Not to be released until the speech starts!

Speech for the Annual General Meeting of
Heidelberger Druckmaschinen AG

Thursday, July 29, 2010
Congress Center Rosengarten, Mannheim

Bernhard Schreier
Chief Executive Officer

<u>The spoken word applies</u>

Vorsitzender des Aufsichtsrats: Dr. Mark Wössner
Vorstand: Bernhard Schreier, Vorsitzender · Dirk Kaliebe · Marcel Kießling · Stephan Plenz
Sitz der Gesellschaft: Heidelberg · Amtsgericht Mannheim – Registergericht – HRB 330004 · Ust.-IdNr. DE 143455661
Commerzbank AG Heidelberg (BLZ 672 400 39) Kto 192264001 IBAN: DE32 6724 0039 0192 2640 01 BIC: COBADEFF672
Deutsche Bank AG Heidelberg (BLZ 672 700 03) Kto 0 298 00 00 1 IBAN: DE22 6727 0003 0029 8000 01 BIC: DEUTDESM672

Chart: Title

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

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

Outline chart: Heidelberg is looking ahead, is stronger, and has a clear focus

Summary review

Ladies and Gentlemen,
Heidelberg has reached the end of another twelve arduous, sometimes turbulent, extremely challenging but ultimately also successful months. Following the global economic and financial crisis, the market for print shop equipment was extremely tough over the last financial year. Throughout the world, there was another massive drop in expenditure on marketing and advertising – and therefore also on print advertising. As a result, many print shops had little work and were therefore reluctant to invest, many of them were even forced to file for insolvency and withdraw from the market. The result of this, according to data from the German Engineering Federation (VDMA), was that suppliers to the print media industry saw their sales sink by an average of 26 percent over the last calendar year, with press manufacturers even suffering a decline of some 37 percent.

Heidelberg, too, has been hit by the full force of these extremely difficult conditions. Both incoming orders and sales were, as anticipated, once again significantly below the level for the previous year. Our most pressing task during the last financial year was therefore to come to grips with the consequences of this dramatic decline in orders and sales and put the company on a stable financial footing.

Outline chart: Heidelberg is looking ahead, is stronger, and has a clear focus

And I am pleased to say that we have succeeded in this task. In the completed financial year, we implemented far-reaching restructuring measures. By making cuts, some of which were severe, we have succeeded in stabilizing Heidelberg over the course of this extremely stormy year. Not only have we achieved the forecasts made last October, we have also used a whole raft of measures to put in place the foundations for sustainable and profitable growth. I will explore these points in more detail later.

Almost as soon as the restructuring and realignment measures began to take shape at Heidelberg, the global economy slowly began to find its feet and provided a boost for our business. In the second half of the financial year, incoming orders and sales experienced a marked recovery compared to the very difficult first half-year and against the backdrop of the relatively seasonal nature of our business, albeit they were starting from a very low level. Underpinned by the measures taken by Heidelberg, this also helped to improve our result. If, in particular, as research institutes are currently predicting, economic development continues to stabilize, and our order situation improves, we are looking to achieve a break-even operating result for the current financial year. The planned capital increase that you are voting on today will play a key role in helping Heidelberg to achieve its targets and will create a solid financial basis for the company's future.

Chart: Stabilization in incoming orders over the last four quarters

Incoming orders

I would now like to look back at the 2009/2010 financial year, which drew to a close on March 31, 2010. Due to the reluctance to invest among our customers, incoming orders dropped significantly by over 18 percent to around EUR 2.37 billion.

The slow recovery over the course of the year had a positive impact on orders. In the second half of the year, order levels were approximately 19 percent higher than in the first six months. This improvement over the first half of the financial year was stronger than it normally is for us. However, as anticipated, the recovery was not as strong as it has been after previous crises. Demand for our very large format presses, which we launched onto the market two years ago and which are primarily used in packaging printing, had a stabilizing effect. Packaging printing is less susceptible to economic fluctuations than advertising printing, which shows how important it is that we continue to expand this market segment. Our services operations also made satisfactory progress. Again, services are also less dependent on economic cycles.

Chart: Key financial figures reflect the positive trend in the second half of FY 2010

Sales

Sales fell away slightly more than incoming orders, dropping by more than 23 percent to just under EUR 2.31 billion. This, Ladies and Gentlemen, is the lowest sales volume that Heidelberg has experienced for more than ten years. However, it is important when looking at such figures to remember that we have been faced with the worst financial crisis for 60 years. Although it may be small comfort, we estimate that our decline in sales was less severe than that on the sheetfed offset market as a whole. And from what we have observed, we have maintained our market share in the majority of format classes throughout this crisis and, in some cases, have even expanded our position.

The regional distribution of our business has seen significant shifts. The EMEA region, that is Europe, the Middle East and Africa, remains the largest of our five regions, with a share of sales amounting to approximately 40 percent. However, its relative importance for our business has decreased by the same amount as the Asia region has grown. This growth region now accounts for almost a third of our business. This trend, which has been ongoing for a number of years, is one of the factors that is shaping our further strategic development. In the Asia region we recorded both a slight growth in sales and a clear increase in incoming orders, both of which were due in particular to a state economic program in China. Similarly, the decline in Latin America turned out to be less severe. Consequently, the emerging markets have once again demonstrated their role in driving growth in our sector. The news from Eastern Europe and North America was less positive, with sales dropping by almost 30 percent in both regions.

