»Staying on track while remaining flexible: Heidelberg is in a position to achieve this.« // »Our focus is now on financial stability and value added.« // »Heidelberg continues to be the first choice for print shops worldwide.« // »The Heidelberg Team helps

# FINANCIAL STATEMENTS 2010/2011

HEIDELBERG

print shops achieve success – throughout the world and in every way.« //

## HEIDELBERGER DRUCKMASCHINEN AKTIENGESELLSCHAFT

Figures in € millions

| | 2006/2007 | 2007/2008 | 2008/2009 | 2009/2010 | 2010/2011 |
|---|---|---|---|---|---|
| **Incoming orders** | 2,035 | 1,909 | 1,295 | 997 | **1,285** |
| **Sales** | 1,965 | 1,914 | 1,553 | 1,016 | **1,265** |
| **Share of international sales (%)** | 86 | 84 | 81 | 84 | **83** |
| | | | | | |
| **Result from operating activities** | 117 | 67 | – 47 | – 99 | **– 57** |
| **– as a percentage of sales** | 6 | 4 | – 3 | – 10 | **– 5** |
| **Net income/loss for the year** | 196 | 132 | 70 | – 106 | **– 22** |
| **– as a percentage of sales** | 10 | 7 | 5 | – 10 | **– 2** |
| | | | | | |
| **Investments** [1] | 102 | 126 | 106 | 70 | **38** |
| **Research and development costs** | 206 | 183 | 154 | 99 | **104** |
| | | | | | |
| **Total assets** | 2,623 | 2,769 | 2,992 | 2,873 | **2,371** |
| **Fixed assets** | 1,628 | 1,684 | 1,812 | 1,851 | **1,476** |
| **Equity** | 564 | 564 | 561 | 455 | **875** |
| **Subscribed capital** | 204 | 200 | 200 | 200 | **597** |
| **Equity ratio as a percentage** | 22 | 20 | 19 | 16 | **37** |
| **Distribution** [2] | 75 | 74 | 0 | 0 | **0** |
| | | | | | |
| **Dividend per share in €** [2] | 0.95 | 0.95 | 0.00 | 0.00 | **0.00** |
| **Earnings per share in €** [3] | 2.47 | 1.70 | 0.90 | – 1.36 | **– 0.10** |
| **Share price as at the end of the financial year in €** [4] | 21.60 | 10.71 | 2.29 | 3.36 | **3.34** |
| **Market capitalization as at the end of the financial year** | 2,735 | 1,328 | 284 | 416 | **779** |
| | | | | | |
| **Average number of employees for the year** | 10,706 | 11,039 | 10,988 | 10,146 | **9,136** |

[1] Not including financial assets
[2] According to the proposal on the allocation of the unappropriated profits
[3] Not including own shares
[4] Prior-year figures restated following capital increase

HEIDELBERG 2010/2011

# Contents

# The Heidelberg Share

Thanks to widespread agreement at the Annual General Meeting, during the financial year we undertook a comprehensive capital increase, which had a far-ranging and favorable impact on Heidelberg and will continue to do so in the future. It represents an important component of the Company's refinancing. At the beginning of April 2011, we were thereby able to return the guarantees which had been provided by the Federal Government and by Federal States prior to maturity and in their entirety.

German stock exchange indices suffered slight declines at the beginning of the financial year due to the debt crisis in Greece and the related discussion about European rescue measures. Share prices subsequently continued their upward trend from the preceding year and rose considerably during the second half of the reporting year. This gratifying growth was supported by improved business prospects, especially because economic growth continued under its own steam despite the fact that the economic stimulus packages had expired, and as a result of favorable business reported by DAX and MDAX companies. In December 2010, the DAX and the MDAX, respectively, successfully broke through their psychologically important 7,000 and 10,000 point levels. The reports of the catastrophe in Japan caused a drastic slide in the market after March 11, 2011. Nevertheless, the indexes rose again through the end of the financial year, with the DAX up by approximately 14 percent and the MDAX even growing by some 27 percent for the financial year.

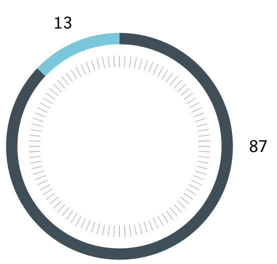
By contrast, the Heidelberg share price fluctuated during the reporting period. Following publication of Heidelberg's preliminary annual financial figures for financial year 2009/2010 and our successful participation at the IPEX trade show in Birmingham, UK, our share price rose by 63 percent during the first quarter of the financial year. The price nevertheless subsequently declined considerably in the run-up to the capital increase. The downturn was interrupted in mid-October, with Heidelberg's share subsequently following the general stock market trend through the financial year-end, closing at € 3.34 on March 31, 2011 – slightly below the previous year's closing price.

Within the framework of the capital increase, a total of 155,286,868 new ordinary shares were successfully placed on September 24, 2010. With the subscription price at € 2.70 for each new ordinary share, the issue generated total gross revenue of approximately € 420 million. The number of outstanding shares increased to 233,330,302 shares.

**SHAREHOLDER STRUCTURE**

1

Figures in percent




| | |
|---|---|
| Free float | 87 |
| Allianz SE | 13 |

After Heidelberg's fall to 52nd place in Deutsche Börse's index ranking the previous year in the criterion "Market Capitalization Based on Free Float", the Heidelberg share moved back up to 42nd place as of the end of the financial year. Overall market capitalization rose from € 416 million as of March 31, 2010 to € 779 million.

Some 1,700 shareholders participated in our Annual General Meeting for financial year 2009/2010, which was held in the Rosengarten Congress Center in Mannheim on July 29, 2010. Approximately 49 percent of capital eligible to vote was thereby represented. The shareholders approved all the proposals, including the increase of share capital through the issue of new shares against cash payment, as well as the decision not to pay a dividend for the previous financial year.

In addition to the usual decisions, the proposals for the agenda of the Annual General Meeting 2011 include two changes in the Articles of Association – including some broadening in the scope of the Company's corporate mission in order to include Heidelberg's other business operations in addition to the print media industry – for example, the production of control electronics elements. In addition, authorizations for conditional and authorized capital are to be updated.

The experience of recent years has clearly demonstrated the importance of financial stability. Over the past two years, we introduced important measures to stabilize our financial situation. We will continue to focus on these issues, to concentrate on optimizing the commitment of funds, and to set our priority on further strengthening the capital structure. These considerations will also determine our dividend policy. We will therefore only propose the payment of a dividend to the Annual General Meeting if our financial position and the Company's outlook are appropriate. We will not propose a dividend payment to the Annual General Meeting for the reporting year.

# Management Report

## The Company and Underlying Conditions

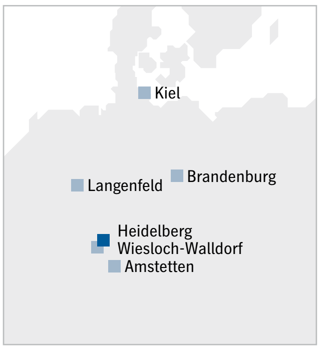
### Heidelberger Druckmaschinen Aktiengesellschaft

Heidelberger Druckmaschinen Aktiengesellschaft is the parent company of the Heidelberg Group.

In addition to manufacturing printing presses, print finishing equipment, and equipment for printing plate imaging, the Company also specializes in the sale of service parts, remarketed equipment, comprehensive service, as well as in carrying out Group functions.

**PRODUCTION SITES OF HEIDELBERGER DRUCKMASCHINEN AKTIENGESELLSCHAFT**

2




### Local Units

Heidelberger Druckmaschinen Aktiengesellschaft operates six production sites in Germany, which are shown on the map on the left. Administration, development, a Print Media Demonstration Center, and several training centers are located in Heidelberg.

Sheetfed offset printing presses and die-cutters are manufactured at specialized plants operating as part of a production network. Precisely processed castings are delivered from Amstetten; turned and profiled parts are supplied by the Brandenburg plant; and model parts, electronic components, and experimental components are produced at Wiesloch-Walldorf, the world's biggest printing press manufacturing facility, where we also assemble nearly all our sheetfed offset printing presses and die-cutters. The fifth German local unit, which specializes in development activity and prepress services, is in Kiel. Furthermore, the Langenfeld local unit was integrated within Heidelberger Druckmaschinen Aktiengesellschaft during the financial year. This local unit focuses primarily on development work and services for folder gluers. We make available our precision engineering expertise at our various local units to other companies within the framework of contract manufacturing.

