Dec-09	> None
"Improvements to International Financial Reporting Standards 2008"	22-May-08	01-Jan-09	24-Jan-09	> No material effects
New standards				
IFRS 8: "Operating Segments"	30-Nov-06	01-Jan-09	22-Nov-07	> No material effects
New interpretations				
IFRIC 12: "Service Concession Arrangements"	30-Nov-06	29-Mar-09	26-Mar-09	> None
IFRIC 13: "Customer Loyalty Programs"	28-Jun-07	01-Jan-09	17-Dec-08	> No material effects
IFRIC 14: "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction"	05-Jul-07	01-Jan-09	17-Dec-08	> No material effects

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

New accounting provisions

The IASB and the IFRIC approved and amended other standards and interpretations, whose application during financial year 2009/2010 is not yet compulsory

Standard	Publication by the IASB/IFRIC	Effective date [1)]	Adopted by EU Commission
Amendments to standards			
IAS 24: "Related Party Disclosures" (Revised 2009)	04-Nov-09	01-Jan-11	Unknown
IAS 27: "Consolidated and Separate Financial Statements"	10-Jan-08	01-Jul-09	12-Jun-09
Amendments to IAS 32: "Financial Instruments: Presentation: Classification of Rights Issues"	08-Oct-09	01-Feb-10	24-Dec-09
Amendments to IAS 39: "Financial Instruments: Recognition and Measurement" – Eligible Hedged Items	31-Jul-08	01-Jul-09	16-Sep-09
IFRS 1: "First-time Adoption of International Financial Reporting Standards"	27-Nov-08	01-Jan-10	26-Nov-09
Amendments to IFRS 1: "Additional Exemptions for First-time Adopters"	23-Jul-09	01-Jan-10	Unknown
Amendments to IFRS 2: "Share-based Payment with Cash Settlement within a Group"	18-Jun-09	01-Jan-10	24-Mar-10
IFRS 3: "Business Combinations"	10-Jan-08	01-Jul-09	12-Jun-09
"Improvements to International Financial Reporting Standards 2009"	16-Apr-09	various, 01-Jan-09 at earliest	24-Mar-10
Amendments to interpretations			
Amendment to IFRIC 14: "Prepayments of a Minimum Funding Requirement"	26-Nov-09	01-Jan-11	Unknown
New standards			
IFRS 9: "Financial Instruments"	12-Nov-09	01-Jan-13	Unknown
New interpretations			
IFRIC 15: "Agreements for the Construction of Real Estate"	03-Jul-08	01-Jan-10	23-Jul-09
IFRIC 16: "Hedges of a Net Investment in a Foreign Operation"	03-Jul-08	01-Jul-09	05-Jun-09
IFRIC 17: "Distributions of Non-cash Assets to Owners"	27-Nov-08	01-Nov-09	27-Nov-09
IFRIC 18: "Transfers of Assets from Customers"	29-Jan-09	01-Nov-09	01-Dec-09
IFRIC 19: "Extinguishing Financial Liabilities with Equity Instruments"	26-Nov-09	01-Jul-10	Unknown

1) For financial years beginning on or after this date

or which have not yet been approved by the European Union (EU). Heidelberg is not currently planning to apply these standards at an early date.

Content	Expected effects
> Companies related to governments only have to provide disclosures on transactions with related parties that are individually or jointly significant. > Simplification of the definition of a related party.	> None
> 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.	> None
> Rights denominated in a currency other than the functional currency of the issuer and issued at a fixed amount proportionately in line with the current shareholders of the company are classified as equity regardless of the currency in which the exercise price is denominated.	> None
> The amendments deal with the inflation risk of a financial hedged item and the one-sided risk of a hedged item.	> Currently being examined
> The amendment to the structure of the standard is to make this more comprehensible for the reader.	> None
> Introduction of exemptions to the retroactive adoption of IFRS for assets in the oil and gas industry and determining whether an agreement contains a lease.	> None
> Goods and services from share-based remuneration agreements are recognized at the recipient company irrespective of whether the company must satisfy the obligation. > Clarification that the meaning of the term “group” is the same in IFRS 2 and IAS 27.	> None
> The changes relate to the determination of the purchase price, the measurement of minority interests, and the recognition of step acquisitions.	> None
> As part of the IASB’s annual improvement project, smaller and non-urgent improvements are made to IFRS.	> Currently being examined
> If a company is subject to minimum financing requirements and makes prepayments the benefit of these prepayments is recognized as an asset.	> Currently being examined
> Introduction of new provisions on the classification and measurement of financial assets > The aim of the IASB is to completely replace IAS 39 in future to increase comprehension of the recognition of financial instruments and to reduce complexity.	> Currently being examined
> 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.	> None
> IFRIC 16 deals with issues relating to the hedging of a foreign operation.	> None
> IFRIC 17 deals with the issue of when and in what amount a non-cash dividend is to be recognized.	> None
> 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.	> None
> Clarification of the recognition of liabilities in full or partial repayment with shares of the company.	> None

3 Scope of the consolidation

The consolidated financial statements of Heidelberger Druckmaschinen Aktiengesellschaft include a total of 75 (previous year: 73) domestic and foreign companies in which Heidelberger Druckmaschinen Aktiengesellschaft has a controlling influence as defined by IAS 27. Of these companies, 64 (previous year: 65) 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. Owing to the business management by Heidelberger Druckmaschinen Aktiengesellschaft, the Company also has a controlling influence over subsidiaries in which it holds less than 50 percent of the capital. These subsidiaries are therefore consolidated in full. 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 include five (previous year: 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.

The company group Hi-Tech Coatings, a British/Dutch coating manufacturer, was acquired in the previous year. The resulting goodwill was reduced by € 3,738 thousand (previous year: € 936 thousand) on account of the assumption that the performance-based purchase price components (earn-out payments) would be lower than on first-time consolidation. The reduction was carried out in equity against the liability created for the earn-out payments.

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

> First-time consolidation:
In the financial year 2009/2010, Saphira Handelsgesellschaft mbH, Waiblingen, Germany, as well as Heidelberger Druckmaschinen Real Estate GmbH & Co. KG, Walldorf, Germany, and Heidelberger Druckmaschinen Vermögensverwaltungsgesellschaft mbH, Walldorf, Germany, were included in the scope of consolidation.

> Merger:
As of April 1, 2009, Hi-Tech Coatings B.V., Zwaag, the Netherlands, was merged with Hi-Tech Coatings International B.V., Zwaag, the Netherlands.

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	
	2008/2009	2009/2010	2008/2009	2009/2010
	€1 =	€1 =	€1 =	€1 =
AUD	1.8267	1.6536	1.9386	1.4650
CAD	1.5884	1.5354	1.6533	1.3731
CHF	1.5565	1.4980	1.5159	1.4316
CNY	9.7249	9.6542	9.0893	9.2025
GBP	0.8404	0.8854	0.9291	0.8933
HKD	11.0093	10.9634	10.2250	10.4682
JPY	143.0442	130.6392	127.9300	124.8000
USD	1.4158	1.4139	1.3193	1.3482

AUD = Australian dollar
CAD = Canadian dollar
CHF = Swiss franc
CNY = Chinese yuan
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.

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. If capitalized development projects meet the criteria of qualifying assets, borrowing costs are capitalized as part of cost in line with the amendment to IAS 23. The corresponding interest expense is calculated using the effective interest method. 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, including those leased in operating leases, are measured 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 that can be assigned directly to qualifying assets are capitalized as a part of cost on account of the amendment to IAS 23. The corresponding interest expense is calculated using the effective interest method.

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.

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.

If economic ownership is not assigned to the Heidelberg Group as the lessee and the leases in question are therefore operating leases, the lease installments are recognized as an expense in the consolidated income statement on a straight-line basis over 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):

Development costs	3 to 12
Software/other rights	3 to 5
Buildings	10 to 50
Technical equipment and machinery	3 to 15
Motor vehicles	6 to 9
Operating and office equipment	4 to 15
Investment property	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 for evidence and indications of impairment. An impairment loss is recognized if the impairment test finds that 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.

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.

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 uncollectible 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 noncurrent 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. Lease payments are broken down into repayments and interest income, and interest income is recognized in the consolidated income statement over the term of the leases reflecting a constant periodic return on the net investment.

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 (2005G) 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 consolidated statement of comprehensive income together with the related deferred taxes.

In the case of defined contribution plans, 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.

Deferred income

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 payment

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 5.0 percent or 4.5 percent respectively (previous year: to 6.25 percent or 5.75 percent respectively) would result in a € 28,298 thousand (previous year: € 20,244 thousand) reduction or a € 30,175 thousand (previous year: € 21,501 thousand) increase in pension claims. After income taxes, the losses offset in equity would be reduced by € 20,335 thousand (previous year: € 14,547 thousand) or increased by € 21,684 thousand (previous year: € 15,450 thousand) respectively.

The impairment test is based on the parameters listed in note 19. As in the previous year, increasing or reducing the discount rate after taxes by one percentage point to 8.0 percent or 6.0 percent respectively (previous year: 8.0 percent and 6.0 percent) 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 and five percent for the changes in the result of operating activities.

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 € 8,499 thousand (previous year: € 8,099 thousand), as well as interest income from sales financing and finance leases amounting to € 19,304 thousand (previous year: € 25,205 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 segment is shown in segment reporting and sales by region are shown in note 37.

9 Other operating income

	2008/2009	2009/2010
Reversal of other provisions and deferred liabilities	71,645	77,863
Recoveries on loans and other assets previously written down	22,490	23,535
Income from operating facilities	16,678	15,081
Hedging/exchange rate gains	28,905	8,921
Income from disposals of intangible assets, tangible assets, and investment property	1,797	643
Other income	48,168	29,478
	189,683	**155,521**

10 Cost of materials

	2008/2009	2009/2010
Expenses for raw materials, consumables and supplies, and of goods purchased and held for resale	1,229,529	932,602
Cost of purchased services	172,025	96,533
Interest expense of Financial Services	1,329	2,216
	1,402,883	**1,031,351**

The ratio of the cost of materials to total operating performance is 47.3 percent (previous year: 45.6 percent).

11 Staff costs and number of employees

	2008/2009	2009/2010
Wages and salaries	890,460	674,508
Retirement benefit expenses [1]	35,962	45,077
Return on plan assets	– 24,328	– 23,816
Other social security contributions and expenses	163,673	120,827
	1,065,767	**816,596**

[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.