As in the case of incoming orders, there was a marked disparity in the development of sales over the year as a whole, far more so than is customary. Developments during the first half of the financial year – the months of April to September – were exceptionally weak. In contrast, during the second half of the year – from October to March – sales grew significantly by 28 percent compared to the first half-year. During the traditionally strong fourth quarter, we achieved sales of EUR 716 million, the highest volume since the start of the economic crisis.

Ladies and Gentleman, these figures are cause for cautious optimism. We believe that these indications provide further evidence that the printing industry has turned a corner.

<u>Chart: Improvement in profitability due to turnaround in sales and stricter cost control</u>

Result / EBIT before special items

During the year under review, we reduced our costs and therefore lowered the break-even threshold for the operating result. However, owing to the continued decline in market volume, it was not possible to achieve a positive result. The operating result excluding restructuring costs and special items was approximately EUR -130 million. In the previous year, we recorded a result of some EUR -49 million. The costs of the special items for the restructuring measures amounted to a total of approximately EUR 28 million last year.

As was the case for incoming orders and sales, a positive trend can also be seen in the operating result over the course of the year. Following considerable losses in the first half-year, we almost achieved break-even in the second half with a result of EUR -2 million. Two factors helped to boost our result: Firstly, the recovery in the economy and the higher order volumes this brought coupled with the usual seasonality that affects order volume and, secondly, the significant cost savings that we have continued to make since the start of this crisis. In the fourth quarter, EBIT before special items moved into positive territory for the first time in financial year 2009/2010, at EUR 11 million.

<u>Chart: Key financial figures reflect the positive trend in FY 2010</u>

However, the financial result has worsened, dropping again from EUR -119 million in the previous year to approximately EUR -127 million in the year under review. This was caused primarily by higher financing costs and the loss in book value from liquidation of the corporation tax credit.

Total annual losses amounted to EUR 229 million. However, we succeeded in improving this value by some EUR 20 million, or eight percent, compared to the previous year. In view of the very difficult conditions, this should be viewed as a major achievement. This is particularly true for the second half-year, when we almost halved the loss compared to the same period of the previous year from EUR 147 million to EUR 82 million.

Cash flow

At EUR -62 million, free cash flow remained negative, but we succeeded in improving this key indicator by almost EUR 140 million compared to the previous year. This was due to factors such as the high inflow of funds from net working capital and the sale of the corporation tax credit.

In view of the very difficult conditions under which we were working, this should also be viewed as a success.

Equity

Due to the annual loss, our equity on the balance sheet date shrank from slightly over EUR 796 million in the previous year to less than EUR 579 million. The equity ratio dropped from 24.6 to 20.1 percent in relation to the balance sheet total. Ladies and Gentlemen, this ratio is by no means satisfactory. We are using the planned capital increase to return to a ratio of over 30 percent. This would stabilize our capital structure and improve the prospects of successful refinancing by 2012 at the latest.

Payment of dividends

As Heidelberger Druckmaschinen AG was not able to generate retained earnings during the last financial year, we are not submitting a proposal to the Annual General Meeting for payment of a dividend.

Let us now take a look to the results for the individual divisions.
The amount of orders received in the Press division dropped by approximately 17 percent. However, hesitancy among buyers was even more pronounced in the Postpress division, where incoming orders slumped by some 27 percent. Consequently, sales sank by some 21 percent in the Press division and around 35 percent in the Postpress division. Due to the significantly lower level of unit sales, sales volume and interest revenue in the Financial Services division also failed to achieve the previous year's level, falling by 23 percent.

In our largest division by far, the Press division, the operating result excluding special items worsened from around EUR -35 million in the previous year to some EUR -110 million. In the Postpress division, the operating result excluding special items remained the same at approximately EUR -31 million, as we were able to compensate for the decline in sales through savings. Despite positive signs in the second half-year, the result for the Financial Services division dropped over the year as a whole due to the decline in financing volume. Nonetheless, it remained positive at around EUR 11 million.

We were delighted to achieve significant improvements in results across all three divisions in the second half of the year. This applies in particular to the biggest division, the Press division, where the result before special items broke even.

Chart: Sustainable cost reductions amounting to EUR 480 million, EUR 400 million of which were implemented in FY 2010

Strict cost management

Ladies and Gentlemen, one of the most pressing tasks for the Heidelberg management team in the year under review was to drive forward implementation of the cost-cutting program, which was further extended in March 2009. We succeeded in this task. The first systematic, far-reaching program, which we have already been able to implement in full, enabled us to make some EUR 400 million in cost savings compared to our cost structure in financial year 2007/2008 in both the last two financial years. These annual savings of EUR 400 million are also sustainable at this level.

In conjunction with short-time working, which has been ongoing throughout the entire financial year, we were able to cut personnel expenditure by around EUR 250 million, or almost a quarter. After material costs, personnel expenditure represents the second largest cost item in the profit and loss account.