**NUMBER OF EMPLOYEES PER LOCATION**

3

| | 31-Mar-10 | 31-Mar-11 |
|---|---|---|
| Heidelberg | 1,809 | 1,697 |
| Wiesloch-Walldorf | 4,956 | 4,807 |
| Amstetten | 1,013 | 999 |
| Brandenburg | 614 | 584 |
| Kiel | 318 | 295 |
| Langenfeld | | 76 |
| Trainees | 552 | 505 |
| **Total** | 9,262 | **8,963** |

### Employees

At financial year-end, our six local units had a total of 8,963 employees – our total staff was thereby further reduced by approximately 300 employees during the financial year.

Again during the reporting year, we designed job cutbacks to be as socially acceptable as possible. Over 100 employees voluntarily and permanently reduced their contractual working time to 57 percent. They will receive some compensation for their reduced salary during the subsequent four years. We also entered into additional partial retirement agreements. New jobs could be arranged in a 12-month period for over 70 percent of the more than 1,000 employees who had switched to transfer companies that we had set up in close cooperation with Germany's Federal Employment Agency. A further 10 percent turned to other prospects – for example, beginning their university studies. We reduced overcapacities through the application of short-time work during the reporting year, and we will apply flexible working time instruments in the current year as well. Employees relinquished provisions of collective bargaining agreements, thereby providing us with greater flexibility – among others, to enable us to react to capacity fluctuations during the course of the year. The employees have additionally agreed to the provision of a working hour allotment without financial compensation.

As in past years, we maintained a solid training quota in Germany of 6 percent. On September 1, 2010, some 150 graduates began their training or studies at Heidelberger Druckmaschinen Aktiengesellschaft. The 13 apprenticeship-based trades focus on electronics and mechanics.

## Sustainability

Environmental protection has been one of Heidelberg's corporate goals since 1992, and our Environmental Management System has had ISO 14001 certification for over ten years. We strive for safe-to-operate, low cost, and environmentally friendly solutions that extend throughout the life cycle of our products – from manufacturing all the way to final disposal.

Environmental issues and product safety are integral components of our systematic product development process, which comprises seven required and defined "Quality Gates". For that reason, rather than offer a separate "Eco" printing press line, we make use of innovations that improve the environmental credentials of the printing process in all product lines whenever appropriate.

We apply the best available technologies in our product development – not only in occupational safety and environmental protection measures, but for the investments in our local units as well. Our goal is to protect our employees from health hazards as well as to safeguard the local units and their environment from damage. By taking active precautions, we avoid accidents and disturbances of operations at all our local units. We apply resources sparingly and take advantage of every opportunity to minimize waste. In this connection, the salvage quota at Heidelberger Druckmaschinen Aktiengesellschaft – or the share of the waste that is reusable – was again at a high level, amounting to 93 percent.

## Management and Control

As the impact of the financial and economic crisis became clear to the Company, we decisively adjusted our control concept. To successfully guide the Company through the crisis, we needed simulations – continuously and immediate. We shortened the planning process and focused more intensively on central objectives. We simultaneously needed to carefully observe interdependencies between an operating turnaround and refinancing, and coordinate measures for short- and medium-term refinancing.

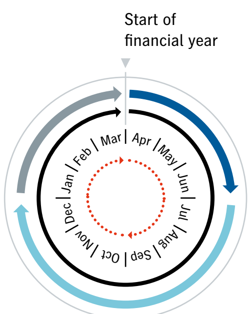
Due to the Company's economic crisis during the previous two years, our principal focus was – and still clearly is – on financial goals. With our new management system, we are therefore even more systematic in our management of financial goals. Depending on the particular function, key defined financial goals are considered and assigned various weightings in a so-called scorecard, which in the end also influences remuneration. Higher-priority financial goals of the Heidelberg Group are taken into account for all senior executives. The centralized units also make use of the targets in the balanced scorecard.

Our risk and opportunity management take advantage of a "dual-track approach", which focuses on an open and proactive approach to risks and opportunities at all levels. On the other hand, there is a strictly formal process as well.

All cross-departmental units are required to periodically spotlight risks and opportunities from all angles. This applies in particular to non-quantifiable risks – for example, in the personnel area – which might intensify due to our focus on financial targets.

Our guidelines and organizational directives stipulate a strictly formal process, which we use to systematically identify both individual and overall risks to the Company as well as to assess and quantify opportunities. All operating units and divisions are integral components of this process. Information on risks is collected locally. The risk-relevant areas of observation as well as the risk survey methodology are spelled out in the guidelines. Ranking by risk category is based on the potential impact on the net profit and free cash flow of the individual units. Reporting thresholds are set on a uniform basis. All lead markets, as well as all significant areas such as personnel management and development, are assigned a risk catalog, which they fill out and report back to the Company. Risk Controlling summarizes the reported risks three times a year at the Company level and assigns them to risk categories. The reports go to the entire Management Board as well as to the Supervisory Board's Audit Committee. We publish an **ORGANIZATIONAL DIRECTIVE**

**PLANNING CLOCK** 4




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

and underscore procedures in a corporate guideline to ensure that risks and opportunities are addressed on a uniform basis. This directive is updated regularly and is accessible to each employee.

The centralized Corporate Treasury unit manages the Group's financing and secures its liquidity. We systematically minimize liquidity risks throughout the Group. We pinpoint early on the 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 resulting from changes in 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 on the impact of the hedging of foreign currency and interest-rate transactions can be found on page 61 ff.

### Internal Accounting Control System

Accidental or deliberate accounting errors could theoretically result in an unrealistic view of net assets, the 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 unconsolidated financial statements of Heidelberger Druckmaschinen Aktiengesellschaft by means of systematic controls and established processes which, among others, stipulate examinations based on spot checks. We do this by adequately ensuring:

> that the presentation of the consolidated financial statements is in accordance with commercial law provisions (German Commercial Code),

> that the information prepared in external financial reporting is reliable and relevant to the decision-making of those to whom the information is addressed.

The unconsolidated financial statements of Heidelberger Druckmaschinen Aktiengesellschaft are prepared by the Controlling & Accounting Department (CA). This department also regularly monitors whether the account books are properly maintained, thereby ensuring that the financial information complies with regulatory requirements. The internal auditors, who have access to all data, additionally examine in detail individual areas and subsidiaries on the basis of spot checks. In doing so, the auditors examine whether the internal control system has been implemented and transactions controlled, and whether dual control is adhered to in all areas. The latter is stipulated and binding – for every order that is placed, for every invoice that is presented, and for every investment that is made, for example. 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 Company. 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 automatic basis.

Overall, these procedures ensure that reporting on the business activities of the Company is in accordance with the approved accounting directives. The effectiveness of the internal accounting control system is regularly monitored by the internal auditors.

# Economic Development

## Business Environment and Industry Development

Altogether, the world economy posted growth of approximately 3.9 percent – a more rapid pace than had been expected. Following the moderate weakening in the pace of growth at the end of the calendar year, the world economy grew modestly further in the early months of 2011.

Such economic risks as the high debt of some European countries, the increasing danger of inflationary pressures in the newly industrializing countries, and a substantial increase in raw material prices had a dampening effect. The impact on the global economy of the catastrophe in Japan and from other uncertainties is still unclear.

The German economy was the principal engine for growth in the EURO ZONE. Companies relaxed the rigid belt-tightening measures that they had adopted during the global economic crisis – again increasing their advertising budgets and ordering more print products. The business expectations of print shops rose as a consequence, as the graphic on the right shows, and they invested to a considerably greater extent in printing presses. On the other hand, both GDP and the printing industry itself hardly grew at all in those countries that were affected by the debt crisis. GDP in ASIA increased by 8 percent. With growth of 10 percent in calendar year 2010, China returned to a pace of growth similar to the rapid growth posted before the crisis. The economic situation for the printing industry was also already picking up considerably at the beginning of the year. The perceptible economic upswing in SOUTH AMERICA also had an impact on the printing industry, with the ExpoPrint trade show in Brazil a success for us. By contrast, in the US, where print shops' capacity utilization fell to a historic low the previous year, as we had expected the industry stagnated, even though business picked up slightly for a short period during the second half of the reporting year.

In EASTERN EUROPE, it was primarily Poland that recorded strong growth. Following a marked downturn of GDP in 2009, even Russia returned to growth, which also benefited the printing industry.