Reimbursements from the German Federal Labor Agency for social security expenses as part of reduced working hours decreased staff costs by € 44,737 thousand.

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

		Average		As of
	2008/2009	2009/2010	31-Mar-2009	31-Mar-2010
Europe, Middle East and Africa	14,046	12,757	13,668	11,731
Eastern Europe	775	645	753	615
North America	1,267	1,093	1,176	968
Latin America	403	373	396	365
Asia/Pacific	2,276	2,132	2,226	2,117
	18,767	17,000	18,219	15,796
Trainees	752	768	707	700
	19,519	**17,768**	18,926	**16,496**

[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 € 105,352 thousand (previous year: € 99,302 thousand) relates to intangible assets (€ 30,765 thousand; previous year: € 24,693 thousand), tangible assets (€ 74,571 thousand; previous year: € 74,593 thousand) and investment property (€ 16 thousand; previous year: € 16 thousand).

Impairment on intangible assets and tangible assets of € 1,564 thousand (previous year: € 2,062 thousand) relates solely to intangible assets of the Press segment on account of reduced income prospects (previous year: € 25 thousand). In the year under review, no impairment was recognized on land and buildings (previous year: € 238 thousand), technical equipment and machinery (previous year: € 849 thousand), other operating and office equipment (previous year: € 950 thousand) or investment property (previous year: € 0 thousand).

13 Other operating expenses

	2008/2009	**2009/2010**
Other deliveries and services not included in the cost of materials	205,429	103,709
Special direct sales expenses including freight charges	129,033	101,695
Rent and leases	79,120	71,758
Travel expenses	54,801	37,662
Bad debt allowances and impairment on other assets	41,314	37,334
Hedging/exchange rate losses	30,785	23,038
Additions to provisions and deferred liabilities relating to several types of expense	47,128	19,916
Insurance expense	16,686	14,595
Costs of car fleet (excluding leases)	10,569	7,723
Other overheads	133,822	93,383
	748,687	**510,813**

14 Special items

Special items include expenses and income in connection with both our Heidelberg 2010 program and other efficiency enhancement measures as part of our new segment structure from April 1, 2010.

Regarding the Heidelberg 2010 program, following the agreement of management and staff representatives of Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberger Druckmaschinen Vertrieb Deutschland GmbH and Heidelberg Postpress Deutschland GmbH on October 7, 2009 on the reconciliation of interests as well as a termination benefits plan covering the cutback of employees at the German sites, provisions recognized the previous year in the amount of € 41,847 thousand were released. Taking into consideration expenses for personnel adjustments, expenses of € 16,621 thousand were incurred in the reporting period as part of this program (previous year: € 162,813 thousand) and expenses for other structural measures of € 16,013 thousand (previous year: € 16,174 thousand). These latter expenses mainly relate to consulting costs.

Regarding the measures to enhance efficiency as part of our new segment structure that will apply from April 1, 2010 onwards, expenses for personnel adjustments of € 34,467 thousand were incurred. The remaining expenses of € 3,226 thousand relate to other structural measures in this context and are mainly costs resulting from vacant buildings.

15 Financial result

	2008/2009	2009/2010
Financial income	20,594	19,897
Financial expenses	139,730	147,392
Financial result	– 119,136	**– 127,495**

16 Financial income

	2008/2009	2009/2010
Interest and similar income	13,587	13,849
Income from financial assets/loans/securities	7,007	6,048
Financial income	20,594	**19,897**

17 Financial expenses

	2008/2009	2009/2010
Interest and similar expenses	118,206	133,133
– of which: net interest expenses for pensions	(26,554)	(40,973)
Expenses for financial assets/loans/securities	21,524	14,259
Financial expenses	139,730	**147,392**

Owing to the issuance of loans as part of the new financing concept concluded on August 7, 2009 (see note 29), interest and similar expenses include expenses of € 4,614 thousand. Interest and similar expenses also include the loss on the sale of corporation tax credit of € 17,894 thousand. 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 € 6,151 thousand (previous year: € 7,872 thousand).

18 Taxes on income

Taxes on income are broken down as follows:

	2008/2009	2009/2010
Current taxes	– 7,018	– 7,803
Deferred taxes	– 90,988	– 49,765
	– 98,006	**– 57,568**

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

Income of € 6,010 thousand was recognized from loss carrybacks in the reporting year (previous year: € 0 thousand).

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

No deferred tax liabilities were recognized for temporary differences on shares in subsidiaries of € 285,047 thousand (previous year: € 352,218 thousand) as it is unlikely that these differences will reverse in the foreseeable future or the corresponding effects are not subject to taxation. Any recognition of deferred taxes would be based on the respective applicable tax rates in line with local taxation on distributed dividends.

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 € 436,366 thousand (previous year: € 340,415 thousand). Of these, € 2,045 thousand can be used until 2011 (previous year: € 3,560 thousand until 2010), € 8,398 thousand until 2012 (previous year: zero until 2011), € 3,706 thousand until 2013 (previous year: zero until 2012), € 775 thousand until 2014 (previous year: zero until 2013), € 10,681 thousand until 2015 (previous year: € 6,101 thousand until 2014) and € 410,761 thousand until 2016 and later (previous year: € 330,754 thousand until 2015 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 € 26,503 thousand (previous year: € 45,538 thousand) were recognized in the reporting year. Deferred tax assets of € 2,140 thousand (previous year: € 0 thousand) were recognized for tax loss carryforwards not previously recognized. 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 € 835 thousand (previous year: € 2,520 thousand). On the basis of tax planning, deferred tax assets of € 122,250 thousand (previous year: € 69,346 thousand) were capitalized at companies that generated a tax loss in the current or prior financial year. This was based on the management assessment that positive taxable income will be available in the foreseeable future.

Current taxes were reduced in the reporting year by € 596 thousand (previous year: € 4 thousand) as a result of deferred tax assets for tax loss carryforwards that had not previously been taken into account. Unutilized tax credit for which no deferred tax assets have been recognized on the consolidated balance sheet amounted to € 172 thousand (previous year: € 0 thousand).

In net terms, current income taxes included income of € 27,021 thousand (previous year: € 36,468 thousand) relating to prior periods.

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

	2008/2009	**2009/2010**
Income before taxes	– 346,713	– 286,075
Theoretical tax rate in percent	28.14	28.14
Theoretical tax expense/income	– 97,565	**– 80,502**
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	– 1,428	0
– differing tax rate	– 7,005	499
– Tax loss carryforwards [1]	29,511	28,294
– reduction due to tax-free income	– 12,187	– 5,173
– tax increase due to non-deductible expenses	19,651	11,752
– change in tax provisions/taxes attributable to previous years	– 28,678	– 14,371
– other	– 305	1,933
Taxes on income	– 98,006	**– 57,568**
tax rate in percent	28.27	**20.12**

[1] 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 € 112,942 thousand (previous year: € 115,950 thousand) and € 9,609 thousand (previous year: € 9,609 thousand) respectively. The goodwill for “Hi-Tech Coatings” included in the “Press” cash-generating unit was reduced by € 3,738 thousand (previous year: € 936 thousand) (see note 3).

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 the result of operating activities 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 7.0 percent (previous year: 7.0 percent) after taxes for the cash-generating units. Before taxes, the discount rates amount to 9.7 percent (previous year: 9.0 percent). To extrapolate cash flows beyond the detailed planning period, Heidelberg uses steady growth rates of 1 percent to show expected inflation.

Capitalized **development costs** relate for the most part to the development of machinery in the Press segment. Non-capitalized development costs from all segments – including research expenses – amount to € 118,267 thousand in the reporting year (previous year: € 157,602 thousand).

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 € 5,605 thousand for other operating and office equipment (previous year: € 5,646 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 € 29,068 thousand (previous year: € 34,017 thousand). These assets are reported under technical equipment and machinery. These assets are printing presses leased to customers. The gross carrying amounts were € 47,431 thousand (previous year: € 50,341 thousand) and cumulative depreciation amounted to € 18,363 thousand (previous year: € 16,324 thousand). Depreciation of € 6,756 thousand (previous year: € 5,556 thousand) and impairment of € 0 thousand (previous year: € 735 thousand) were recognized in the reporting year. Future lease income of € 6,648 thousand (previous year: € 17,558 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 € 3,484 thousand (previous year: € 7,701 thousand), € 3,147 thousand (previous year: € 8,149 thousand) and € 17 thousand (previous year: € 1,708 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. In connection with the loan agreements for the new financing concept concluded on August 7, 2009 (see note 29), tangible assets and investment property were pledged as collateral by way of assignment and the appointment of a collective land charge. The carrying amounts of this collateral as of the balance sheet date were € 397,995 thousand and € 1,750 thousand.

The carrying amounts of tangible assets that are partially unused or are no longer used 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 Press segment, the disposal of two developed and one undeveloped plots of land was planned and initiated. In line with IFRS 5, assets of € 16,611 thousand (previous year: € 15,824 thousand) were therefore classified as held for sale as of March 31, 2010.

21 Financial assets

Financial assets include shares in subsidiaries totaling € 9,805 thousand (previous year: € 10,001 thousand), other investments of € 7,179 thousand (previous year: € 11,447 thousand) and securities of € 7,917 thousand (previous year: € 7,409 thousand). As in the previous year, other investments largely comprise the shares held in Goss International Corporation, Bolingbrook, Illinois, USA. The underlying quoted prices for the securities qualify under level 1 in the hierarchy of fair values stipulated by IFRS 7: Financial Instruments: Disclosures as only quoted prices observed on active markets were used in measurement.

22 Receivables and other assets

			31-Mar-2009			**31-Mar-2010**
	Current	Non-current	Total	Current	Non-current	Total
Receivables from sales financing	122,218	150,976	273,194	94,927	116,910	**211,837**
Trade receivables	450,866	0	450,866	395,697	0	**395,697**
Other receivables and other assets						
Other tax assets	17,342	0	17,342	17,729	0	17,729
Loans	683	9,431	10,114	349	9,211	9,560
Derivative financial instruments	31,014	21,824	52,838	20,850	17,483	38,333
Deferred interest	147	0	147	202	0	202
Deferred income	13,400	532	13,932	17,334	966	18,300
Other assets	95,074	8,232	103,306	114,833	24,126	138,959
	157,660	40,019	197,679	171,297	51,786	**223,083**

In the reporting year, plan assets of € 8,905 thousand (previous year: € 0 thousand) are included in non-current other assets (see note 27).