We also significantly cut our expenditure on research and development by some 35 percent to approximately EUR 121 million. In the medium term, we are aiming to spend up to five percent of our sales on research and development. We firmly believe that this level of investment will enable us to retain our leading technological position in many areas into the future.

We have also identified potential to achieve further annual savings of EUR 80 million through an additional cost-cutting program that is directly linked to our new organizational structure. We aim to harness this potential by further optimizing processes and enhancing our efficiency. Three quarters of these potential savings – i.e. an annual total of EUR 60 million – are to be achieved in the current financial year. As part of this second program, the management team and employee representatives have now reached an agreement that is acceptable for both sides: This will involve approximately 500 jobs being cut by October 2010. In addition, agreement to forgo collectively agreed payments and company contributions, the company's option of drawing on additional working hours where necessary, and savings in material costs mean that we can achieve our target of EUR 80 million in cost savings in the next financial year. Both of these programs together deliver sustainable cost reductions that total almost half a billion Euros annually. If the recent economic recovery continues and is stable, we will be looking to achieve moderate growth in sales and a break-even operating result for the current financial year. When looking at how the economy will develop, our plans for the financial year also factor in an appropriate product mix in the various markets.

Chart: Job cuts implemented for the most part - sustainable reduction in cost base achieved

Employees

As part of our first program of measures, we primarily reduced capacities and cut employee numbers accordingly. Adjusted to take into account newly consolidated companies and trainees, we have cut a total of approximately 4,000 jobs worldwide, a figure that includes temporary staff. More than 2,700 of these cuts are at the German sites. This was an extremely difficult cut to make, but the effects of the global financial and economic crisis and the associated drop in incoming orders and sales made it unavoidable. At this point, I would like to express my deep gratitude to our employees for all their work in these testing times and for their support on the difficult course we have had to steer in recent months.

At the end of the financial year, our Group employed some 16,500 people, including approximately 7,600 at our sites here in the Rhine-Neckar region, Heidelberg and Wiesloch-Walldorf.

Chart: Implementation of strict asset management to strengthen the balance sheet

In addition to strict cost management, we have also been practicing strict asset management. We have succeeded first and foremost in reducing current assets – and primarily inventory levels – by more than EUR 200 million. We have cut our fixed assets by over EUR 80 million and limited our investment spending to essential replacements. We have, however, invested in our Qingpu assembly site in China, which I would like to talk about in more detail later. Intensive receivables management has also enabled us to reduce receivables from sales financing by more than EUR 60 million and receivables from supplies and services by EUR 55 million. Our liabilities from supplies and services were cut by EUR 50 million.

Chart: The Heidelberg share price has outperformed the MDAX since the last Annual General Meeting

At this point, I would like to say a few words on Heidelberg shares. We cannot be content with the absolute share price on July 27 of EUR 7.90. Nonetheless, the share price has recovered from its lowest level and regained some of the ground it lost during the previous year. Putting that to one side for a moment, Heidelberg shares still represented a good capital asset for the investors who purchased them over the past few months. Since our last Annual General Meeting, Heidelberg shares have risen by around 72 percent, whereas the MDAX has gone up by approximately 40 percent. The capital market is thus rewarding our efforts to restructure and has shown that it believes we are on the right track.

Outline chart: Heidelberg is looking ahead, is stronger, and has a clear focus

Ladies and Gentlemen,
The sale of presses for the advertising and packaging printing sectors is a cyclical business. I said that at the outset and most of you are already aware of this fact. As sure as the next upturn will come, and it already seems to be setting in at the moment in some areas, so too will the next economic downturn.

Minimizing this exposure to economic fluctuations – since we will not be able to eliminate it altogether – has been a key component of our strategy for several years. Key strategic approaches in this area include the expansion of solutions for packaging printing and, in particular, the establishment of consumables and services operations.

Chart: Successful restructuring of the divisions to improve focus on future growth areas

In addition, we have now responded to the growing strategic importance that various different services hold for our business by implementing fundamental changes in our organizational structure. With effect from April 1, 2010, we launched the new "Heidelberg Services" division, which pools all the services that our company offers. These services were previously provided through the Press and Postpress divisions. This new division is headed by Marcel Kiessling, who Dr. Wössner has already introduced. Our colleague on the Management Board Stephan Plenz, a board member since 2008, took charge of the "Heidelberg Equipment" division on April 1. This new division brings together the development, production, and sale of sheetfed offset presses and postpress equipment – operations that were previously divided between the Press and Postpress divisions. The primary main is to expand our market leadership for new machinery and to achieve volumes and margins in our service operations that significantly reduce dependency on economic cycles. Thanks to the new structure, we will be able to present our portfolio to customers in a more effective and efficient manner.

Based on a provisional calculation for the completed financial year, the new Heidelberg Services division generated sales of around EUR 1 billion in the year under review. That corresponds to some 44 percent of our total sales. In the previous year, it accounted for around 36 percent. This division generated a positive operating result of EUR 12 million. We want to further expand the share of total sales accounted for by services – even if sales of new equipment pick up significantly. We are looking to boost the share accounted for by services to between 30 and 40 percent of our overall performance, irrespective of the economic cycle. The Heidelberg Equipment division generated sales of around EUR 1.3 billion. EBIT excluding special items was some EUR -153 million. Cost reductions that had already been implemented had a positive impact on this result and are to be continued in the current financial year. With sales of EUR 19 million, the Financial Services division achieved an EBIT of EUR 11 million excluding special items.