### GROSS DOMESTIC PRODUCT [1]

5

Change from previous year in percent

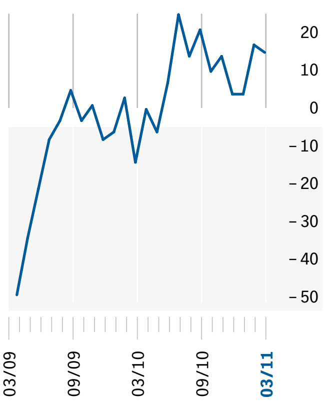
| | 2008 | 2009 | 2010 |
|---|---|---|---|
| **World** | 1.6 | – 2.1 | **3.9** |
| USA | 0.0 | – 2.6 | 2.9 |
| EU | 0.4 | – 4.2 | 1.8 |
| Germany | 0.7 | – 4.7 | 3.5 |
| UK | – 0.1 | – 4.9 | 1.3 |
| Eastern Europe | 3.0 | – 3.5 | 4.1 |
| Russia | 5.2 | – 7.8 | 3.6 |
| Asia [2] | 5.6 | 4.8 | 8.3 |
| China | 9.6 | 9.2 | 10.3 |
| India | 5.1 | 6.8 | 8.5 |
| Japan | – 1.2 | – 6.3 | 4.0 |
| Latin America | 5.2 | – 0.5 | 6.2 |
| Brazil | 5.2 | – 0.6 | 7.5 |

[1] Source: Global Insight: WMM; April 2011
[2] Excluding Japan

### BUSINESS EXPECTATIONS – GERMAN PRINTING INDUSTRY

6

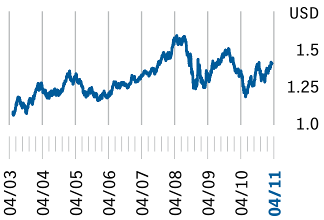
Balance of responses in percent




Source: Ifo Institute for Economic Research

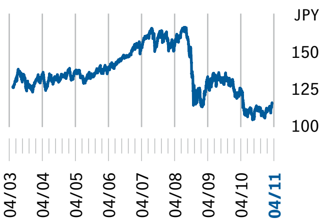
EUR/USD EXCHANGE RATE DEVELOPMENT

7




EUR/JPY EXCHANGE RATE DEVELOPMENT

8




Source: Bloomberg

The volatility of exchange rates and their parities again had a considerable impact on general economic developments during the financial year. The US dollar, the Japanese yen, the Chinese renminbi, the Swiss franc, and the British pound are especially important for Heidelberg's international business.

## Business Development

As expected, the order backlog of print shops improved during the financial year and demand for printing presses accelerated perceptibly. This resulted in a marked increase in incoming orders, which rose by approximately 29 percent over the previous year's figure to € 1,285 million. Due to the two trade shows IPEX and Expo-Print, we were successful in generating marked growth, particularly in the first half of the year.

The Company was also able to boost its sales volume over the previous year's figure by a considerable 25 percent to € 1,265 million.

Sales in all of our regions surpassed the previous year's figures, with particular growth posted in our biggest region, Europe, Middle East and Africa as well as in Asia.

## Results of Operations, Net Assets, and Financial Position

During the financial year, we succeeded in improving the **RESULT OF OPERATING ACTIVITIES** – a result in particular of improved sales and the resulting greater profit contributions, with the loss only amounting to € – 57 million. The savings arising from our cost-cutting programs had an additional favorable impact.

INCOME STATEMENT

9

Figures in € millions

| | 2009/2010 | 2010/2011 |
|---|---|---|
| **Net sales** | 1,016 | **1,265** |
| **Total operating performance** | 974 | **1,257** |
| **Results from operating activities** | – 99 | **– 57** |
| – in percent of sales | – 10 % | – 5 % |
| Financial result | – 127 | – 64 |
| **Result from ordinary activities** | – 226 | **– 121** |
| – in percent of sales | – 22 % | **– 10 %** |
| **Extraordinary result** | 122 | 81 |
| Taxes on income | – 2 | **18** |
| **Net loss** | – 106 | – 22 |
| – in percent of sales | – 10 % | **– 2 %** |

In the **FINANCIAL RESULT** of Heidelberger Druckmaschinen Aktiengesellschaft, we were successful in considerably reducing the loss to € – 64 million during the financial year. This was caused, among other things, by lower expenses and higher income resulting from profit and loss pooling agreements. Nevertheless, the high financing costs and non-recurring expenditures due to the repayment of financial liabilities had a dampening effect compared with the previous year. The revaluation of the covered funds within the framework of the switchover to the provisions of the German Accounting Legislation Modernization Act (BilMoG) resulted in extraordinary income, whereas by contrast, the € 22 million in costs of the capital increase largely generated extraordinary expenses. The overall extraordinary result thereby amounted to € 81 million.

Tax income of approximately € 18 million accrued during the financial year – the result of an adjustment in the tax provision for audit risks and a retroactive increase in the corporation income tax credit under the provisions of the Annual Tax Law 2010. This resulted in a **NET LOSS** of € – 22 million for the financial year – compared with a significantly greater loss of € – 106 million the previous year.

**TOTAL ASSETS** declined by 17 percent, or by approximately € 500 million, to € 2,371 million during the financial year. The decline in assets results primarily from the offset of covered funds among fixed assets against pension obligations, as well as our successful asset management in the area of working capital. Among liabilities and net worth, the pension provisions declined due to the above-mentioned offset.

Within the framework of the change in legislation resulting from the German Accounting Legislation Modernization Act (BilMoG), **FIXED ASSETS** fell by € 375 million – caused by the effects resulting from the offset of covered funds in fixed assets against the pension provisions amounting to € 368 million.

Current assets declined mainly due to the optimization measures in the area of working capital – the favorable result of our successful asset management for inventories and trade receivables.

**EQUITY** at financial year-end is up considerably over the previous year's figure. This increase resulted from the successfully implemented capital increase as well as the adjustment of retained earnings within the framework of the change in legislation due to BilMoG, whereas by contrast, the net loss for the financial year had a negative effect.

Within the framework of the capital increase on September 24, 2010, we issued approximately 155 million new shares and generated gross revenue of approximately € 420 million. We utilized the entire net underwriting revenue that resulted from the capital increase for reducing financial liabilities and strengthening the equity base. As a result of this measure, at financial year-end Heidelberg again attained a solid **EQUITY RATIO** of 37 percent related to total assets, compared with a figure of only 16 percent at end of the previous financial year.

**PROVISIONS** fell from € 1,027 million the previous year to € 449 million – caused principally by the decline in the pension provisions in connection with the above-mentioned offset against the covered funds and by the decline in the provisions for our cost-reduction measures.

**LIABILITIES** including deferred income were down considerably from the previous year, falling from € 1,386 million to € 1,044 million – the result of our use of the funds generated by our successful capital increase to reduce financial liabilities to banks.

### BALANCE SHEET STRUCTURE

10

Figures in € millions

| | 31-Mar-2010 | in percent of total assets | 31-Mar-2011 | in percent of total assets |
|---|---|---|---|---|
| Fixed assets | 1,851 | 64 | 1,476 | 62 |
| Current assets [1] | 1,022 | 36 | 895 | 38 |
| **Total assets** | 2,873 | 100 | **2,371** | **100** |
| Equity | 455 | 16 | 875 | 37 |
| Special items | 5 | 0 | 3 | 0 |
| Provisions | 1,027 | 36 | 449 | 19 |
| Liabilities [1] | 1,386 | 48 | 1,044 | 44 |
| **Equity and liabilities** | 2,873 | 100 | **2,371** | **100** |

[1] Including accruals and deferred income

With the help of the economic stimulus package, during the summer of 2009 Heidelberg negotiated bridge funding in the form of a line of credit from the banks providing financing in the total amount of € 1.4 billion. The credit facilities were to be made available through mid-2012 and included three components: a loan under the special program of the Reconstruction Loan Corporation (KfW) totaling

€ 300 million; a syndicated line of credit from a bank underwriting syndicate of € 550 million, 90 percent secured by guarantee commitments from the German Federal Government and the German States of Baden-Wuerttemberg and Brandenburg, as well as a further syndicated line of credit amounting to € 550 million.

We used the entire net underwriting revenue of approximately € 400 million from our capital increase in the autumn of 2010 to repay the financial obligations resulting from the bridge funding: In the second quarter, we repaid the compulsory share of the syndicated line of credit as well as the line of credit, including guarantee, from the German Federal Government and the German States. A line of credit of € 445 million, respectively, remained. In addition to the compulsory repayment of the loan under the special KfW program, we simultaneously made an additional voluntary special repayment. During the third quarter, we were able to repay the entire remaining amount in advance out of free cash flow and through the restructuring of our financing.