In connection with the loan agreements for the new financing concept concluded on August 7, 2009 (see note 29), trade receivables, receivables from sales financing, and other receivables and other assets were assigned as collateral by way of undisclosed assignment. The carrying amounts of this collateral as of the balance sheet date were € 188,716 thousand, € 124,512 thousand, and € 14,079 thousand respectively.

Receivables from sales financing

Receivables from sales financing are shown in the following table:

Contract currency	Carrying amount 31-Mar-2009 € thousand	Remaining term in years	Effective interest rate (percent)	Carrying amount **31-Mar-2010** € thousand	Remaining term in years	Effective interest rate (percent)
EUR	141,055	up to 8	up to 16	111,140	up to 8	up to 18
USD	45,789	up to 8	up to 11	26,267	up to 6	up to 11
GBP	8,922	up to 6	up to 12	4,474	up to 5	up to 16
JPY	10,481	up to 7	up to 7	3,618	up to 6	up to 7
Other	66,947			66,338		
	273,194			**211,837**		

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

The fair value of receivables from sales financing is essentially the reported carrying amount. 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 € 87,227 thousand (previous year: € 101,592 thousand) was recognized for receivables from sales financing with a gross carrying amount of € 37,579 thousand (previous year: € 31,575 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:

	2008/2009	**2009/2010**
Receivables from sales financing neither past due nor impaired	186,922	148,641
Receivables past due but not impaired		
less than 30 days	6,343	5,720
between 30 and 60 days	1,966	3,333
between 60 and 90 days	1,150	552
between 90 and 180 days	2,357	945
more than 180 days	4,439	2,998
Total	16,255	13,548
	203,177	**162,189**

The total impairment loss in the period for receivables from sales financing was € 13,850 thousand (previous year: € 18,594 thousand). Of this, impairment amounts booked to allowance accounts developed as follows:

	2008/2009	**2009/2010**
As of the start of the financial year	47,849	47,841
Additions	16,199	11,009
Utilization	– 6,586	– 8,886
Reversals	– 10,530	– 9,464
Change in the scope of the consolidation, currency adjustments, other changes	909	2,647
As of the end of the financial year	47,841	**43,147**

Receivables from sales financing include lease receivables from finance leases in which in particular our financing companies act as lessors. Cumulative impairment on these lease receivables amounts to € 2,682 thousand (previous year: € 2,526 thousand). Leases are subject to the following parameters:

	31-Mar-2009				31-Mar-2010			
	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	–	–	–	22,386	–	–	–	25,258
Lease payments received	–	–	–	– 10,940	–	–	–	– 16,679
Outstanding lease payments	3,471	7,738	237	11,446	2,368	6,204	7	8,579
Interest portion of outstanding lease payments	– 454	– 715	– 7	– 1,176	– 535	– 817	0	– 1,352
Present value of outstanding lease payments (carrying amount)	3,017	7,023	230	10,270	1,833	5,387	7	7,227

Trade receivables

A specific allowance for impairment losses of € 56,856 thousand (previous year: € 61,204 thousand) was recognized for trade receivables with a gross carrying amount of € 41,362 thousand (previous year: € 40,088 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:

	2008/2009	2009/2010
Trade receivables neither past due nor impaired	301,439	271,902
Receivables past due but not impaired		
less than 30 days	59,965	48,396
between 30 and 60 days	24,981	23,914
between 60 and 90 days	10,683	14,945
between 90 and 180 days	17,399	8,976
more than 180 days	15,283	12,070
Total	128,311	108,301
	429,750	**380,203**

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

The total impairment loss in the period for trade receivables was € 20,373 thousand (previous year: € 21,176 thousand). Of this, impairment amounts booked to allowance accounts developed as follows:

	2008/2009	2009/2010
As of the start of the financial year	54,979	51,845
Additions	18,240	17,218
Utilization	– 8,509	– 8,114
Reversals	– 12,040	– 12,778
Change in the scope of the consolidation, currency adjustments, other changes	– 825	2,501
As of the end of the financial year	51,845	**50,672**

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 € 4,920 thousand (previous year: € 4,687 thousand) and € 5,168 thousand (previous year: € 4,480 thousand) relate to loans (gross carrying amount € 14,531 thousand; previous year: € 14,808 thousand) and other financial assets (gross carrying amount € 63,523 thousand; previous year: € 46,501 thousand) respectively.

Of the impairment recognized on loans in the previous year, € 124 thousand (previous year: € 251 thousand) were utilized and € 0 thousand (previous year: € 0 thousand) were reversed. Additions to impairment losses of € 224 thousand were required (previous year: € 62 thousand). Of the impairment recognized on other financial assets in the previous year, € 1,096 thousand (previous year: € 911 thousand) were utilized and € 15 thousand (previous year: € 0 thousand) were reversed. Additions to impairment of € 1,793 thousand were required (previous year: € 1,303 thousand).

€ 673 thousand (previous year: € 289 thousand) of unimpaired loans and other financial assets were past due by more than 180 days.

The decrease in income tax assets during the reporting period is primarily attributable to the sale of the corporate tax credit.

Derivative financial instruments essentially include positive fair values of cash flow hedges of € 24,165 thousand (previous year: € 50,294 thousand) and fair value hedges of € 11,923 thousand (previous year: € 2,544 thousand).

23 Deferred tax assets and deferred tax liabilities

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

	31-Mar-2009		31-Mar-2010	
	Asset	Liability	Asset	Liability
Tax loss carryforwards	45,717	0	70,705	0
Assets:				
Intangible assets/tangible assets/investment property/financial assets	6,375	76,521	37,214	70,147
Inventories, receivables, and other assets	29,068	6,442	23,522	6,533
Securities	0	42,563	0	37,125
Liabilities:				
Provisions	90,508	5,238	119,230	4,546
Liabilities	30,620	17,151	26,250	20,001
Gross amount	202,288	147,915	276,921	138,352
Offsetting	110,162	110,162	125,671	125,671
Carrying amount	92,126	37,753	**151,250**	**12,681**

Due to currency translation, deferred tax assets were increased in equity by € 1,990 thousand (previous year: € 8,150 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 € 1,318 thousand in equity (previous year: € 13,596 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 19.58b) adjustment amount in equity totaled € 31,123 thousand (previous year: € 13,109 thousand). There was no change in equity in deferred tax liabilities owing to changes in the scope of the consolidation (previous year: increase of € 4,097 thousand).

The income taxes recognized in the consolidated statement of comprehensive income for the financial years 2008/2009 and 2009/2010 break down as follows:

	2008/2009			2009/2010		
	Before income taxes	Income taxes	After income taxes	Before income taxes	Income taxes	After income taxes
Pension obligations	– 119,591	13,109	– 106,482	– 36,187	31,123	– 5,064
Currency translation	62,182	0	62,182	19,601	0	19,601
Available for sale financial assets	– 1,039	421	– 618	444	– 180	264
Cash flow hedges	– 47,392	13,175	– 34,217	– 4,882	1,498	– 3,384
Total income and expense recognized in equity	– 105,840	26,705	– 79,135	– 21,024	32,441	**11,417**

Deferred tax assets include non-current deferred taxes of € 93,034 thousand (previous year: € 56,666 thousand). Deferred tax liabilities include non-current deferred taxes of € 10,850 thousand (previous year: € 32,302 thousand).

24 Inventories

	31-Mar-2009	31-Mar-2010
Raw materials and supplies	132,495	117,013
Work and services in progress	321,346	338,607
Finished goods and goods for resale	572,829	369,475
Advance payments	7,456	2,068
	1,034,126	**827,163**

In order to adjust inventories to the net realizable value, impairment of € 10,274 thousand was recognized in the year under review (previous year: € 20,580 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 € 2,663 thousand (previous year: € 8,243 thousand) was reported under finished goods and goods held for resale. The carrying amount of the inventories pledged as collateral in connection with the loan agreements for the new financing concept concluded on August 7, 2009 (see note 29) was € 511,957 thousand.

25 Securities and cash and cash equivalents

Securities of € 889 thousand were classified as financial assets available for sale under IAS 39 in the previous year. These were all shares and fixed-income securities. The underlying quoted prices correspond to level 1 in the hierarchy of fair values stipulated by IFRS 7: Financial Instruments: Disclosures as only quoted prices observed on active markets were used in measurement.

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 € 58,731 thousand (previous year: € 31,160 thousand). Bank balances are exclusively held for short-term cash management purposes. The carrying amount of the balance in an account on which there are restrictions on disposal pledged as collateral in connection with the loan agreements for the new financing concept concluded on August 7, 2009 (see note 29) was € 1 thousand.

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 Heidelberger Druckmaschinen Aktiengesellschaft.

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. As in the previous year, the share capital of Heidelberger Druckmaschinen Aktiengesellschaft amounts to € 199,791,191.04 and is divided into 78,043,434 shares.

As of March 31, 2010, 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, 2010 (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 treasury 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 permissible 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, it was also possible to use the shares while disapplying subscription rights; these options for use also applied to the treasury shares 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. By the time it expired on January 15, 2010, the Management Board had not utilized the authorization of the Annual General Meeting of July 18, 2008.

Capital reserves

The capital reserves essentially include amounts from the simplified capital reduction in line with Section 237 (5) AktG (Stock Corporation Act) and expenses from the issuance of option rights to employees in line with IFRS 2: Share-based Payment.

Convertible bond

On the basis of the authorization of the Annual General Meeting on July 21, 2004 to issue bearer bonds with warrants and/or convertible bonds with a total nominal amount of up to € 500,000,000.00 with a term of not more than 20 years, a convertible bond with a nominal amount of € 280 million was issued via the wholly owned financing subsidiary Heidelberg International Finance B.V., Boxmeer, the Netherlands, on February 9, 2005, guaranteed by Heidelberger Druckmaschinen Aktiengesellschaft. The bond was issued in € 100,000.00 denominations and matures on February 9, 2012. The bond carried a conversion right to no-par-value shares of Heidelberger Druckmaschinen Aktiengesellschaft which, at the discretion of the respective bearer, could 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 was 0.875 percent p. a. and was payable annually – for the first time on February 9, 2006. The annual yield to maturity was 3 percent. From February 9, 2009, in accordance with the conditions governing the bonds, Heidelberg was 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. As of February 9, 2010, the respective bearer of the convertible bond had the right to early repayment of the bond through payment of the then accrued nominal amount plus interest accrued by the repayment date.