Chart: Innovations are enhancing the high-performance product portfolio: New Speedmaster CX 102 launched

In the "Heidelberg Equipment" division, we offer solutions and technologies for the entire value-added chain in sheetfed offset printing that are unrivaled by any of our competitors. Our portfolio covers all key market segments worldwide and meets all the needs of our customers.

The same is true of the products and solutions we offer for the growth market of packaging printing. Ladies and Gentlemen, we are very well placed in this segment, too. This applies equally to our presses and our postpress equipment, where our fastest machines can produce up to 200,000 folding cartons per hour.

Furthermore, we were the only manufacturer at IPEX, the industry trade show recently held in the UK, to launch a completely new generation of press – the Speedmaster CX 102. The CX 102, which can print up to 16,500 sheets per hour, is also ideal for packaging printing. The launch has met with great success and we have so far concluded contracts for around 30 presses.

Chart: Clear growth trend in advertising and packaging printing

Focus on non-cyclical business: Packaging printing In the equipment segment, we are focusing more on packaging printing, as this is significantly less susceptible to economic fluctuations than advertising printing. Packaging for foodstuffs, for example, is usually printed on large to very large presses due to the long runs involved. A good two years ago, Heidelberg launched two presses for the very large format – the XL 145 and the XL 162. These two models have since been very well received. The fact that we have already sold over 30 presses enabled us to achieve sales growth during the past crisis year.

There are several factors driving the sustained growth in demand for presses for packaging printing. For example, the brand strategies of many consumer goods manufacturers mean that high-quality and complex packaging is growing in popularity in industrialized nations. Furthermore, demographic changes and the trend toward one-person households means that more and more packaging is coming onto the market with smaller contents. This generates higher print volumes.

Added to this are trends in emerging markets, where more and more foodstuffs are being packaged and sold in supermarkets. Here, too, folding cartons are becoming more and more important as advertising and communication media. While the volume of advertising materials is predicted to grow by only around 1.2 percent per year for the next five years, growth is predicted to be 2.3 percent for folding cartons and some three percent for labels and stickers.

Chart: Significant potential for services

Focus on less cyclical business: Services & consumables

Ladies and Gentlemen,
With the focus at Heidelberger Druckmaschinen shifting to business areas that are less cyclical, our service activities have become crucially important.

The last crisis, too, showed that the demand for services stays relatively consistent even in difficult times. In the medium and long term, service business exhibits growth rates that are more stable and less susceptible to economic cycles. Services also usually offer better margins than the sale of new machines. Generally speaking, services are one of the biggest growth drivers in the mechanical and plant engineering sector and this therefore also applies to press manufacturers. Our strong market position will enable us to benefit from this trend. But there can be no services without business with new machines. The sales potential for services depends largely on the installed base – and none of our competitors has more sheetfed offset presses installed worldwide than Heidelberg.

At Heidelberg, we believe that services involve much more than just maintenance, upkeep, repair, and service parts. Of course, these technical services are part and parcel of what we do, as is the support we offer our customers in financing presses.

But at Heidelberg, we believe that services cover our customers' entire value-added chain. They start with strategic business consulting, which provides customers with support in making important investment decisions, for example. To meet this demand, we are expanding our Business Consulting section worldwide.

Our services also include training and coaching for managers and employees in the printing sector. We offer the most comprehensive portfolio for these services in the entire print media industry. Our worldwide Print Media Academies currently provide training in areas such as communication, marketing, business management, and printing.

The services I have described are designed to improve our customers' “overall performance”, which is why we have dubbed them “Performance Services”.

However, our concept of service extends even further, to the point when a customer wishes to part with his Heidelberg press at the end of its service life. By buying used presses and then remarketing them, Heidelberg helps customers like these to sell their presses to other companies throughout the world. If purchasers wish, Heidelberg technicians can disassemble the presses into almost all its individual components, overhaul them and then reassemble them. We also take care of all logistics aspects.

Chart: Broad installed base for technical services in focus

We aim to utilize the large number of installed Heidelberg systems and our tightly meshed service and sales network to increase our market share in areas of business that benefit from stable development even when the economy is struggling. We are therefore looking to increase our sales of valued-added services and consumables in all regions and markets. In the medium term, we want to raise the sales target for our classic business with service contracts, maintenance, and spare parts to more than 15 percent of total sales. This is precisely where we benefit from our worldwide logistics and the proximity to customers that our service organization provides.

Chart: Utilizing the brand and customer access to sell consumables

The development of the consumables business is, to a large extent, independent of economic cycles. That is why, over the past few years, we have consistently expanded our trade in consumables that are quality-approved by Heidelberg, and we will continue to do so. All the materials that we market under our own brand name – “Saphira” from Heidelberg – have been thoroughly tested and approved by us. For our customers, this brand represents a seal of quality, a form of guarantee. It lets customers know that the consumables meet the same high quality standards as the presses themselves.