The simplified capital structure offered an optimal prerequisite for the refinancing prior to maturity, so that at the end of March Heidelberg was in a position to announce the comprehensive refinancing of our lines of credit. In March 2011, we placed a high yield, unsecured bond in the nominal amount of € 304 million with a seven-year maturity and carrying an annual coupon of 9.25 percent. We successfully issued these bonds on April 7, 2011. Heidelberg used the net underwriting revenue for the early repayment of the two credits, of which one was secured by the German Government, as well as for general financing of the Company. Furthermore, simultaneously with the bond issue in April, a new revolving credit facility from a bank underwriting syndicate of € 500 million, which runs through the end of 2014, went into effect. The new financing contracts contained customary financial covenants with reference to the financial position of the Heidelberg Group.

Heidelberger Druckmaschinen Aktiengesellschaft manages the Group's financing and secures its liquidity. Since May 2006, all consolidated subsidiaries have been directly linked with the in-house bank of Heidelberger Druckmaschinen Aktiengesellschaft through an internal account. Furthermore, cross-border payments are executed via our "Payment Factory". Our internal and external payments are consequently cost-effective. This is an important prerequisite for optimizing the Group's global **LIQUIDITY MANAGEMENT** and reducing external borrowed funds.

The financing package that was replaced in April had been supported by comprehensive collateral, such as land charges, chattel mortgages, receivable assignments, a pledge of shareholdings in subsidiaries, and a pledge of brand names and patents. The financing agreements include financial covenants that are customary in the market with reference to the financial position of the Company relating to five key financial figures.

## Research and Development

We have been upgrading all our research and development procedures since 2008 under the framework of our program BiRD (Best in Research and Development). Our platform strategy is a result of this program. Thanks to this program, we are able to quickly apply innovations arising in one format category to other format categories as well. Moreover, we lower the cost of manufacturing 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 on product development. We thereby enhance the customer benefits of our new products – and lower the risk of developing products with no significant benefit to our customers. Among others, we work with the so-called Quality Gate Process in order to optimize product life cycles. This process explicitly integrates all the participating areas in the product development process.

We invested a total of € 104 million in research and development during the financial year – € 5 million more than in the previous year. A total of 949 employees were active in R&D at the end of the reporting year, accounting for 11 percent of our total staff.

## Events Occurring after the Financial Year-End

Heidelberg issued a high yield bond on April 7, 2011, with the overall volume issued totaling a nominal € 304 million, with a term to maturity of seven years. Some of the proceeds from the issue were used to immediately repay the credits – which had in part been secured by German Federal Government guarantees. We are striving for a listing on the Luxembourg stock exchange in May. Furthermore, simultaneously with the bond issue, on April 7, 2011 a new revolving credit facility of € 500 million from a bank underwriting syndicate and running through the end of 2014 went into effect. We discuss the new financing structure in more detail in the chapter “Financial Position”.

No other significant events occurred following the financial reporting date.

# Risks, Opportunities, and Future Prospects

## Risk and Opportunity Report

No risks that could threaten the existence of the Company are evident – neither at the present time nor in the foreseeable future. This applies to both the results of our already implemented business activities 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 are substantively related. In doing so, we do not offset potential opportunities against risks. The graphic on the right shows the altogether gratifying development across-the-board of risk groups compared with the previous year. The overall risk situation of the Company again considerably improved following the considerable improvement during the previous year. Nevertheless, various developments could endanger the further growth of the world economy. An unfavorable development of the overall economy represents the greatest risk for us, which we cannot cover in our planning process. At the present time, the economic situation of print shops is again favorable, not only in the newly industrializing countries, but in many industrialized countries as well. Moreover, we have considerably and sustainably reduced the Company's operating break-even point, and we continue to scale back our dependence on cyclical fluctuations. A failure of the expected further upswing in the print media industry to occur, especially in the industrialized countries, would substantially weaken demand in the printing press segment. A higher share of sales for standard printing presses would cause the expected profit margins to shrink. In the case of a longer economic downswing, moreover, renewed excess capacities would result in greater price competition among printing press manufacturers should a reduction in these excess capacities not be feasible in the short term. In addition, sales of the Heidelberg Services Division might stagnate. As in the past, our relatively non-cyclical divisions could only partially compensate for an economic downswing in the industrialized countries.

We will retain our **STRATEGY** – although we regularly monitor the need to adjust our overall strategy. Thanks to the successful refinancing, we enjoy a degree of planning certainty for its implementation in the medium term. We believe that our strategic decisions reduce the Company's risks. We are vigorously further pursuing our goal of reducing our dependence on cyclical fluctuations. The decision to focus on advertising and commercial printing as well as packaging printing in our core business area of sheetfed offset printing has proven be the right decision in view of behavioral changes in communications and information technology. There is nevertheless also a risk that companies may use less print advertising in their marketing efforts in the future. We counteract this risk by also including

**DEVELOPMENT OF RISK GROUPS**


The risks in particular from procurement increased in importance from the previous year. The global growth in demand might cause a considerable lengthening of replacement times for components. Nevertheless, due to our procurement policy the overall risk of suppliers' failures to deliver has decreased compared to the previous year.

the target group of so-called print buyers in our marketing activities and familiarizing them with the advantages of print products and a large variety of applications. Digital printing will replace small-format offset printing to a reasonable degree. Due to our printing presses' high degree of flexibility at high speeds, except for very short print runs they are superior to digital printing – even in terms of cost, in particular because of our Anicolor zoneless short inking unit. In addition, we have reacted to this trend by offering hybrid applications that combine digital with offset printing based on our cooperation with Ricoh. We believe the risks arising from our product strategy are minor because we have the most advanced portfolio in the market, which provides print shops with competitive advantages. In the Web-to-Print segment, for example, we have developed offset technologies for our biggest format category that are considerably superior to digital printing at short print runs. In our view, our new job manufacturing business unit does not face any significant risks. The overall **OPPORTUNITIES** available to Heidelberg developed favorably during the financial year, which we discuss in detail in our description of the various risk groups.

### Risks Arising from the Economy and the Market Continue High; Country Risks in China under Scrutiny; an Opportunity: Investment Backlog in Industrialized Countries Being Worked through More Rapidly than Expected

There are currently a number risks arising from the world economic situation – including, among others: the debt crisis in Europe, the high government debt of the US, and China's possible loss as an economic engine for growth, as well as the greater inflationary pressures in that country. If the expected growth fails to occur in the industrialized countries or if growth in the newly industrializing countries is weaker than expected, as we discuss in the section on Overall Risk, this would considerably impair our business development. Expanding our business areas, such as services, and consumables, as well as packaging printing, and job production makes the Company's result less cyclically sensitive in the medium term. On the other hand, there is an opportunity for a stronger upswing in demand for our products than we had assumed in our planning due to more favorable economic developments. In this case, the investment backlog in the industrialized countries could be worked through more quickly. Our presence in 170 countries represents a great opportunity for us to rapidly expand our market shares in all areas of business. We have the densest service and sales network of our industry and we are the only European manufacturer to manufacture locally in China. These two factors secure us important competitive advantages in one of our strategically important markets. Moreover, the continued expansion of our production capacities in China further reduces the danger that import duties or increased market regulation could impair our local business.

Both opportunities as well as risks are greater in China than in the previous year. China is meanwhile our market with the highest volume of sales. As a result, our dependency on the economic situation in that country has increased considerably. The occurrence of various country risks would therefore have a considerably greater impact on our sales trend. We counteract this eventuality by establishing structures that put us in a position to deliver printing presses from Qingpu to neighboring markets as well.

Following the catastrophe in Japan, business in that market initially came nearly to a complete standstill. We focused on helping affected customers. Even though developments have meanwhile normalized somewhat, at present we are unable to appraise exactly how the situation will evolve during the current financial year.

In some newly industrializing countries, among others in northern Africa, there are risks due to economic or political instability, as a result of which we are faced with sales risks while in the medium term we may enjoy additional sales opportunities.

We minimize sales risks in general by closely observing current local developments in order to counteract them at an early stage should the need arise. In principle, there are both risks as well as opportunities that social changes, government intervention, customs regulations, and changes in legislation could impact our business development in some markets.

### Industry and Competition: Risk of Tougher Competition; Opportunity of a Market Shakeout

Industry and competitive risks decreased from the previous year – on the one hand, because capacities were perceptibly reduced throughout our industry, and on the other hand, because remaining capacities are utilized to a considerably greater extent due to the improved economic situation. In the section “Overall Picture from the Management Board Regarding Risks and Opportunities”, we describe how an economic downswing could result in cutthroat competition with its associated pressure on prices. We would not be able to reach our sales targets in the Heidelberg Equipment and the Heidelberg Service divisions should the printing industry experience an economic downturn. Although there is a risk of a hefty price decline, there is also an opportunity that a consolidation could occur among manufacturers or that they might focus more sharply on particular products, as a result of which our competitive position could considerably improve further.