As of July 21, 2008, in accordance with the conditions governing the bonds, the conversion price was adjusted to € 35.47 for the last time. This adjustment occurred due to the dividend distribution of € 0.95 per share for the financial year 2007/2008.

In the third quarter of the 2009/2010 financial year, most investors in our convertible bond exercised their right to early repayment in accordance with Section 4 (5) of the terms and conditions in the amount of nominally € 270,600 thousand as of February 9, 2010. The outstanding total nominal amount of the remaining bonds therefore amounted to € 9,400 thousand.

In the fourth quarter, Heidelberg International Finance B.V., Boxmeer, the Netherlands, exercised its right to early repayment of the remaining € 9,400 thousand under Section 4 (4) of the terms and conditions of the bond.

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 had 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 of Heidelberger Druckmaschinen Aktiengesellschaft 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 Heidelberger Druckmaschinen Aktiengesellschaft 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.

By way of resolution dated July 23, 2009, the Annual General Meeting authorized the Management Board, with the approval of the Supervisory Board, to increase the share capital of the Company by up to € 39,958,236.16 on one or several occasions against cash contributions by July 1, 2014 (Authorized Capital 2009). The subscription rights of shareholders can be disapplied in accordance with the more detailed provisions in Article 3 (9) of the Articles of Association, with the approval of the Supervisory Board.

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.

Appropriation of the net profit of Heidelberger Druckmaschinen Aktiengesellschaft

In accordance with the resolution of the Annual General Meeting of July 23, 2009, the unappropriated surplus for financial year 2008/2009 of € 50,527,874.47 was distributed as follows: allocation to retained earnings of € 50,000,000.00 and carryforward of the remainder of € 527,874.47 to new account.

To settle the loss generated by Heidelberger Druckmaschinen Aktiengesellschaft in the year under review of € 105,727,558.74 and for allocation to the reserve for treasury shares in the amount of € 675,600.00, in the annual financial statements a total of € 105,875,284.27 was withdrawn from reserves after offsetting the profit carried forward of € 527,874.47. In line with Section 150 (4) no. 1 AktG, in the annual financial statements capital reserves in the amount of € 10,980,282.39, the legal reserve of € 20,451,675.25 and other revenue reserves of € 74,443,326.63 were utilized.

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 € 50,554 thousand (previous year: € 87,938 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 19.58b) 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

	2008/2009		**2009/2010**	
	Germany	Abroad	**Germany**	**Abroad**
Discount rate	6.00	4.95	4.75	4.55
Expected return on plan assets	5.59	5.14	3.73	5.44
Expected future salary increases	3.00	2.78	3.00	2.68
Expected future pension increases	2.00	1.89	2.00	2.00

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) Five-year comparison: total defined benefit obligation and experience adjustments.

1) The net carrying amounts break down as follows:

	31-Mar-2009	**31-Mar-2010**
Provisions for pensions and similar obligations	154,162	225,378
Reported assets	0	8,905
Net carrying amounts at the end of the financial year	154,162	**216,473**

The net carrying amounts developed as follows:

	2008/2009	**2009/2010**
Net carrying amounts at the start of the financial year	21,833	154,162
Expenses for pension obligations	61,493	67,003
Pension payments	– 1,824	– 7,542
Funding of pensions/contributions	– 7,183	– 6,460
Change in actuarial gains (–)/losses (+)	127,361	36,187
Expected return on plan assets	– 43,939	– 29,864
Change in adjustment amount due to IAS 19.58b)	– 7,686	0
Change in the scope of the consolidation, currency adjustments, other changes	4,107	2,987
Net carrying amounts at the end of the financial year	154,162	**216,473**

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-2009	**31-Mar-2010**
Present value of defined benefit obligation (funded)	832,648	996,681
Less fair value of plan assets	– 702,810	– 806,263
	129,838	190,418
Present value of defined benefit obligation (unfunded)	24,324	26,055
Adjustment amount due to IAS 19.58b)	0	0
Net carrying amount	154,162	216,473
Reported assets included therein	0	8,905
Provisions for pensions and similar obligations	154,162	**225,378**

3) The defined benefit obligation developed as follows:

	2008/2009	**2009/2010**
Defined benefit obligation at the start of the financial year	831,765	856,972
Current service cost	18,847	18,977
Interest expense	46,165	47,021
Pension payments	– 38,079	– 44,056
Change in actuarial gains (–)/losses (+)	19,256	125,131
Past service cost	0	1,430
Curtailments	– 3,519	– 425
Change in the scope of the consolidation, currency adjustments, other changes	– 17,463	17,686
Defined benefit obligation at the end of the financial year	856,972	**1,022,736**
– of which: funded	832,648	996,681
– of which: unfunded	24,324	26,055

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

	2008/2009	**2009/2010**
Fair value of plan assets at the start of the financial year	817,618	702,810
Expected return on plan assets	43,939	29,864
Funding of pensions	3,901	3,211
Employee contributions	3,282	3,249
Pension payments from funds	– 36,255	– 36,514
Change in actuarial gains (+)/losses (–)	– 108,105	88,944
Change in the scope of the consolidation, currency adjustments, other changes	– 21,570	14,699
Fair value of plan assets at the end of the financial year	702,810	**806,263**

The actual return on plan assets is € 118,808 thousand (previous year: expense € 64,166 thousand).

5) Plan assets break down as follows:

	31-Mar-2009	**31-Mar-2010**
Fixed-income securities	440,006	442,011
Shares	169,787	261,257
Real estate	35,032	33,856
Cash and cash equivalents	16,834	29,033
Qualifying insurance policy	28,707	28,772
Other	12,444	11,334
	702,810	**806,263**

6) Retirement benefit expenses break down as follows:

	2008/2009	**2009/2010**
Current service cost [1]	18,847	18,977
Interest expense	46,165	47,021
Past service cost [1]	0	1,430
Curtailments [1]	– 3,519	– 425
Expenses for pension obligations	61,493	67,003
Expected return on plan assets	– 43,939	– 29,864
Expenses for other pension plans [1]	20,634	25,095
	38,188	**62,234**

[1] Retirement benefit expenses reported under staff costs before netting against the return on plan assets amount to € 45,077 thousand (previous year: € 35,962 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 € 135,160 thousand as of the balance sheet date (previous year: gain of € 96,814 thousand).

7) Five-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	**31-Mar-2010**
Present value of defined benefit obligation (funded)	841,874	946,726	810,564	832,648	996,681
Less fair value of plan assets	– 785,321	– 875,990	– 817,618	– 702,810	– 806,263
	56,553	70,736	– 7,054	129,838	**190,418**
Present value of defined benefit obligation (unfunded)	144,797	23,450	21,201	24,324	26,055

	2005/2006	2006/2007	2007/2008	2008/2009	**2009/2010**
Experience adjustments to liabilities	3,926	2,318	– 1,699	1,223	14,846
Experience adjustments to assets	27,825	– 7,962	– 57,071	– 108,105	88,944

28 Other provisions

			31-Mar-2009			**31-Mar-2010**
	Current	Non-current	Total	Current	Non-current	Total
Tax provisions	69,745	210,326	280,071	25,525	215,989	**241,514**
Other provisions						
Staff obligations	68,729	53,906	122,635	60,349	54,777	115,126
Sales obligations	143,841	11,980	155,821	116,744	16,063	132,807
Other	187,184	72,843	260,027	154,435	68,668	223,103
	399,754	138,729	538,483	331,528	139,508	471,036
	469,499	349,055	818,554	357,053	355,497	**712,550**

	As of 1-Apr-2009	Changes in the scope of consolidation, currency adjustments, reclassification	Utilization	Release	Addition	As of 31-Mar-2010
Tax provisions	280,071	– 231	38,237	24,438	24,349	**241,514**
Other provisions						
Staff obligations	122,635	– 1,689	55,359	7,884	57,423	115,126
Sales obligations	155,821	2,215	50,897	50,028	75,696	132,807
Other	260,027	4,659	55,204	53,993	67,614	223,103
	538,483	5,185	161,460	111,905	200,733	471,036
	818,554	4,954	199,697	136,343	225,082	**712,550**

Additions include accrued interest and the effects of the change in discount rates of € 3,361 thousand (previous year: € 6,078 thousand). These relate to expenses of € 3,410 thousand (previous year: € 3,581 thousand) for staff obligations, € 1,073 thousand (previous year: € 248 thousand) for sales obligations and income of € 1,122 thousand (previous year: expense of € 2,249 thousand) for miscellaneous other provisions.

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

Staff provisions essentially relate to bonuses (€ 23,671 thousand; previous year: € 22,459 thousand), expenses for early retirement payments and for the partial retirement program (€ 26,148 thousand; previous year: € 29,223 thousand), and anniversary expenses (€ 16,953 thousand; previous year: € 16,465 thousand).

Sales provisions mainly relate to warranties, reciprocal liability, and buyback obligations (€ 89,628 thousand; previous year: € 109,002 thousand). The provisions for warranty obligations, and obligations to provide subsequent performance and product liability serve to cover risks that are either not insured or which go beyond insurable risks. Of the reciprocal liability and buyback obligations of € 16,818 thousand (previous year: € 17,224 thousand), € 11,739 thousand (previous year: € 14,783 thousand) relates to financial guarantees issued to finance partners of our customers for sales financing. The maximum risk of default of these financial guarantees that can result in cash outflows in the subsequent financial year is € 104,250 thousand (previous year: € 117,746 thousand). 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 € 52,780 thousand (previous year: € 57,591 thousand) and research and development obligations of € 7,424 thousand (previous year: € 7,727 thousand). They also include provisions of € 123,056 thousand (previous year: € 152,497 thousand) for measures in connection with our **Heidelberg 2010 program** and the other measures to enhance efficiency as part of our new segment structure that will apply from April 1, 2010 onwards.

29 Financial liabilities

			31-Mar-2009			31-Mar-2010
	Current	Non-current	Total	Current	Non-current	Total
Convertible bond	303,823	0	303,823	0	0	0
Borrower's note loans [1]	62,105	61,500	123,605	7,042	54,500	61,542
Amounts due to banks	246,423	63,281	309,704	323,228	407,624	730,852
From finance lease contracts	3,646	2,157	5,803	3,343	2,282	5,625
Other	16,827	156	16,983	17,442	85	17,527
	632,824	127,094	759,918	351,055	464,491	**815,546**

[1] Including deferred interest

Convertible bond

As the bearers of the convertible bond had the right to early repayment, the convertible bond was reported as current in the previous year in accordance with the classification regulations of IAS 1.