Ladies and Gentlemen, the market potential for such consumables in the sheetfed offset sector is enormous. At some EUR 8 billion per year, it is worth more than double the business from new sheetfed offset presses. At present, we calculate that our share of this market is only around four percent. However, we have set ourselves the target of boosting this share to seven percent in the medium term.

Also in the medium term, we aim to expand sales of consumables to more than 15 percent of our planned total sales. And, given our extremely high profile in the industry, our excellent market presence, and the strength of the Heidelberg brand, we believe that this target is realistic.

AGM agenda item 6. Change to the affiliation agreement with Heidelberg Consumables Holding GmbH

We have pooled all activities involving consumables in Heidelberg Consumables Holding GmbH.

Under item 6 of the agenda for today's AGM, the Supervisory Board and Management Board propose to the Annual General Meeting that an amendment be made to the affiliation agreement with this company. This agreement was concluded in 2008 and received the requisite approval at the Annual General Meeting.

The amendment to this agreement resolves a formal legal uncertainty that emerged from decrees issued by a German Federal-State Fiscal Authority following a judgment by the German Federal Fiscal Court in relation to the interpretation of § 17 of the Corporation Tax Act. § 3 para. 1 and § 4 of the agreement are to be amended to include references to the German Stock Corporation Act. Otherwise the affiliation agreement will remain unchanged. The agreement will continue to place Heidelberg Consumables Holding GmbH under the control of Heidelberger Druckmaschinen Aktiengesellschaft. Heidelberg Consumables Holding GmbH is required to cede its profits to the controlling company, which must also absorb any losses incurred by the subsidiary. As Heidelberg Consumables Holding GmbH is a fully-owned subsidiary of our company, no payments for external stockholders are provided for.

The affiliation agreement secures the operational, financial, and strategic integration of Heidelberg Consumables Holding GmbH into our company. There is no commercially viable alternative. Consequently, the agreement is to be retained, with the amendments simply being needed for tax considerations.

Chart: Focus on anticipated growth in the emerging markets

Strengthening and growth in emerging markets

In regional terms, our biggest opportunities for growth are clearly to be found in the major emerging markets, primarily in Asia and Latin America. Twelve years ago, approximately 17 percent of our sales was generated in these markets. This share has continued to grow, to the point where last financial year it reached around 42 percent – and it will continue to climb.

In contrast to the industrialized countries, where print shops invest primarily for replacement purposes, the markets in the emerging economies are still far from saturated. This applies to all format classes, from small presses for commercial printing to the large presses used in packaging printing – an area that is growing at an above-average rate in the emerging markets. During the year under review, business development there – as I have already mentioned – was also markedly more stable than in the major industrialized nations. The two emerging markets with the biggest economies, China and Brazil, but others as well, seem to have come through the financial and economic crisis significantly faster than the established industrial nations.

Forecasts predict that China is to achieve average annual economic growth of some nine percent over the next four years, while Brazil is to experience growth of five percent. The developing countries and emerging markets as a whole are set to grow by six percent. The large emerging markets are going to play a major role in the global economy over the next few years and, undoubtedly, the print industry will benefit from this upturn.

In China and Brazil it is not only the number of print shops that is growing, but their quality requirements, too. More and more print shops are finding that the low print quality they get from local manufacturers, for example, is no longer sufficient and are having to invest in high-tech equipment to satisfy the needs of their customers. The most significant market in this respect is China. In the year under review, China was the biggest single sales market for Heidelberg, with incoming orders of some EUR 386 million or a share of total orders of approximately 16 percent. In terms of incoming orders, Brazil already ranks number seven, with approximately EUR 100 million. Over the past six years, our volumes in China have increased by around 50 percent. Serious forecasts predict that the Chinese economy could have overtaken that of the U.S. by as early as 2027, making it the largest in the world.

In the emerging markets, and therefore also in China, our market position is much stronger than that of our competitors. We have the broadest product spectrum, we have an extremely high profile there thanks to the strong Heidelberg brand, and we also have the most tightly meshed service and sales network in the emerging markets. Ladies and Gentlemen, we will make full use of all these advantages.

Focal point China

I would like to say a few more words about China, or more specifically about our assembly site in Qingpu. Four years ago, we built a small plant close to Shanghai, where we began assembling small and relatively simple folding machines and presses.

The plant has done extremely well in recent years.
A few weeks ago, we started work on a third, 21,500 square meter hall, which is to be operational by September next year. It will be used for the assembly of standardized presses from one of our large-format series – the Speedmaster CD 102. The necessary parts are increasingly being sourced from quality-approved local suppliers. We are planning to almost double the number of printing units and folding machines assembled in China during the current financial year.

We also want to sell the presses assembled in Qingpu to other emerging markets in Asia besides China. Furthermore, it is conceivable that these presses could be marketed globally. However, we will not be building highly automated presses with multiple variants in China. These operations will continue to be based in Germany alone, at our Wiesloch-Walldorf site.

When the third hall in Qingpu opens, we will have a total of around 600 employees at our Chinese plant. In the medium term, we will assemble some 15 percent of all Heidelberg presses in China – and all in the Heidelberg quality that is so valued throughout the world.