Exchange rate structures were again more favorable for European manufacturers over the past two years. Should exchange rate structures shift in favor of Japanese manufacturers, this could considerably intensify competition with our

Japanese competitors, especially in the 70×100 format category. Our market position – as well as that of our European competitors – would be weakened. Of course, there is also an opportunity that the opposite might occur. Our expansion of purchasing and production outside the euro zone softens the impact of exchange rate developments in the medium term – for example, the previous year we began producing 70×100 format printing presses in China.

### Product Risks Reduced from the Previous Year; Demand for High-Quality Printed Products Grows Significantly Worldwide

Demand for very-high-quality printed matter is further strengthening worldwide. At the same time, the significance of environmentally friendly manufacturing is also rapidly growing. An unexpectedly quick change in the behavior of final consumers offers the opportunity that our solutions may enjoy even greater competitive advantages.

In the Annual Report, we report extensively on how our new products are proving their success in the market – especially in view of the difficult economic situation – and provide customers with genuine cost and competitive advantages. Product risks continue to be low. Customers are highly satisfied with our largest format models, the Speedmaster XL 145 and Speedmaster XL 162. Our newly developed Speedmaster CX 102 was very well received in the market.

In order to avoid undesirable developments, our priority in all R&D projects focuses strictly on the benefit to the customer. We work closely together with concept customers in all phases of product development. A panel of experts from R&D, Product Management, Controlling, Manufacturing, and Services determine in advance the direction of further product development. Among other things, the panel members make decisions based on market analyses, economic viability considerations from the Company's point of view, and on our technology roadmap, which we apply in order to describe the long-term development goals that we need to attain to satisfy future customer requirements. We secure the results of our research and development activity with the Company's own proprietary rights.

The risk that we will not be able to complete our major R&D projects during the planned period lessened from the previous year. Cooperation with Ricoh opens the door to considerable R&D opportunities. The same applies to government-supported cooperation with regional firms in organic electronics.

## Financial and Legal Risks Decline

The Company's funding and thereby its LIQUIDITY is secured for the medium term. There are currently hardly any interest rate risks. We describe the new financing structure in more detail in the chapter "Financial Position" on page 12 ff – where we also describe how our financing is tied to customary financial covenants, which we have committed to observing over the term of the funding. A deterioration in the income and financial condition of the Group to such a degree that we fail to meet these financial covenants would have an adverse financial impact on the Company. As in the past, in the area of SALES FINANCING there is a risk that losses could occur due to industry, customer, residual value, and country risks – compared to last year this risk has however decreased. 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 the receivables arising from our sales financing during the financial year. The risks from the counter-liabilities that we took over declined. A substantial part of our portfolio comprises claims on customers in newly industrializing countries. Foreign currency developments are currently making it easier for our customers to repay installments either in US dollars or in euros. A risk could arise in this area should exchange rate structures shift. 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, workflow management, and the regulations that determine responsibilities.

We strive to reduce the Company's foreign currency exposure and thereby our overall dependency on EXCHANGE RATE STRUCTURES – among others, by further expanding our purchasing volume in foreign currencies. For the future declining volumes of foreign currencies, we have hedged against the risk of fluctuating exchange rates of our principal foreign currencies, especially the highly volatile US dollar. Nevertheless, exchange rate risks continue to exist, which we continually assess and evaluate. As opposed to Japanese producers, European manufacturers could benefit from an ongoing stable Japanese yen. The graphic on page 10 shows the exchange rate structures over the past seven years.

Long-term procurement strategies – we rely on close and contractually hedged cooperation with system suppliers – as well as supplier monitoring based on key data parameters, systematic observance of all significant markets, and a material planning system with a rolling 12-month forecast: all of these measures reduce Heidelberg's risks from suppliers' failure to deliver, from a delayed delivery of components, or from components of inferior quality.

Thanks to our long-term and stable supplier relationships, the production supply was not jeopardized at any time during the financial year.

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 compliance with our comprehensive guidelines in all areas. Since at the beginning of April 2011 we were able to bring long-standing litigation with the former shareholders of Linotype-Hell to an end, our overall legal risks fell.

## Risks Arising from Performance Generally at the Previous Year's Level; Opportunities from Idea Management

Compared with the previous year, the Company's 15 most important risks now also include risks from PROCUREMENT. With continuous monitoring, at an early stage we can pinpoint and counteract possible supply bottlenecks. Since we took into consideration in our planning a foreseeable further rise in the price of raw materials, and with it higher production costs, this factor is consequently no longer included among the risks. Because of the improved economic conditions, the risk of a supplier's failure to deliver due to insolvency decreased from the previous year. As in the past, we protect ourselves against some risks in advance, since risk management is an integral component of our supply management. We include our suppliers in the process as well.

Comprehensive job cutbacks and utilization of short-time work entails difficulties for the effected employees as well as for the Company as a whole. It also increases risks in the HUMAN RESOURCES AREA. Highly experienced teams have been changed, and processes and procedures redesigned. An additional factor is the risk of a loss of motivation. It takes time to establish a new structure. Fortunately, voluntary resignations remained at a relatively low level. We initiated and implemented various measures to increase the attractiveness of Heidelberg as an employer and enhance the development potential of high performers. Our Idea Management takes advantage of opportunities that arise from our employees' high level of qualifications and motivation.

Thanks to our global IT management, we do not envision any serious dangers in the IT area. We have prepared for system failures with security measures. The probability that our systems could be damaged through attacks has been reduced considerably thanks to comprehensive preventive measures.

In contrast to the preceding year, in the **PRODUCTION AREA** we see very little risk that short-time work and job cutbacks could delay production times. As in the past, there is an opportunity that we could realize considerable cost reductions with an enhancement of processes within the framework of our Heidelberg Production Systems.

We make efficient use of our existing installations and can thereby keep **INVESTMENTS** low. We also implemented important investments, urgently needed replacement capital investments, and investments to enhance environmental protection in the preceding years. We will again modestly step up our investments during the current and subsequent years; in the "Future Prospects" section we expand upon individual plans. We make investment decisions with the aid of our worldwide uniform planning system, which accumulates all the relevant information. Prior to making a capital investment, we implement a make-or-buy analysis, which is checked by a team of engineers and financial specialists.

We minimize environmental risks by means of an efficient environmental management system – both in the area of product design and in the manufacturing process – which we describe extensively on page 5. We therefore do not envision any significant environmental risks.

## Future Prospects

Even though it is generally expected that the vigor of the world economy will barely be hampered during the current financial year, there are some risks to economic growth. As in the past, the further development of the overall economy represents the greatest risk – as well as the greatest opportunity – for the Company.

## Overall Picture from the Management Board Regarding Prospects

Our planning assumes that the world economy will generally develop solidly despite the existing uncertainties. This also corresponds to assessments by most leading economic research institutes. A number of factors currently make it difficult for us to present a reliable range for the development of our sales and earnings in the next two financial years:

- We expect that demand for printing presses in the newly industrializing countries will continue to be strong and will pick up further in the industrialized countries. The German Engineering Federation (VDMA) also believes that the print media industry is now only at the threshold of a period of recovery. Nevertheless, it is still difficult to estimate when print shops will begin investing again to a considerably greater extent – for example in the US, Canada, Australia, and Japan.

In our planning process, we assume that exchange rate developments will not lend our Japanese competitors any particular advantages.

> Moreover, we can only predict with reservations whether, and to what degree, the run-up to drupa 2012 will cause a restrained level of spending by print shops, as well as the extent to which drupa will contribute to working through the investment backlog. The most important trade show for our industry is held every four years in May, in Duesseldorf. In the past, drupa has attracted nearly 400,000 visitors.

Assuming that the economic environment will continue to be generally stable, we expect a further moderate growth in sales during the current and subsequent financial year. Due to drupa 2012 and the ongoing upswing in the print media industry, the **INCREASE IN SALES** in the next year should be greater than in the current financial year. As during the reporting year, growth in the Heidelberg Equipment Division will probably be greater than in the less cyclically sensitive Heidelberg Services Division.

Assuming a generally stable development of underlying economic conditions and of our industry, during the current financial year we are striving for a considerably improved **RESULT OF OPERATING ACTIVITIES** in the area of a break-even result.

Thanks to the large reduction in debt, the **FINANCIAL RESULT** will have a substantially weaker dampening effect than during the reporting year.

If favorable trends continue into the year of the drupa trade show, we expect the result of operating activities to be firmly in the black in financial year 2012/2013. The net profit will also benefit from this improvement.