In the third quarter of the financial year 2009/2010, most of the investors in our convertible bond exercised their right to early repayment in accordance with Section 4 (5) of the terms and conditions in a nominal amount of € 270,600 thousand as of February 9, 2010. The outstanding total nominal amount of the remaining bonds therefore amounted to € 9,400 thousand. In the fourth quarter, Heidelberg International Finance B.V., Boxmeer, the Netherlands, exercised its right to early repayment of the remaining € 9,400 thousand under Section 4 (4) of the terms and conditions. The repayment amount of € 311,631 thousand arising from the above rights was largely refinanced by the KfW loan committed as part of our new financing concept.

Please also see note 26 Shareholders' equity for more information.

Borrower's note loans

Two (previous year: three) floating-rate borrower's note loans with a nominal amount of € 61,500 thousand (previous year: € 123,500 thousand) are currently outstanding. While one of these loans, with a nominal amount of € 11,500 thousand (previous year: € 18,500 thousand), has an amortizing repayment structure and matures in 2011, the other has a nominal amount of € 50,000 thousand and provides for a bullet maturity repayment in 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 31-Mar-2009 € thousand	Remaining term in years	Effective interest rate (percent)	Carrying amount 31-Mar-2010 € thousand	Remaining term in years	Effective interest rate (percent)
Loans	EUR	417,009	up to 9	up to 7.5	776,378	up to 8	up to 9.25
Loans	Other	0	–	–	14,317	up to 5	up to 6.95
Current account	EUR	8,545	–	up to 2.9	0	–	–
Other	Other	7,755	up to 1	up to 8.0	1,699	up to 1	up to 12.25
		433,309			**792,394**		

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 € 62,325 thousand (previous year: € 68,835 thousand), the lender was granted usufractory rights to three developed properties. 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. The usufractory rights can be commuted after ten years. The fair value calculated on the basis of the discounted cash flow method using market interest rates is € 65,726 thousand (previous year: € 71,831 thousand).

The **credit lines** not yet fully used in our Group amount to € 731,028 thousand (previous year: € 829,935 thousand) as of the balance sheet date.

At the start of the year under review, extensive talks were held with a syndicate of banks on the basis of a detailed financing concept to reorganize the financing structure of the Heidelberg Group. On August 7, 2009 negotiations on the new financing concept were concluded and the corresponding credit agreements with the banks were signed. We were in receipt of the complete deeds of guarantee from the Federal Republic of Germany and the States of Baden-Wuerttemberg and Brandenburg on August 18, 2009. The financing package which provides the Company with a credit line of around € 1.4 billion for the period up to the middle of 2012 consists of a loan of originally € 300 million from the Special Program of the KfW (Reconstruction Loan Corporation) for large companies, a € 550 million loan 90 percent backed by guarantee pledges from the Federal Government and the above-mentioned States, and a syndicated credit line of € 550 million granted by a banking syndicate; € 290.6 million of the KfW loan was fully utilized in the fourth quarter of the year under review to refinance our convertible bond.

In March 2010, Heidelberg obtained approval from the relevant banks for an amendment request to adjust the originally agreed financial covenants in line with the changing economic environment.

The carrying amounts of the collateral pledged in connection with these loan agreements as part of a collateral pool concept is shown under the appropriate text numbers. Furthermore, collateral was also provided in the form of pledged shares in subsidiaries. The additional liability comprises the net assets of these companies including the carrying amounts of other collateral provided and in line with country-specific regulations on liability limitation.

Liabilities from finance leases

Liabilities from finance leases are as follows:

	31-Mar-2009				31-Mar-2010			
	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	–	–	–	16,089	–	–	–	15,750
Lease payments already made	–	–	–	– 10,145	–	–	–	– 10,006
Outstanding lease payments	3,758	2,186	0	5,944	3,407	2,217	120	5,744
Interest portion of outstanding lease payments	– 112	– 29	0	– 141	– 64	– 44	– 11	– 119
Present value of outstanding lease payments (carrying amount)	3,646	2,157	0	5,803	3,343	2,173	109	**5,625**

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-2009			31-Mar-2010		
	Current	Non-current	Total	Current	Non-current	Total
Deferred liabilities (staff)	59,904	0	59,904	42,982	0	42,982
Advance payments on orders	91,483	0	91,483	59,783	0	59,783
From derivative financial instruments	42,335	32,927	75,262	18,376	24,098	42,474
From other taxes	36,396	0	36,396	31,838	0	31,838
Relating to social security	6,495	1,947	8,442	7,519	4,656	12,175
Deferred income	60,780	37,002	97,782	56,888	30,933	87,821
Other	44,782	76,716	121,498	40,418	82,595	123,013
	342,175	148,592	490,767	257,804	142,282	**400,086**

Derivative financial instruments

Derivative financial instruments essentially include negative fair values from cash flow hedges of € 38,601 thousand (previous year: € 65,413 thousand) and from fair value hedges of € 1,628 thousand (previous year: € 9,849 thousand).

Deferred income

Deferred income includes taxable investment subsidies of € 3,818 thousand (previous year: € 4,950 thousand), tax-free investment allowances of € 1,388 thousand (previous year: € 2,119 thousand), and other deferred income of € 82,615 thousand (previous year: € 90,713 thousand).

Taxable subsidies essentially 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 € 3,651 thousand (previous year: € 4,950 thousand).

Tax-free allowances include allowances in line with the German Investment Allowance Act of 1991/1996/1999/2005/2007 of € 1,388 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. The fair value of a long-term financial liability calculated on the basis of the discounted cash flow method using market interest rates is € 49,877 thousand (previous year: € 60,204 thousand) compared to the carrying amount of € 66,049 thousand (previous year: € 63,032 thousand). The carrying amounts of the miscellaneous non-current other financial liabilities are largely the same as their fair values.

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 > ASSETS

Balance sheet items	IAS 39 measurement category[1]	Carrying amounts			Carrying amounts		
		31-Mar-2009			31-Mar-2010		
		Current	Non-current	Total	Current	Non-current	Total
Financial assets							
Shares in affiliated companies	AfS	0	10,001	10,001	0	9,805	9,805
Other investments	AfS	0	11,447	11,447	0	7,179	7,179
Securities	AfS	0	7,409	7,409	0	7,917	7,917
		0	28,857	28,857	0	24,901	24,901
Receivables from sales financing							
Receivables from sales financing (excluding finance leases)	L & R	119,201	143,723	262,924	93,094	111,516	204,610
Receivables from finance leases	n. a.	3,017	7,253	10,270	1,833	5,394	7,227
		122,218	150,976	273,194	94,927	116,910	211,837
Trade receivables	L & R	450,866	0	450,866	395,697	0	395,697
Other receivables and other assets							
Derivative financial instruments	n. a.[2]	31,014	21,824	52,838	20,850	17,483	38,333
Other financial assets	L & R	80,960	13,199	94,159	78,946	12,548	91,494
		111,974	35,023	146,997	99,796	30,031	129,827
Miscellaneous other assets		45,686	4,996	50,682	71,501	21,755	93,256
		157,660	40,019	197,679	171,297	51,786	223,083
Securities	AfS	889	0	889	0	0	0
Cash and cash equivalents	L & R	79,117	0	79,117	120,696	0	120,696

[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 € 2,245 thousand in short-term hedging instruments (previous year: zero) assigned to the IAS 39 measurement category of Financial instruments held for trading

> RECONCILIATION > TOTAL EQUITY AND LIABILITIES

Balance sheet items	IAS 39 measurement category[1]	Carrying amounts			Carrying amounts		
				31-Mar-2009			**31-Mar-2010**
		Current	Non-current	Total	Current	Non-current	Total
Financial liabilities							
Convertible bond	FLAC	303,823	0	303,823	0	0	0
Borrower's note loans	FLAC	62,105	61,500	123,605	7,042	54,500	61,542
Amounts due to banks	FLAC	246,423	63,281	309,704	323,228	407,624	730,852
Liabilities from finance leases	n. a.	3,646	2,157	5,803	3,343	2,282	5,625
Other financial liabilities	FLAC	16,827	156	16,983	17,442	85	17,527
		632,824	127,094	759,918	351,055	464,491	815,546
Trade payables	FLAC	181,920	0	181,920	132,073	0	132,073
Other liabilities							
Derivative financial instruments	n. a.[2]	42,335	32,927	75,262	18,376	24,098	42,474
Other financial liabilities	FLAC	100,791	65,057	165,848	84,786	71,526	156,312
		143,126	97,984	241,110	103,162	95,624	198,786
Miscellaneous other liabilities		199,049	50,608	249,657	154,642	46,658	201,300
		342,175	148,592	490,767	257,804	142,282	400,086

[1] Explanations of the abbreviations of the IAS 39 measurement categories:
FLAC: financial liabilities at amortized cost
n. a.: no IAS 39 measurement category

[2] Derivative financial instruments include € 2,245 thousand in short-term hedging instruments (previous year: zero) assigned to the IAS 39 measurement category of Financial instruments held for trading

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 reporting date rates. Financial liabilities repayable on demand are always assigned to the earliest time band. Utilization of the syndicated credit and the secured loan is on a current basis. The period of utilization is normally not more than three months. These loans have therefore been assigned to the “Up to 1 year” column, although the agreements on which they are based run until July 2012.

	31-Mar-2009	**31-Mar-2010**
Up to 1 year	631,140	340,217
Between 1 and 5 years	123,012	546,110
More than 5 years	36,495	27,465
	790,647	**913,792**

Net gains and losses

The net gains and losses are assigned to the IAS 39 measurement categories as follows:

	2008/2009	**2009/2010**
Available for sale financial assets	– 7,418	– 5,172
Loans and receivables	– 22,701	– 11,803
Financial liabilities at amortized cost	– 38,409	– 49,222

Changes in the value of available for sale financial assets of € 444 thousand (previous year: € – 1,039 thousand) were also recognized in equity.

Net gains and losses include € 7,730 thousand (previous year: € 10,277 thousand) of interest income and € 61,889 thousand (previous year: € 41,357 thousand) of interest expenses for financial assets and financial liabilities not measured at fair value through profit or loss.