<u>Chart: Partnerships will potentially enable Heidelberg to expand its market in digital printing</u>

Focus on growth fields: Digital printing

Ladies and Gentlemen, you will all have seen over the past few years that the print media industry is undergoing a revolution. The Internet is now challenging conventional media as a tool for conveying information and is taking away a share of the advertising budget from the print sector. And yet the print sector is growing globally despite – or perhaps because of – the Internet.

Alongside the dominance of offset printing, we are seeing digital printing moving increasingly from the office sector into the realm of professional printing. Digital printing is now achieving double-digit growth rates. We cannot completely rule out the possibility that, at some later point in time – when the quality and the costs are right – digital printing may begin to take the place of sheetfed offset printing. However, we believe that any such threat to sheetfed offset printing is unlikely given the technical requirements and costs that are involved. Instead, we view digital printing as an excellent complement for our product portfolio in special applications. In certain applications, both systems – offset printing and digital printing – can be combined to extremely good effect. For example, digital techniques can be used to individualize the cover of a print product, while sheetfed offset printing ensures the contents can be printed cost-effectively and to a high quality standard.

We believe there are very good opportunities in this type of combination and when printing very short runs. That does not mean, however, that we want to develop or build digital presses. Our know-how centers on the seamless integration of digital presses into our offset customers' production processes. In order to do this, we are currently looking for one or more partners who are manufacturers of digital printing systems. We have planned to be in a position to conclude the corresponding cooperation agreements by the end of the calendar year.

Potential partners are interested in Heidelberg because we have an exceptionally tightly meshed service and sales network, achieve excellent market penetration, and have an exceptionally strong brand.

Our Linoprint innovation project continues to progress well. As part of this project, we are developing inkjet-based printing units and systems for applications outside offset printing. These can be integrated into practically any packaging or production plant and be used for the variable printing of products such as pharmaceutical packaging and drinks labels.

Focus on less cyclical business: Production for third parties

Part of our strategy also involves looking beyond the print media industry. In the coming years, we also aim to continue expanding our activities as a supplier to third parties.
We know what is required of companies that supply high-quality components – and can also claim to be a first-choice supplier ourselves. We have already built up experience in contract manufacturing and ascertained that third-party companies benefit from our exceptional skill and efficiency in precision mechanical engineering and our reliable footing as a supplier. As a result, we want to expand sales in our new Heidelberg System Manufacturing unit to EUR 100 million by 2014.

We already supply third parties with cast parts from our foundry in Amstetten and electronic components and precision mechanics from Wiesloch-Walldorf.

The manufacturing of printing presses can justifiably be called the pinnacle of the mechanical engineering industry. And Heidelberg has built up extensive experience in the production of precision machinery and mechatronic systems. Potential customers for our third-party operations therefore include all those industries that center on products which – like our presses – are highly complex: They include environmental and energy technology and the automotive industry.

Outline chart: Heidelberg is looking ahead, is stronger, and has a clear focus

Ladies and Gentleman, allow me to sum up the points I have made:
We have adapted our structures to suit the new market conditions, and with them our costs, too.
We aim to further strengthen the growth areas of packaging printing, services, and consumables.
We are in the process of expanding our plant in China and we want to utilize our strong position in the booming emerging markets to achieve profitable growth.
We are aiming to generate additional sales as a technology and sales partner to manufacturers of digital printing systems.
And we are going to intensify the production of highly complex electronic components and precision mechanics for third parties.

In what are extremely difficult market conditions, we have done our homework, ensured we are well placed in terms of both strategy and organization, and have once again set ourselves on course for a successful future. To help us build this future faster and more effectively, we would like to lay solid foundations for this by significantly improving our capital structure.

Chart: Successful refinancing by mid-2012 and stabilization of net financial debt

At present, our financing is chiefly based on external financing through banks. Last year, at the height of the financial and economic crisis, we secured a credit package worth up to EUR 1.4 billion that runs until July 2012.

This package is primarily made up of three components: A loan from the Special Program of the KfW (Reconstruction Loan Corporation) for large companies, which was originally for EUR 300 million, a EUR 550 million credit line supported by 90 percent guarantee pledges from the federal government and the states of Baden-Württemberg and Brandenburg, and a syndicated credit line from a consortium of banks, also for EUR 550 million.

Thanks to a range of measures, we were able to keep our financial liabilities – our liabilities to banks, borrower's note loans and other interest-bearing financial liabilities – on the balance sheet date largely stable at some EUR 816 million. Our financial liabilities in the previous year were around EUR 760 million. We have not had to use the credit facilities available to us to the extent that was originally envisaged. The fact that we have not had to do so represents, in our view, a significant achievement.

Chart: Planned capital increase to repay existing external financing and improve the capital structure

AGM agenda item 7: Capital increase

To achieve a sustainable capital structure and enable the repayment of external financing that this requires, we are proposing under item 7 of today's agenda, Ladies and Gentlemen, to implement a capital increase while safeguarding your subscription rights.

The capital increase, with which we are aiming to achieve a gross inflow of funds amounting to approximately EUR 420 million before transaction costs, is our largest capital raising measure since we went public almost 13 years ago.