## Remuneration Report – Management Board and Supervisory Board

The remuneration of the **MANAGEMENT BOARD** was again on numerous occasions the object of the discussions on the Supervisory Board during the financial year. In addition to approval of the remuneration systems by the Annual General Meeting 2010, the Supervisory Board of Heidelberger Druckmaschinen Aktiengesellschaft requested a further expert opinion at the end of the reporting period in compliance with the Act on the Appropriateness of Management Board Remuneration (VorstAG).

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 remuneration of the members of the Management Board comprises a fixed annual salary, a variable annual remuneration, a long-term variable remuneration component that is calculated on the basis of the attainment of certain goals over a period of several years that are grounded on defined parameters, as well as remuneration in kind and a Company pension.

With the launch of the new remuneration system, which was introduced at the previous year's Annual General Meeting, among other things the weighting of the variable remuneration components has shifted in favor of long-term variable remuneration.

The members of the Management Board receive an annual **FIXED REMUNERATION** that is paid in equal monthly installments. Provision is also made for **VARIABLE SALARY COMPONENTS**. On the one hand, an annual Company bonus is paid that is dependent on the Group's success during the financial year – free cash flow and the result of operating activities serve as benchmarks. And, on the other hand, each member of the Management Board is eligible to receive a personal, performance-based bonus that is determined by 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 could total up to 30 percent of base pay, the Company bonus also up to 30 percent, in case of overfulfillment, up to 60 percent, and the multi-year long-term bonus up to 90 percent of the base pay. The multi-year long-term bonus is linked to such yardsticks as EBITDA, the debt ratio, and interest rate coverage, which also play an important

The members of the Company's Management Board are voluntarily forgoing 10 percent of their annual fixed base pay in financial years 2011/2012 and 2012/2013. These deductions will already be taken into account in the bonus payments for financial years 2010/2011 and 2011/2012.

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. The details of the new remuneration system were introduced the previous year at the 2010 Annual General Meeting and approved by the shareholders with a majority of 94.13 percent in accordance with Section 120 (4) of the Stock Corporation Act.

role in the financial covenants of the credit agreements. Following their introduction in financial year 2009/2010, these bonuses may be disbursed for the first time following the close of financial year 2011/2012. In any case, the remuneration of the Management Board amounts to at most 280 percent of the annual fixed basic compensation.

Remuneration in kind consists largely of the use of a Company car in accordance with tax guidelines. Mr. Schreier did not make use of this right of use during the reporting period. In the case of Mr. Kiessling, payments in kind also comprise additional payments that were made for the first year of his contract due to his family situation. He moved from the US and his family still lives there transitionally.

Furthermore, within the framework of the applicable remuneration structure of the Stock Option Plan and the Long-Term Incentive Plan (LTI), in the past the members of the Management Board additionally received a corresponding **VARIABLE REMUNERATION COMPONENT** with long-term incentive effects. Both programs are no longer in effect and no payments have been made to participants. As of March 31, 2010, the Performance Share Units (PSU) under the 2007 tranche of the LTI expired, as did the final tranche of the Stock Option Plan as of August 18, 2010, without payment criteria having been attained. For additional information, please refer to pages 66 to 69 of the notes to the financial statements.

### DETAILED REMUNERATION OF THE MEMBERS OF THE MANAGEMENT BOARD:

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Figures in € thousands

| | | Performance-neutral components | | Performance-based remuneration | Cash remuneration | Components with long-term incentive effects[3] | Remunerations |
|---|---|---|---|---|---|---|---|
| | | Base salary | Remuneration in kind | Bonus for the reporting year[2] | | | |
| Bernhard Schreier | 2010/2011 | 500 | 0 | 357 | 857 | – | 857 |
| | 2009/2010 | 500 | 6 | 250 | 756 | – | 756 |
| Dirk Kaliebe | 2010/2011 | 350 | 18 | 250 | 618 | – | 618 |
| | 2009/2010 | 330 | 18 | 165 | 513 | – | 513 |
| Marcel Kiessling | 2010/2011 | 313[1] | 33 | 223 | 569 | – | 569 |
| | 2009/2010 (1-Jan- to 31-Mar-2010) | 75 | 26 | 38 | 139 | – | 139 |
| Stephan Plenz | 2010/2011 | 350 | 9 | 250 | 609 | – | 609 |
| | 2009/2010 | 313 | 9 | 156 | 478 | – | 478 |

[1] The fixed annual remuneration of Marcel Kiessling increased from € 300,000 to € 350,000 as of January 1, 2011
[2] Bonus for the financial year 2010/2011 before forgoing 10 percent of the remuneration for financial year 2011/2012
[3] To date this remuneration component has included the Stock Option Program and the Long-Term Incentive Plan (LTI) and will, from now on, comprise the multi-year long-term bonus

## PSUS UNDER THE LTI AND UNDER THE STOCK OPTION PROGRAM AS WELL AS PENSION PLAN OF THE MANAGEMENT BOARD MEMBERS

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Figures in € thousands

| | | PSUs | | Pension plan | | | |
|---|---|---|---|---|---|---|---|
| | | Number of PSUs under the LTI | Number of PSUs under the Stock Option Program | Expected pension per annum at retirement age [1] | Pension contribution for the reporting year [2] | Defined benefit obligation | Pension plan according to IFRS [3] |
| Bernhard Schreier | 2010/2011 | – | – | 371 | – | 4,450 | 349 |
| | 2009/2010 | 4,500 | 10,500 | 371 | – | 4,485 | 310 |
| Dirk Kaliebe | 2010/2011 | – | – | 486 | 105 | 656 | 124 |
| | 2009/2010 | 4,500 | 6,750 | 366 | 96 | 519 | 118 |
| Marcel Kiessling | 2010/2011 | – | – | 277 | 119 | 409 | 130 |
| | 2009/2010 (1-Jan- to 31-Mar-2010) | 1,800 | 6,750 | 153 | 34 | 271 | 41 |
| Stephan Plenz | 2010/2011 | – | – | 415 | 116 | 596 | 128 |
| | 2009/2010 | 1,800 | 6,750 | 290 | 103 | 457 | 120 |

[1] The expected pension per annum at retirement age of Bernhard Schreier is calculated based on the level of pensionable remuneration as of March 31
[2] The pension contribution for the reporting year of Dirk Kaliebe, Marcel Kiessling, and Stephan Plenz is calculated based on the level of pensionable remuneration as of March 31 excluding the profit-based premium not yet definable. Due to a defined benefit commitment for the pension plan no pension contributions will accrue for Bernhard Schreier
[3] Service cost and interest cost

**PAYMENTS FOLLOWING THE END OF EMPLOYMENT** to members of the Management Board are broken down as follows: **BERNHARD SCHREIER** was appointed as a regular member of the Management Board for a term of three years. His 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 increase in percentage rates 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 employment 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 in the amount achieved by then. Otherwise, the statutory full vesting periods are deemed to have been met. 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**, **STEPHAN PLENZ**, and **MARCEL KIESSLING** have been appointed for terms of three years as regular members of the Management Board. The pension contracts for Dirk Kaliebe, Marcel Kiessling, and Stephan Plenz provide 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 a percentage of basic salary, applicable retroactively for the prior financial year: 30 percent (in BVR: 3 percent) for Mr. Kaliebe, 38 percent (in BVR: 3 percent) for Mr. Kiessling, and 33 percent (in BVR: 3 percent) for Mr. Plenz. Depending on corporate earnings, this amount may be increased. The precise level of the pension depends on the financial success of the investment fund. The pension may be paid as an early pension payment beginning at age 60. In case of a termination of employment with the Company, the pension will be paid at the age of 65, or respectively at age 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. Furthermore, full statutory vesting periods are considered to have been met.

All service contracts provide for the following uniform terms for **PAYMENTS IN CASE OF EARLY TERMINATION OF EMPLOYMENT** should an effective revocation of the mandate of a member of the Management Board or a justified resignation of a member of the Management Board occur. The service contract 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. 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 in quarterly installments in accordance with the originally contracted term to maturity – at most, however, in eight quarterly installments. Other payments to former members of the Management Board, which are to be certified to the Company, during the originally contracted term to maturity as is provided for under Sections 326 (2) 2 and 615 (2) of the Civil Code, are subject to an offset. Should a member of the Management Board be subject to an employment disability, payments provided for under the respective pension contract are to be made.