In addition, there were net gains on financial instruments held for trading of € 49 thousand (previous year: net losses of € – 521 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.

At the start of the year under review, extensive talks were held with a syndicate of banks on the basis of a detailed financing concept to reorganize the financing structure of the Heidelberg Group. On August 7, 2009 negotiations on the new financing concept were concluded and the corresponding credit agreements with the banks were signed. We were in receipt of the complete deeds of guarantee from the Federal Republic of Germany and the States of Baden-Wuerttemberg and Brandenburg on August 18, 2009. The financing package that provides the Company with a credit line of around € 1.4 billion for the period until mid-2012 consists of a loan of originally € 300 million from the Special Program of the KfW (Reconstruction Loan Corporation) for large companies, a € 550 million loan 90 percent backed by guarantee pledges from the Federal Government and the above-mentioned States, and a syndicated credit line of € 550 million granted by a banking syndicate; € 290.6 million of the KfW loan was fully utilized in the fourth quarter of the year under review to refinance our convertible bond.

In the reporting year, the Heidelberg Group was able to promptly meet its financial liabilities at all times.

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-2009	**31-Mar-2010**	31-Mar-2009	**31-Mar-2010**
Currency hedging				
Cash flow hedge				
Forward exchange transactions	436,093	273,800	5,983	– 7,174
– of which: positive fair value	(255,098)	(88,640)	(8,948)	(3,931)
– of which: negative fair value	(180,995)	(185,160)	(– 2,965)	(– 11,105)
Currency options	2,259,861	1,344,421	– 18,165	– 4,096
– of which: positive fair value	(1,220,161)	(760,071)	(41,346)	(20,234)
– of which: negative fair value	(1,039,700)	(– 584,350)	(– 59,511)	(– 24,330)
	2,695,954	1,618,221	– 12,182	– 11,270
Fair value hedge				
Forward exchange transactions	588,669	559,077	– 7,305	10,295
– of which: positive fair value	(155,276)	(413,180)	(2,544)	(11,923)
– of which: negative fair value	(433,393)	(145,897)	(– 9,849)	(– 1,628)
Interest rate hedging				
Cash flow hedge				
Interest rate swaps	134,101	112,686	– 2,937	– 3,166
– of which: positive fair value	(0)	(0)	(0)	(0)
– of which: negative fair value	(134,101)	(112,686)	(– 2,937)	(– 3,166)

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 were calculated using standardized measurement procedures (discounted cash flow and option pricing models), which is level 2 of the fair value calculation hierarchy of IFRS 7: Financial Instruments: Disclosures as only input data observed on the market was used.

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 reporting date rates.

	Up to 1 year	Between 1 and 5 years	More than 5 years	Total undiscounted cash flows
31-Mar-2009				
Derivative financial liabilities				
Outgoing payments	– 724,120	– 82,641	0	– 806,761
Associated incoming payments	701,770	80,019	0	781,789
Derivative financial assets				
Outgoing payments	– 525,083	0	0	– 525,083
Associated incoming payments	537,389	0	0	537,389
31-Mar-2010				
Derivative financial liabilities				
Outgoing payments	– 356,871	– 86,581	0	– 443,452
Associated incoming payments	340,712	82,189	0	422,901
Derivative financial assets				
Outgoing payments	– 531,205	– 37,200	0	– 568,405
Associated incoming payments	548,929	38,625	0	587,554

Currency hedging

Cash flow hedge

The forward exchange and currency option transactions outstanding as of the balance sheet date essentially hedge highly likely currency risks expected from purchase volumes of our subsidiaries over the next 36 months. Therefore, the remaining term of these derivatives at the balance sheet date was up to three years. Of the hedges, 42 percent (previous year: 47 percent) of the hedging volume relates to the US dollar and 46 percent (previous year: 38 percent) to the Japanese yen as of the balance sheet date.

On the balance sheet date, hedges resulted in total positive fair values of € 24,165 thousand (previous year: € 50,294 thousand) and negative fair values of € 35,435 thousand (previous year: € 62,476 thousand). The change in value of the designated portion of the hedge was recognized in equity and will be taken to income from operating activities over the subsequent 36 months. As the forecast purchasing volumes of our subsidiaries are no longer highly likely, cash flow hedges were terminated early and expenses totaling € 2,607 thousand (previous year: € 3,552 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 within the Group. The opposing net gain on the fair value of hedges of € – 16,678 thousand (previous year: € 55,629 thousand) and the translation of hedged items at reporting date rates of € 16,536 thousand (previous year: € – 51,970 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 three years and are in line with our planning horizon. As of the balance sheet date, the measurement of all transactions resulted in negative fair values of € 3,166 thousand (previous year: € 2,937 thousand), which were recognized in equity and will be released to net financial income over the term of the transactions. The expenses from deferred interest included in the fair values of the interest rate swaps of € 80 thousand (previous year: € 107 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 € 18,278 thousand (previous year: € 32,334 thousand) higher as at the balance sheet date and the financial result would have been € 13,872 thousand higher (previous year: € 31,577 thousand higher). Assuming a 10 percent decrease in the value of the euro, the hedge reserve would have been € 35,898 thousand (previous year: € 73,712 thousand) lower and the financial result would have been € 1,929 thousand (previous year: € 5,294 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 € 2,449 thousand (previous year: € 2,073 thousand) higher as at the balance sheet date and the financial result would have been € 2,841 thousand (previous year: € 2,549 thousand) lower. Assuming a decrease of 100 basis points in the market interest rate across all terms, the hedge reserve would have been € 2,549 thousand (previous year: € 2,173 thousand) lower and the financial result would have been € 2,841 thousand (previous year: € 2,549 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 € 3,615 thousand as of March 31, 2010 (previous year: € 16,561 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.

34 Other financial liabilities

Other financial liabilities break down as follows:

				31-Mar-2009				31-Mar-2010
	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	59,031	149,835	134,302	343,168	54,762	151,443	132,740	338,945
Investments and other purchasing requirements	39,708	25,111	0	64,819	31,619	12,067	0	43,686
	98,739	174,946	134,302	407,987	**86,381**	**163,510**	**132,740**	**382,631**

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 € 42,059 thousand (previous year: € 45,389 thousand);
- the Print Media Academy (Heidelberg) in the amount of € 35,315 thousand (previous year: € 46,665 thousand);
- the World Logistics Center (WLC) (Wiesloch-Walldorf plant) in the amount of € 32,930 thousand (previous year: € 28,913 thousand);
- the X-House administrative building (Heidelberg) in the amount of € 14,731 thousand (previous year: € 16,612 thousand);
- the administrative and production building in Rochester, New York, USA, in the amount of € 37,065 thousand (previous year: € 22,464 thousand);
- the administrative and production building in Durham, USA, in the amount of € 19,358 thousand (previous year: € 21,281 thousand); and
- motor vehicles with a total value of € 25,849 thousand (previous year: € 26,540 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

	2008/2009	2009/2010
Consolidated net loss for the year (€ thousand)	– 248,707	– 228,507
Number of shares in thousands (weighted average)	77,643	77,643
Undiluted earnings per share (€)	– 3.20	– 2.94
Diluted earnings per share (€)	– 3.20	– 2.94

The undiluted earnings per share are calculated by dividing the consolidated net loss for the year by the weighted average number of the shares outstanding in the reporting year of 77,643 thousand (previous year: 77,643 thousand shares). Earnings per share can be diluted by so-called potential shares that could have arisen from the issuance of the convertible bond. As a result of the full repayment of the convertible bond in the year under review, there was no dilutive effect as a result of the inclusion of potential shares owing to the convertible bond as of the balance sheet date. Please see note 26 Shareholders' equity for our comments 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 € 3,740 thousand (previous year: € 1,396 thousand) are not included in the investments in intangible assets, tangible assets, and investment property.

€ 4,184 thousand (previous year: € 36,038 thousand) of investments in intangible assets and tangible assets relate to intangible assets, € 54,548 thousand (previous year: € 161,819 thousand) to tangible assets. € 15 thousand (previous year: € 443 thousand) of income from the disposal of intangible assets, tangible assets, and investment property relates to intangible assets and € 41,058 thousand (previous year: € 31,579 thousand) to tangible assets.

The proceeds from the disposals of financial assets in the previous year 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 is 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-2009	**31-Mar-2010**
Current securities	889	0
Cash and cash equivalents	79,117	120,696
Total cash and cash equivalents	80,006	**120,696**

37 Information on segment reporting

In the Heidelberg Group, segments are defined by the services performed by the divisions. The segments are based on internal reporting in line with the **management approach.**

The Press segment 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 segment. Our service activities and our consumables and used machinery business are both a part of the Press segment and the Postpress segment. Our sales financing services form the Financial Services segment. Further information on products and services can be found in section “Organization and Product Portfolio” in the Group management report.

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.

Notes on segment data

Segment performance is measured on the basis of the result of operating activities as shown in the consolidated income statement.

External sales by product break down as follows:

	2008/2009	2009/2010
Equipment	1,898,331	1,270,819
Services	1,075,933	1,016,280
Financial Services	25,205	19,304
	2,999,469	**2,306,403**

In the year under review and the previous year, the Heidelberg Group did not generate more than 10 percent of (external) sales with any one customer.

Inter-segment sales are of minor financial significance.

Investments comprise investments in intangible assets, tangible assets, and investment property.

The segment result is assigned to income before taxes as follows:

	1-Apr-2008 to 31-Mar-2009	1-Apr-2009 to 31-Mar-2010
Result of operating activities (segment result)	– 227,577	– 158,580
Financial income	20,594	19,897
Financial expenses	139,730	147,392
Financial result	– 119,136	– 127,495
Income before taxes	– 346,713	**– 286,075**

Segment assets are assigned to Group assets as follows:

	31-Mar-2009	31-Mar-2010
Segment assets	2,939,991	2,617,499
+ Financial assets	28,857	24,901
+ Financial receivables	63,100	49,336
+ Deferred tax assets	92,126	151,250
+ Tax refund claims	116,199	36,256
+ Securities	889	0
Group assets	3,241,162	**2,879,242**

Financial receivables comprise financial receivables from subsidiaries and other financial assets.