This capital increase is intended to raise the company's capital stock by up to EUR 399 million 582 thousand 382.08 (EUR 399,582,382.08) against cash investment through the issue of up to 156 million 86 thousand and 868 (156,086,868) new shares.
Each share thus represents EUR 2.56 of capital stock and is dividend-entitled as from April 1, 2010. The final number of new shares will depend on the subscription price. This is still to be set by the Management Board, with the approval of the Supervisory Board, under consideration of the current market situation, and factoring in an appropriate risk-related reduction for the subsequent placement.

The primary objective of the capital increase is to significantly reduce our financial liabilities and thereby improve our equity structure. The capital we expect to raise is to be used first and foremost for the proportionate repayment of the three bank loans that we have received from this package.

We anticipate that this repayment would cut our bank liabilities by around half and our interest expenditure by some EUR 40 million per year. By repaying our loans and thereby reducing our need for outside capital, we will have access to a wider range of financing options with altogether lower financing costs. This in turn gives us greater flexibility to secure sustainable and independent financing for Heidelberg on the capital markets. At the same time, we are giving ourselves more freedom for shaping our future business development.

Ladies and Gentlemen, we chose this approach very carefully – first pushing through the fundamental restructuring and realignment of our company and only then approaching the issue of a capital increase. We are certain that this is the right approach. We have worked through what we need to do, we have done our homework. The proof of this lies in the fact that we almost achieved a break-even operating result before special items in the second half of the last financial year – and did so despite the notably restrained nature of the upturn in the print media industry. This is also reflected in the development of our share price over the past few months.

We want to use the anticipated inflow of funds to stabilize and optimize our financing structure. In the medium term, we want to be in the position where we can satisfy investment-grade requirements. The capital increase will enable us to achieve this goal in a reasonable period and will therefore play a crucial role in adding value and securing the future of our company. Shareholders, customers, and employees will all benefit equally from this. It must be our goal to prevent net debt from ever exceeding a maximum of 2.5 times EBITDA value in future.

Our largest single shareholder, the Allianz Group has already agreed to participate in the capital increase. Allianz holds some 13 percent of capital stock. The RWE Group, our second-largest single shareholder, has announced that it will reinvest money from the sale of [some of] its subscription rights or a transaction of the same economic value in Heidelberg shares. RWE holds a share of approximately eight percent of capital stock.

In a preliminary agreement, Commerzbank and Deutsche Bank have agreed to implement the capital increase subject to certain conditions, to underwrite the new shares for placement through the subscription rights issue, and to offer them for subscription to shareholders.

Provided that we secure approval from you, our shareholders, we hope to conduct the capital increase as soon as possible and conclude the process before the end of this year. We believe this capital increase is an important milestone in our comprehensive restructuring measures, which are to be completed in full by 2012.

As there have already been a number of questions about shareholders' subscription rights, allow me to say a few words about this at this stage.

Yes, with the exception of the company itself, which is not entitled to participate in the subscription, the new shares will be offered to all shareholders. This also applies to shareholders outside Germany, though certain legal restrictions do apply from country to country.

Details about how shareholders exercise their subscription rights will be described fully in the rights offering that will be published later. In actual fact, in the case of indirect subscription rights, the new shares are initially taken up and underwritten by the banks. However, legislation expressly states that this does not preclude anyone from exercising their subscription rights, since the banks are obliged to offer the new shares to all shareholders in a subscription offering. Ultimately, this procedure is simply a banking mechanism that facilitates the practical process of increasing the capital. In addition, the underwriting agreement to be concluded between the company and the issuing banks gives each shareholder an entitlement vis-à-vis these banks to receive a subscription offering. I hope, Ladies and Gentlemen, that this clarifies some of the questions you may have had about your subscription rights. We need your active support for the capital increase and wish to do everything we can to make this process as easy as possible for you.

The proposed capital increase is crucial to ensuring that we can also realign the financial basis of future growth at Heidelberg. Ladies and Gentlemen, I would like to ask you all to have faith in our strategy and to approve this key measure.

Outline chart: Heidelberg is looking ahead, is stronger, and has a clear focus

Outlook

Ladies and Gentlemen, market experts believe that the print media industry has turned a corner, the demand for presses is also slowly starting to increase, and the investment bottleneck that has built up over the past two years is now slowly beginning to clear. We have already seen an above-average recovery on the consumables market. Due to the anticipated increase in print volumes resulting from an economic recovery, it is evident that this trend is set to continue.

Chart: Order situation indicates trend toward recovery

Our incoming orders have stabilized over the past four quarters. The positive start to the new financial year was confirmed in May at IPEX, this year's most important industry trade show. IPEX also made it very clear that print shops are feeling altogether more positive than they were a year ago. We were able to sell some 900 printing units and more than 90 postpress machines in Birmingham, UK.

The markets in Asia and Latin America are developing well, while others such as those in Central Europe, Russia, and the U.S. are still sluggish.
The Heidelberg portfolio proved to be a real crowd puller at Expo-Print, the largest trade show in Latin America, which took place at the end of June in Sao Paulo, Brazil. This is also underlined by the numerous sales that we made at the show with a great many small and

medium-sized businesses and industrial companies from all over the region. The results were way beyond both our expectations and the outcome of the first ExpoPrint Latin America four years ago.