In the Remuneration Report for financial year 2009/2010, we reported extensively on the **REMUNERATION OF THE FORMER MEMBER OF THE MANAGEMENT BOARD, DR. JÜRGEN RAUTERT.** On the basis of the respective agreements, for the full financial years 2010/2011, 2011/2012, as well as proportionately for financial year 2012/2013, Dr. Rautert is to receive a bonus – however, only in an amount to which active members of the Management Board are granted bonuses. Furthermore, beginning on September 1, 2013, Dr. Rautert will begin receiving pension payments on the basis of 60 percent of his pension-relevant annual salary. During the period beginning on January 1, 2012 and until he reaches the earliest possible pension-eligible age in August 2013, Dr. Rautert will receive monthly transition payments in the gross amount of € 14,584. 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.

The remuneration of the members of the **SUPERVISORY BOARD** is governed by the Articles of Association and approved by the Annual General Meeting. Including the reporting year, 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 that pays 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 members of the Supervisory Board (excluding VAT) is as follows:

## REMUNERATION OF THE MEMBERS OF THE SUPERVISORY BOARD (EXCLUDING VAT)

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Figures in €

| | 2009/2010 | | | 2010/2011 | | |
|---|---|---|---|---|---|---|
| | Fixed remuneration | Variable remuneration | Total | Fixed remuneration | Variable remuneration | **Total** |
| Dr. Mark Wössner [1] | 40,646 | 0 | 40,646 | 39,000 | 0 | 39,000 |
| Rainer Wagner [2] | 32,000 | 0 | 32,000 | 33,000 | 0 | 33,000 |
| Dr. Werner Brandt [3] | 26,000 | 0 | 26,000 | 26,500 | 0 | 26,500 |
| Edwin Eichler [3] | 19,000 | 0 | 19,000 | 20,500 | 0 | 20,500 |
| Wolfgang Flörchinger | 20,500 | 0 | 20,500 | 22,000 | 0 | 22,000 |
| Martin Gauß | 26,500 | 0 | 26,500 | 26,000 | 0 | 26,000 |
| Mirko Geiger | 28,000 | 0 | 28,000 | 28,500 | 0 | 28,500 |
| Gunther Heller | 20,500 | 0 | 20,500 | 22,000 | 0 | 22,000 |
| Jörg Hofmann | 20,000 | 0 | 20,000 | 21,000 | 0 | 21,000 |
| Dr. Siegfried Jaschinski | 20,000 | 0 | 20,000 | 20,500 | 0 | 20,500 |
| Robert J. Koehler | 20,000 | 0 | 20,000 | 20,500 | 0 | 20,500 |
| Dr. Gerhard Rupprecht | 26,000 | 0 | 26,000 | 25,000 | 0 | 25,000 |
| Beate Schmitt | 20,500 | 0 | 20,500 | 24,375 | 0 | 24,375 |
| Prof. Dr.-Ing. Günther Schuh [3] | 20,000 | 0 | 20,000 | 20,500 | 0 | 20,500 |
| Dr. Klaus Sturany | 32,000 | 0 | 32,000 | 33,350 | 0 | 33,350 |
| Peter Sudadse | 20,000 | 0 | 20,000 | 21,500 | 0 | 21,500 |
| **Total** | 391,646 | 0 | 391,646 | 404,225 | 0 | **404,225** |

[1] Chairman of the Supervisory Board
[2] Deputy Chairman of the Supervisory Board
[3] On the Supervisory Board since July 18, 2008

## Information in Accordance with Section 289 (4) of the Commercial Code

In accordance with Section 289 (4) Nos. 1 – 9 of the Commercial Code, in the management report we address all points that may be of significance should a public takeover bid for Heidelberg occur.

The **SUBSCRIBED CAPITAL** (share capital) of Heidelberger Druckmaschinen Aktiengesellschaft amounted to € 597,325,573.12 at the end of the reporting period and was apportioned among 233,330,302 no-par bearer shares. The shares are not subject to restricted transfer rights. At the financial year-end, the Company held 400,000 of its own shares, to which it is not entitled to any rights in accordance with Section 71b of the Stock Corporation Act. Of these shares, some 260,000 shares were used for an employee share participation program during the current financial year.

As of the March 31, 2011 reporting date, the firm Allianz SE, Munich, Germany, maintained an **INDIRECT PARTICIPATION** in the capital of the Company exceeding 10 percent of the voting rights.

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 (2) of Heidelberg's Articles of Association. According to Section 19 (2) 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; or
- 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 (4) 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 (7) of the Articles of Association.

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

- 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 to maturity 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 (3) 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 participation

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 of bonds, respectively, conversion and option rights on 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. For this purpose, the share capital was 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 (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, participation rights and/or 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 to the bearers and creditors of bonds, respectively, conversion and option rights on 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. For this purpose, the share capital was 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 (6) of the Articles of Association.

In the financial year 2010/2011, all syndicated credit lines of Heidelberger Druckmaschinen Aktiengesellschaft had 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. This also applies to the new credit facility, which came into effect as of April 7, 2011 and replaced the above-mentioned lines of credit. Standard provisions granting the contracting parties the right of cancellation and early repayment are provided for in one of the two remaining borrower's note loans.

The conditions governing the high yield bond that was placed on March 31, 2011 and issued on April 7 include a Change of Control clause that obligates Heidelberger Druckmaschinen Aktiengesellschaft to buy back from bondholders upon request the respective debt instruments (or parts thereof) should certain events occur that are included in that clause. In this case, the buyback price would amount to 10 percent of the total face value accruing to the respective individual debt instruments plus accrued but not yet paid interest.

A technology licensing agreement with a manufacturer and supplier of software products also contains a Change of Control clause, which grants each party the right of cancellation upon 90 day notification if at least 50 percent of the shareholdings or voting rights of the other party are acquired by a third party.

A contract with a manufacturer and supplier of digital production printing systems that covers the sales of these systems also includes a Change of Control clause. This clause grants each party the right to terminate the contract within a period of three months from the time of receipt of a communication from the other party that a change in control has occurred or is possibly imminent, or from the time that such a change in control is known. A change in control under the terms of this contract is considered to have occurred if a third party acquires at least 25 percent of the voting rights of the concerned party or the right thereto, on a contractual basis or based on the Articles of Association or similar provisions that grant the third party corresponding rights to effect a decisive influence on the operations of the concerned party.

## Information According to Section 289a of the German Commercial Code/ Statement of Corporate Governance

The Statement of Corporate Governance may be viewed at any time on our Web site at www.heidelberg.com in the section “Investor Relations” under “Corporate Governance”.

# Overview charts, graphs, and illustrations

HEIDELBERG 2010/2011

# Financial Statements

OF HEIDELBERGER DRUCKMASCHINEN AKTIENGESELLSCHAFT

FINANCIAL STATEMENTS

## INCOME STATEMENT 2010 / 2011

Figures in € thousands

| | Note | 1-Apr-2009 to 31-Mar-2010 | 1-Apr-2010 to 31-Mar-2011 |
|---|---|---|---|
| Sales | 4 | 1,016,158 | 1,264,808 |
| Change in inventories | | – 52,576 | – 20,050 |
| Other own work capitalized | | 10,562 | 12,187 |
| **Total operating performance** | | 974,144 | 1,256,945 |
| | | | |
| Other operating income | 5 | 208,021 | 334,243 |
| Cost of materials | 6 | 445,004 | 607,652 |
| Personnel expenses | 7 | 540,740 | 534,918 |
| Depreciation and amortization of intangible assets and tangible assets | | 45,319 | 42,611 |
| Other operating expenses | 8 | 249,863 | 462,581 |
| **Result from operating activities** | | – 98,761 | – 56,574 |
| | | | |
| Result from financial assets | 9 | – 62,238 | 41,803 |
| Other interest and similar income | 10 | 23,314 | 26,516 |
| Interest and similar expenses | 11 | 88,555 | 132,451 |
| **Financial result** | | – 127,479 | – 64,132 |
| | | | |
| **Result from ordinary activities** | | – 226,240 | – 120,706 |
| | | | |
| Extraordinary result | 12 | 122,387 | 80,655 |
| Taxes on income | 13 | 1,874 | – 17,686 |
| **Net loss for the year** | | – 105,727 | – 22,365 |
| | | | |
| Profit carryforward from the previous year | | 527 | 0 |
| Withdrawals from capital reserves | | 10,981 | 0 |
| Withdrawals from revenue reserves | 20 | | |
| from the legal reserve | | 20,451 | 0 |
| from the reserve for treasury shares | | 0 | 1,024 |
| from other revenue reserves | | 74,444 | 21,341 |
| Transfers to revenue reserves | | | |
| to the reserve for treasury shares | | – 676 | 0 |
| **Unappropriated surplus** | | 0 | 0 |