Information by region

External sales by region according to the domicile of the customer were as follows:

	1-Apr-2008 to 31-Mar-2009	1-Apr-2009 to 31-Mar-2010
Europe, Middle East and Africa		
Germany	570,138	374,008
Other Europe, Middle East and Africa regions	868,901	602,957
	1,439,039	**976,965**
Asia/Pacific		
China	228,027	321,709
Other Asia/Pacific regions	437,111	347,290
	665,138	**668,999**
Eastern Europe	347,144	**247,756**
North America	373,894	**268,260**
Latin America	174,254	**144,423**
	2,999,469	**2,306,403**

Of the non-current assets, which comprise intangible assets, tangible assets, and investment property, € 646,091 thousand (previous year: € 705,972 thousand) relates to Germany and € 243,385 thousand (previous year: € 263,655 thousand) to other countries.

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. These focus on ensuring liquidity and credit-worthiness and increasing the enterprise value of the Heidelberg Group on an ongoing basis. We calculate the value contribution for a reporting period, the benchmark used for this as the net total of return on capital employed (ROCE) and capital costs (see Group management report, page 40). The value contribution shows whether the Heidelberg Group earned its capital costs in the period under review. The following capital structure is used to calculate the cost of capital:

	2008/2009	2009/2010
Shareholders' equity	796,126	578,950
– Net deferred taxes	54,373	138,569
Adjusted shareholders' equity	741,753	**440,381**
Annual average	1,000,981	591,067
Pension provisions	154,162	225,378
+ Tax provisions	280,071	241,514
+ Net tax receivables/liabilities	– 77,841	– 2,440
+ Non-operating financial liabilities	689,164	749,207
Liabilities	1,045,556	**1,213,659**
Annual average	941,366	1,129,608
Adjusted total capital	1,787,309	**1,654,040**
Annual average	1,942,346	1,720,675

Neither the capital management strategy nor its focus have changed as against the previous 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 € 796,126 thousand to € 578,950 thousand. Based on total assets, the equity ratio therefore dropped from 24.6 percent to 20.1 percent.

Owing to our measures to reduce capital tie-up, the increase in net financial liabilities from € 680,801 thousand in the previous year was limited to € 694,850 thousand. 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.

At the start of the year under review, extensive talks were held with a syndicate of banks on the basis of a detailed financing concept to reorganize the financing structure of the Heidelberg Group. On August 7, 2009 negotiations on the new financing concept were concluded and the corresponding credit agreements with the banks were signed. We were in receipt of the complete deeds of guarantee from the Federal Republic of Germany and the States of Baden-Wuerttemberg and Brandenburg on August 18, 2009. The financing package that provides the Company with a credit line of around € 1.4 billion for the period until mid-2012 consists of a loan of originally € 300 million from the Special Program of the KfW (Reconstruction Loan Corporation) for large companies, a € 550 million loan 90 percent backed by guarantee pledges from the Federal Government and the above-mentioned States, and a syndicated credit line of € 550 million granted by a banking syndicate; € 290.6 million of the KfW loan was fully utilized in the fourth quarter of the year under review to refinance our convertible bond.

In March 2010, Heidelberg obtained approval from the relevant banks for an amendment request to adjust the originally agreed financial covenants in line with the changing economic environment.

One of these covenants is the minimum equity criterion that the Heidelberg Group must comply with.

39 Declaration of Compliance According to Section 161 of the 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 on the Web site of Heidelberger Druckmaschinen AG in the “Investor Relations” section under “Corporate Governance”. Earlier declarations of compliance were also made permanently accessible there.

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 41 to 53).

The members of the Supervisory Board and the Management Board are listed in the separate overview presented on pages 228 to 229 (Supervisory Board) and 231 (Management Board).

Total cash remuneration of the Management Board for the year under review including non-cash remuneration amounted to € 4,464 thousand (previous year: € 1,836 thousand) and also includes severance payments of € 2,133 thousand (previous year: € 0 thousand); of this remuneration for bonuses amounts to € 784 thousand (previous year: € 409 thousand). In the reporting year, no performance share units were awarded under the long-term incentive plan. Thus total remuneration in the period under review including severance payments totaled € 4,464 thousand (previous year: € 1,836 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 € 795 thousand (previous year: € 653 thousand); this includes the service cost of € 411 thousand (previous year: € 353 thousand).

In the reporting year, as in the previous year, no performance share units 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 30,750 stock options (previous year: 72,000 stock options) under the stock option plan.

Former members of the Management Board and their surviving dependents received € 3,086 thousand (previous year: € 2,982 thousand). € 873 thousand of this (previous year: € 825 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 € 42,335 thousand (previous year: € 35,235 thousand). € 9,483 thousand of this (previous year: € 8,666 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 21,000 stock options (previous year: 105,000 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 in the reporting period. One member of the Management Board has a loan dating back to before Group affiliation in the amount of € 560 thousand at interest of 5.31 percent; the remaining term of the loan is 24 ½ years. This loan was granted by a foreign subsidiary to finance a home for the member at his place of business abroad. The Heidelberg Group has not undertaken any contingent liabilities for either the members of the Management Board or the Supervisory Board.

Fixed remuneration of € 392 thousand (previous year: € 389 thousand), but no variable remuneration, as in the previous year, was paid to the members of the Supervisory Board for the financial year 2009/2010; these payments do not include value added 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 2009/2010 financial year, transactions were carried out with related parties that resulted in liabilities of € 5,182 thousand (previous year: € 6,769 thousand), receivables of € 16,537 thousand (previous year: € 21,558 thousand), expenses of € 10,674 thousand (previous year: € 15,183 thousand), and income of € 20,108 thousand (previous year: € 35,046 thousand), which essentially includes sales. All transactions were concluded at standard market terms and did not differ from trade relationships with other companies.

Enterprises controlled by a member of the Supervisory Board of Heidelberger Druckmaschinen Aktiengesellschaft have provided advisory services to fully consolidated companies amounting to € 79 thousand (previous year: € 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.

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.

[1)] The information on the stock option program is also a component of the Corporate Governance Report (see page 14 ff)

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 may not be exercised again until the target has been reached once more.

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 Boerse 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 2003 and 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-2009	Number of stock options[1] 31-Mar-2010
Tranche 2003	12-Sep-2006	12-Sep-2009	22.26	1,321,620	0
Tranche 2004	18-Aug-2007	18-Aug-2010	25.42	502,485	493,860
				1,824,105	493,860

[1] Including stock appreciation rights (SARs)

The development of entitlements to stock options that have been granted is shown in the following table:

	2008/2009		2009/2010	
	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	2,276,065	26.26	1,824,105	23.13
During the financial year				
Granted	0	–	0	–
Returned	76,500	23.22	8,625	25.42
Exercised	0	–	0	–
Forfeited	375,460	42.08	1,321,620	22.26
Outstanding options as of the end of the financial year	1,824,105	23.13	493,860	25.42
Exercisable options as of the end of the financial year	0	0	0	0

[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 2003 and 2004).

The total income from the stock option program amounted to € 0 thousand in the reporting year (previous year: € 34 thousand). As in the previous year, provisions and the capital reserves amounted to € 1 thousand and € 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 is currently one remaining tranche for the long-term incentive plan (LTI), LTI 2007. LTI 2006 has expired. 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 of PSUs granted depends on certain performance criteria. Claims arising from the final number of PSUs are satisfied either by means of a payment or by the delivery of Heidelberg shares.

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

[1)] The information on the long-term incentive plan (LTI) is also a component of the Corporate Governance Report (see page 14 ff)

Term of performance share units

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

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:

	2008/2009 Number of PSUs	**2009/2010 Number of PSUs**
Outstanding PSUs as of the start of the financial year	212,400	210,150
During the financial year		
Granted	0	0
Returned	2,250	2,700
Exercised	0	0
Forfeited	0	108,450
Outstanding PSUs as of the end of the financial year	210,150	**99,000**
Exercisable PSUs as of the end of the financial year	0	0

Accounting policies

Tranche 2007 of the LTI was measured on the basis of IFRS 2. The LTI is to be settled in cash. As in the previous year, the provision for this amounts to € 0 thousand. The LTI did not give rise to any other income or expenses in the year under review (previous year: total income of € 547 thousand).

The amount of liabilities was calculated on the basis of a Monte Carlo simulation. LTI 2007 was measured on the basis of the following parameters:

	LTI 2007
Measurement date	31-Mar-2008
Initial value in €	36.06
Price of Heidelberg shares in €	17.01
Expected dividend yield	6.11 %
Interest rate	3.52 %
Volatility of Heidelberg shares	38.91 %
Fair value in €	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) and 264b of the German Commercial Code with regard to disclosure of the exemption regulations 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;
Heidelberger Druckmaschinen Real Estate GmbH & Co. KG, Walldorf.

45 Auditors' fees

In the reporting year, the following expenses were incurred for services by the auditors:

Fees for	2008/2009	**2009/2010**
Audits of financial statements	811	836
Other assurance services	400	409
Tax advisory services	0	0
Other services	343	2,004
	1,554	**3,249**

46 Events after the balance sheet date

There were no significant events after the balance sheet date.

Heidelberg, May 25, 2010

Heidelberger Druckmaschinen Aktiengesellschaft
The Management Board

Bernhard Schreier

Dirk Kaliebe

Marcel Kießling

Stephan Plenz

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, May 25, 2010

Heidelberger Druckmaschinen Aktiengesellschaft
The Management Board

Bernhard Schreier

Dirk Kaliebe

Marcel Kießling

Stephan Plenz

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 comprehensive income, the statement of changes in consolidated equity, 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, 2009 to March 31, 2010. 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 315a (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.