All in all, this development, coupled with rising demand from China, has meant that business for the first quarter went well and exceeded our expectations. At EUR 786 million, our preliminary incoming orders from April to June were 43 percent higher than the same period last year, partly due to exchange rate movements. At EUR 50 million to EUR 60 million, free cash flow was also well above the previous year's level of EUR -29 million. This positive development can be put down in particular to improved working capital management including higher customer deposits and an optimized outflow for investments. In terms of sales and EBIT, we are in line with our expectations. EBIT will, as planned, improve over the previous year.

All of this, Ladies and Gentlemen, constitutes a hopeful sign that our sector is once again on the up. The German market, our biggest after China, is also extremely important to us, generating some 15 percent of total sales at Heidelberg. And there are positive signs here from the advertising industry, for example, ranging from growth in advertisement revenues and increasing order volumes to greater demand for commercials and posters.

Ladies and Gentlemen, when it comes to our future prospects, we are realistic. Even in the medium term, the market for solutions in the sheetfed offset sector will not return to the levels before the financial and economic crisis. We anticipate that over the coming four years it will only achieve up to 80 percent of the level it touched at its height in 2007/2008. Nonetheless, given the current state of the market, this still translates into significant annual growth. According to a forecast by the Boston Consulting Group, between now and 2014 the global market for sheetfed offset products will grow by eight to twelve percent each year. After two years of hesitancy among buyers, a major investment bottleneck has built up in commercial printing, and this is now slowly beginning to clear.

Some markets and regions will experience substantial growth. In regional terms, these include primarily the major emerging markets in Asia and Latin America. In sectoral terms, growth in the demand for services and consumables will outperform that of the industry as a whole. Heidelberg is well placed in all these areas and we believe they all offer good prospects for Heidelberg to profit from the anticipated growth.

Despite our strategic realignment and our stronger focus on less cyclical business, the print market's heavy dependency on the state of the economy continues to be a major, unalterable factor for our business. Higher growth means more advertising, means more print products, means better capacity utilization in print shops and that in turn means more investment in new presses.

We anticipate that a recovery in demand, including in the industrialized nations, means that the share of sales from products with larger profit margins will also go up again. The demand for highly automated presses with comprehensive features is centered primarily on the industrial countries, but demand for these products on the emerging markets is also growing.

<u>Chart: Returning Heidelberg to sustainable profitability</u>

Goals

Ladies and Gentlemen,

If the recent economic recovery continues and is stable, we will be looking to achieve moderate growth in sales and a break-even operating result for the current financial year. When looking at how the economy will develop, our plans for the financial year also factor in an appropriate product mix in the various markets.

However, the high cost of the financing we needed to take out to overcome the crisis will still have a major impact on the financial result. It is for this reason that we are anticipating another significant net loss for the current financial year. Nonetheless, given the generally positive economic outlook and the strategic realignment that has been undertaken at the company, we firmly believe that we will in future once again succeed in generating a positive annual result.

In the medium term, Ladies and Gentlemen, we are aiming to achieve sales of over EUR 3 billion, an EBIT margin of 5 percent and a return on capital employed of 15 percent.

Conclusion

Ladies and Gentlemen, I hope that I have been able to make it clear that, thanks to financial stabilization and strategic realignment at the company, Heidelberg now has considerable potential to generate added value. The main factors that give rise to this positive outlook are the market recovery we are now seeing, the resultant stabilization in incoming orders and sales, the significantly lower break-even threshold achieved through systematic cost management, and our repositioning with a focus on sustainable profitability in a range of different areas.

After a lot of hard work and effort over the past twelve months, we at Heidelberg have achieved a great deal. And I am certain that we have done the groundwork and will continue to do all that is necessary to get Heidelberg back on course for success.

Thank you for your attention.

Chart: Thank you very much for your attention

DISCLAIMER

NOT FOR PUBLICATION OR DISTRIBUTION, DIRECTLY OR INDIRECTLY, IN OR INTO THE UNITED STATES OF AMERICA, CANADA, JAPAN OR AUSTRALIA

This communication constitutes neither an offer to sell nor a solicitation to buy or subscribe for securities. Any such offer will be made solely on the basis of the Securities Prospectus to be published and registered with the German Financial Supervisory Authority (BaFin). The information legally required to be provided to investors is contained only in the Securities Prospectus.

The information contained in this communication is not for distribution, directly or indirectly, in or into the United States of America (including its territories and possessions of any State of the United States of America or the District of Columbia) and must not be distributed to U.S. persons (as defined in Regulation S under the U.S. Securities Act of 1933, as amended ("Securities Act")) or publications with a general circulation in the United States of America. This communication is not an offer of securities for sale in the United States of America. The securities have not been and will not be registered under the Securities Act and may not be offered or sold in the United States of America absent registration or an exemption from registration under the Securities Act. Heidelberg Druckmaschinen AG does not intend to register any portion of the offering in the United States of America or to conduct a public offering of the securities in the United States of America.

This communication is not an offer of securities for sale in the United Kingdom, Canada, Japan or Australia.

Important note:
This press release 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 those 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 press release.