Frankfurt am Main, May 26, 2010

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Martin Theben	ppa. Stefan Sigmann
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

FURTHER INFORMATION
ANNUAL REPORT 2009/2010

> LIST OF MAJOR SHARES IN AFFILIATED COMPANIES (Figures in € thousands according to IFRS)

Name	Location		Share in shareholders' equity in percent	Shareholders' equity	Net profit after taxes	Net sales	Yearly average number of employees
Europe, Middle East and Africa							
Heidelberger Druckmaschinen Vertrieb Deutschland GmbH [1) 2)]	D	Heidelberg	100	53,616	1,492	338,415	883
Heidelberg Graphic Equipment Ltd. [3)]	GB	Brentford	100	22,029	– 5,381	121,524	351
Heidelberg France S.A.S.	F	Tremblay-en-France	100	168	– 13,351	96,602	243
Heidelberg Postpress Deutschland GmbH [1) 2)]	D	Heidelberg	100	25,617	– 35,742	93,899	860
Heidelberg Schweiz AG	CH	Bern	100	12,972	360	84,888	163
Heidelberg International Ltd. A/S	DK	Ballerup	100	30,489	– 8,440	30,130	63
Heidelberg Sverige AB	S	Solna	100	4,346	– 5,324	19,433	48
Heidelberg Graphic Systems Southern Africa (Pty) Ltd. [3)]	ZA	Johannesburg	100	2,596	– 1,486	19,309	82
Print Finance Vermittlung GmbH [1) 2)]	D	Heidelberg	100	34,849	1,787	18,473	–
Eastern Europe							
Heidelberger Druckmaschinen Austria Vertriebs-GmbH	A	Vienna	100	132,656	– 5,173	48,284	89
Heidelberg Polska Sp z.o.o.	PL	Warsaw	100	7,674	– 1,466	41,856	124
Heidelberger Druckmaschinen Osteuropa Vertriebs-GmbH [4)]	A	Vienna	100	150,466	– 2,507	35,900	22
Heidelberger CIS OOO	RUS	Moscow	100	– 13,522	– 2,553	32,771	205
Heidelberg Praha spol s.r.o.	CZ	Prague	100	1,150	– 2,803	12,193	68
North America							
Heidelberg USA, Inc.	USA	Kennesaw	100	82,286	– 21,310	166,835	728
Heidelberg Canada Graphic Equipment Ltd.	CDN	Mississauga	100	9,528	– 7,229	57,528	224
Heidelberg Print Finance Americas, Inc.	USA	Portsmouth	100	127,559	1,397	2,954	7

Name	Location		Share in shareholders' equity in percent	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	14,105	– 622	44,995	250
Heidelberg Mexico Services S. de R.L. de C.V. [3]	MEX	Mexico City	100	– 6,220	– 1,954	29,690	123
Asia/Pacific							
Heidelberg China Ltd.	RC	Hong Kong	100	14,284	– 4,611	168,876	163
Heidelberg Japan K.K.	J	Tokyo	100	21,376	– 11	109,841	344
Heidelberg Graphic Equipment Ltd.	AUS	Melbourne	100	20,032	– 1,260	56,218	199
Heidelberg Graphic Equipment (Shanghai) Co. Ltd.	RC	Shanghai	100	21,473	4,154	48,398	259
Heidelberg Hong Kong Ltd.	RC	Hong Kong	100	16,941	259	33,329	93
Heidelberg Malaysia Sdn Bhd	MYS	Petaling Jaya	100	1,445	– 642	25,784	134
Heidelberg Asia Pte Ltd.	SGP	Singapore	100	9,556	817	25,773	123
Heidelberg Korea Ltd.	ROK	Seoul	100	4,737	489	15,526	86

[1] Result prior to profit and loss transfer to Heidelberger Druckmaschinen Aktiengesellschaft

[2] According to German Commercial Code (HGB)

[3] Pre-consolidated financial statements

[4] Result prior to profit and loss transfer to Heidelberger Druckmaschinen Austria Vertriebs-GmbH

The Supervisory Board

Dr. Mark Wössner
Member in various
Supervisory Boards, Munich
Chairman of the Supervisory Board
* Douglas Holding Aktiengesellschaft;
Loewe Aktiengesellschaft;
** AEG Power Solutions B.V., the Netherlands

Rainer Wagner ***
Chairman of the
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Heidelberg / Wiesloch-Walldorf
Deputy Chairman of the
Supervisory Board

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of SAP Aktiengesellschaft, Walldorf
* Deutsche Lufthansa Aktiengesellschaft;
** QIAGEN N.V., the Netherlands;
SAP Ireland Ltd., Ireland;
SAP Hellas S.A., Greece;
SAP (Schweiz) Aktiengesellschaft,
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SAP America, Inc., US;
SAP Global Marketing Inc., US;
SAP Middle East and North Africa, LLC.,
United Arab Emirates;
SAP (UK) Limited, UK;
SAP Mexico S.A. de C.V., Mexico

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of ThyssenKrupp Aktiengesellschaft,
Duesseldorf
* Hüttenwerke Krupp Mannesmann GmbH;
ThyssenKrupp Materials
International GmbH;
ThyssenKrupp Nirosta GmbH (Chairman);
** ANSC-TKS Galvanizing Co., Ltd.,
China (Chairman);
ThyssenKrupp Acciai Speciali Terni S.p.A.,
Italy (Presidente);
ThyssenKrupp Industries and
Services Qatar LLC, Qatar;
ThyssenKrupp Steel Americas, LLC,
US (Chairman);
ThyssenKrupp Steel and Stainless USA,
LLC, US;
ThyssenKrupp Steel USA, LLC, US

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

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

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

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

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

Dr. Siegfried Jaschinski
Former Chairman of the
Management Board of Landesbank
Baden-Wuerttemberg, Stuttgart

Robert J. Koehler
Chairman of the Management Board
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* Benteler Aktiengesellschaft (Chairman);
Demag Cranes Aktiengesellschaft;
Klöckner & Co. SE;
LANXESS Aktiengesellschaft

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

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Member of the Management Board of Allianz SE, Munich

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

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

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

Prof. Dr.-Ing. Günther Schuh
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)

Dr. Klaus Sturany
Member in various Supervisory Boards, Dortmund

* Bayer Aktiengesellschaft;
Hannover Rückversicherung Aktiengesellschaft;

** Österreichische Industrieholding Aktiengesellschaft, Austria;
Sulzer Aktiengesellschaft, Switzerland (Member of the Administration Board)

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

Committees of the Supervisory Board

Management Committee

Dr. Mark Wössner (Chairman)

Rainer Wagner

Martin Gauß

Mirko Geiger

Dr. Gerhard Rupprecht

Dr. Klaus Sturany

Mediation Committee under Article 27 Paragraph 3 of the Codetermination Act

Dr. Mark Wössner

Rainer Wagner

Wolfgang Flörchinger

Dr. Gerhard Rupprecht

Committee on Arranging Personnel Matters of the Management Board

Dr. Mark Wössner (Chairman)

Rainer Wagner

Dr. Gerhard Rupprecht

Audit Committee

Dr. Klaus Sturany (Chairman)

Dr. Werner Brandt

Mirko Geiger

Rainer Wagner

Nomination Committee

Dr. Mark Wössner (Chairman)

Dr. Klaus Sturany

The Management Board

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Bruchsal
Chairman
* ABB Aktiengesellschaft;
Bilfinger Berger Aktiengesellschaft;
Universitätsklinikum Heidelberg (institution under public law);
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);
Gallus Holding Aktiengesellschaft, Switzerland (Member of the Administration Board)

Dirk Kaliebe
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)

Marcel Kießling
Heidelberg
– since January 1, 2010 –
** Heidelberg Canada Graphic Equipment Ltd., Canada (Chairman of the Board of Directors)

Stephan Plenz
Sandhausen
** Heidelberg Graphic Equipment (Shanghai) Co. Ltd., China (Chairman of the Board of Directors)

Dr. Jürgen Rautert[1)]
Heidelberg
– through November 26, 2009 –
* 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)

1) Information as of resignation from the Management Board
* Membership in Supervisory Boards
** Membership in comparable German and foreign control bodies of business enterprises

PUBLISHING INFORMATION

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

Investor Relations
Phone: +49-62 21-92 60 21
Fax: +49-62 21-92 51 89
investorrelations@heidelberg.com

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Five-Year Overview

On this page, you will find detailed information concerning the figures for financial year 2009/2010 and the new corporate structure of Heidelberg under the menu item “New structures”.

Here you may download all important information (PDF) and relevant charts (Excel).

FIVE-YEAR OVERVIEW – HEIDELBERG GROUP

Figures in € millions

	2005/2006	2006/2007	2007/2008	2008/2009	**2009/2010**
Incoming orders	3,605	3,853	3,649	2,906	**2,371**
Net sales	3,586	3,803	3,670	2,999	**2,306**
Foreign sales share in percent	86.9	85.1	83.8	81.0	**83.8**
Result of operating activities [1]	277	362	268	– 49	**– 130**
– in percent of sales	7.7	9.5	7.3	– 1.6	**– 5.6**
Income before taxes	229	300	199	– 347	**– 286**
Net profit/loss	135	263	142	– 249	**– 229**
– in percent of sales	3.8	6.9	3.9	– 8.3	**– 9.9**
Research and development costs	214	237	222	186	**121**
Investments	169	178	217	198	**62**
Total assets	3,281	3,339	3,507	3,241	**2,879**
Net working capital [2]	1,199	1,276	1,193	1,212	**1,031**
Receivables from sales financing	496	431	323	273	**212**
Shareholders' equity	1,138	1,202	1,193	796	**579**
– in percent of total equity and liabilities	34.7	36.0	34.0	24.6	**20.1**
Financial liabilities	540	509	515	760	**816**
Net debt [3]	491	467	402	681	**695**
Cash flow	345	398	290	– 238	**– 179**
– in percent of sales	9.6	10.5	7.9	– 7.9	**– 7.8**
Free cash flow	149	229	215	– 201	**– 62**
– in percent of sales	4.2	6.0	5.9	– 6.7	**– 2.7**
ROCE in percent [4]	13.6	15.7	13.5	– 3.6	**– 8.8**
Return on equity in percent [5]	11.9	21.9	11.9	– 31.3	**– 39.6**
Earnings per share in €	1.58	3.23	1.81	– 3.20	**– 2.94**
Dividends in €	0.65	0.95	0.95	–	**–**
Share price at financial year-end in €	36.40	34.30	17.01	3.64	**5.33**
Market capitalization at financial year-end	3,023	2,735	1,328	284	**416**
Dividend yield in percent [6]	1.79	2.77	5.58	–	**–**
Number of employees at financial year-end	18,436	19,171	19,596	18,926	**16,496**

[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] Based on the financial year-end price in Xetra trading

FINANCIAL CALENDAR 2010/2011

June 15, 2010	Press Conference, Annual Analysts' and Investors' Conference
July 29, 2010	Annual General Meeting
August 10, 2010	Publication of First Quarter Figures 2010/2011
November 10, 2010	Publication of Half-Year Figures 2010/2011
February 9, 2011	Publication of Third Quarter Figures 2010/2011
May 11, 2011	Publication of Preliminary Figures 2010/2011
June 16, 2011	Press Conference, Annual Analysts' and Investors' Conference
July 28, 2011	Annual General Meeting

Subject to change

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