## BALANCE SHEET AS OF MARCH 31, 2011

### > ASSETS

Figures in € thousands

| | Note | 31-Mar-2010 | 31-Mar-2011 |
|---|---|---|---|
| **Fixed assets** | 14 | | |
| Intangible assets | | 38,543 | 34,902 |
| Tangible assets | | 339,985 | 313,246 |
| Financial assets | | 1,472,085 | 1,127,958 |
| | | 1,850,613 | 1,476,106 |
| **Current assets** | | | |
| Inventories | 15 | 511,757 | 477,068 |
| Receivables and other assets | 16 | 480,272 | 383,304 |
| Securities | 17 | 2,132 | 0 |
| Cash and cash equivalents | 18 | 3,433 | 25,722 |
| | | 997,594 | 886,094 |
| **Prepaid expenses** | 19 | 24,578 | 9,299 |
| | | 2,872,785 | 2,371,499 |

### > EQUITY AND LIABILITIES

Figures in € thousands

| | Note | 31-Mar-2010 | 31-Mar-2011 |
|---|---|---|---|
| **Equity** | 20 | | |
| Subscribed capital | | 199,791 | 597,326 |
| Treasury shares | | 0 | – 1,024 |
| **Issued capital** | | 199,791 | 596,302 |
| Capital reserves | | 20,000 | 41,907 |
| Revenue reserves | | 234,996 | 237,238 |
| Unappropriated surplus | | 0 | 0 |
| | | 454,787 | 875,447 |
| **Special reserve** | 21 | 5,039 | 3,433 |
| **Provisions** | | | |
| Provisions for pensions and similar obligations | 22 | 651,527 | 165,176 |
| Other provisions | 23 | 375,739 | 283,362 |
| | | 1,027,266 | 448,538 |
| **Liabilities** | 24 | 1,382,267 | 1,040,850 |
| **Deferred income** | | 3,426 | 3,231 |
| | | 2,872,785 | 2,371,499 |

## > STATEMENT OF CHANGES IN FIXED ASSETS

Figures in € thousands

| | Cost of acquisition/production | | | | |
|---|---|---|---|---|---|
| | 1-Apr-2010 | Additions | Disposals | Transfers | 31-Mar-2011 |
| **Intangible assets** | | | | | |
| Purchased software, rights of use, and other rights | 114,639 | 803 | – 596 | 0 | 114,846 |
| Advance payments | 0 | 1,250 | 0 | 0 | 1,250 |
| | 114,639 | 2,053 | – 596 | 0 | 116,096 |
| **Tangible assets** | | | | | |
| Land and buildings | 279,066 | 2,472 | – 52,738 | 387 | 229,187 |
| Technical equipment and machinery | 542,303 | 6,217 | – 15,200 | 9,200 | 542,520 |
| Other equipment, operating and office equipment | 612,926 | 21,346 | – 37,273 | 5,170 | 602,169 |
| Advance payments and assets under construction | 17,225 | 6,298 | – 487 | – 14,757 | 8,279 |
| | 1,451,520 | 36,333 | – 105,698 | 0 | 1,382,155 |
| **Financial assets** | | | | | |
| Shares in affiliated companies | 2,161,402 | 24,578 | – 6,125 | 0 | 2,179,855 |
| Investments | 3,929 | 0 | 0 | 0 | 3,929 |
| Long-term investments | 371,938 | 0 | – 3,925 | – 368,011 [1)] | 2 |
| Other loans | 4,600 | 452 | – 1,178 | 0 | 3,874 |
| | 2,541,869 | 25,030 | – 11,228 | – 368,011 | 2,187,660 |
| | 4,108,028 | 63,416 | – 117,522 | – 368,011 | 3,685,911 |

[1)] Netting of plan assets against pension provisions as part of BilMoG transition

| Cumulative depreciation and amortization | | | | Carrying amounts | |
|---|---|---|---|---|---|
| 1-Apr-2010 | Additions | Disposals | **31-Mar-2011** | 31-Mar-2010 | **31-Mar-2011** |
| | | | | | |
| 76,096 | 5,694 | – 596 | 81,194 | 38,543 | 33,652 |
| 0 | 0 | 0 | 0 | 0 | 1,250 |
| 76,096 | 5,694 | – 596 | 81,194 | 38,543 | 34,902 |
| | | | | | |
| 179,059 | 3,269 | – 36,028 | 146,300 | 100,007 | 82,887 |
| 446,998 | 10,221 | – 14,986 | 442,233 | 95,305 | 100,287 |
| 485,478 | 23,427 | – 28,529 | 480,376 | 127,448 | 121,793 |
| 0 | 0 | 0 | 0 | 17,225 | 8,279 |
| 1,111,535 | 36,917 | – 79,543 | 1,068,909 | 339,985 | 313,246 |
| | | | | | |
| 1,065,057 | 0 | – 6,090 | 1,058,967 | 1,096,345 | 1,120,888 |
| 542 | 0 | 0 | 542 | 3,387 | 3,387 |
| 3,916 | 0 | – 3,916 | 0 | 368,022 | 2 |
| 269 | 40 | – 116 | 193 | 4,331 | 3,681 |
| 1,069,784 | 40 | – 10,122 | 1,059,702 | 1,472,085 | 1,127,958 |
| 2,257,415 | 42,651 | – 90,261 | 2,209,805 | 1,850,613 | 1,476,106 |

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS 2010/2011

### 1 PRELIMINARY REMARKS

The presentation of the annual financial statements is based on the provisions of the German Commercial Code (HGB) and the German Stock Corporation Act (AktG). The provisions of the German Accounting Legislation Modernization Act (BilMoG) were adopted for the first time. In accordance with Section 67 (8) sentence 2 of the Introductory Act to the German Commercial Code (EGHGB), the prior-year figures were not adjusted for the first-time adoption of the BilMoG.

The classification of the income statement is based on the total cost method. Certain income statement and balance sheet items have been combined to improve the clarity of presentation. In addition to this, a breakdown of individual items with additional information and notes has been presented below.

The figures shown in the tables are presented in thousands of euros (€ thousands).

### 2 CURRENCY TRANSLATION

Business transactions in foreign currencies are measured at the exchange rate at the time of first-time recognition or at the mean spot exchange rates as of the balance sheet date. Hedges are measured using the hedge rate. Short-term receivables and liabilities with a remaining term of less than one year are measured at the mean spot exchange rate on the balance sheet date in accordance with Section 256a HGB. Thus, in addition to losses on exchange rate changes, the previously unrecognized gains are also reported.

For the list of shareholdings, the assets and liabilities in financial statements prepared in foreign currency are translated at the financial year-end exchange rates while expenses and income are translated at average annual rates.

### 3 ACCOUNTING POLICIES

The cost of acquisition also includes the additional costs of acquisition that can be directly allocated. Costs of production include pro rata overhead costs and direct costs of materials and wages.

Impairment losses recognized on current and non-current assets in previous years were retained if the reasons for these losses still exist.

Intangible assets are capitalized at acquisition cost and amortized on a straight-line basis over their expected useful life.

Tangible assets are carried at acquisition or production cost less depreciation and impairment losses (if permanent). Since April 1, 2008, depreciation has been recognized solely in line with the straight-line method on the basis of individual technical and economic useful lives. Assets acquired during a financial year are depreciated pro rata temporis on the basis of the number of months for which they have been held. Low-value assets with an acquisition cost of between € 60 and € 410 that were acquired between April 1, 2007 and December 31, 2007 are depreciated over a period of five years. In accordance with Section 6 (2a) of the German Income Tax Act (EStG), omnibus items are recognized for depreciable movable non-current assets with an acquisition cost of between € 150 and € 1,000 that were acquired or manufactured after December 31, 2007. These items are depreciated on a straight-line basis over a period of five years.

In financial assets, shares in affiliated enterprises, equity investments and securities are carried at acquisition cost or, if permanently impaired, at the lower of market or fair value. Interest-bearing loans are carried at their nominal value. Interest-free loans are discounted at net present value.

Inventories are carried at acquisition or production cost. The carrying amounts for all asset groups are based on the weighted average cost method. Cost is measured at full cost; those costs eligible for recognition as assets in accordance with Section 255 (2) sentences 2 to 3 HGB were therefore included. If lower replacement prices are applicable at the balance sheet date, these are taken into account. Sufficient account is taken of the risks of holding inventory that result from prolonged storage and reduced salability through reductions in value.

Receivables and other assets are carried at nominal amount (acquisition cost). All discernible individual risks and the general credit risk were taken into account by appropriate valuation allowances. Non-interest-bearing receivables are discounted to their present value.

Cash and cash equivalents are carried at nominal amount on the balance sheet date.

Tax-exempt allowances and taxable subsidies for investments are recognized as a special reserve for investment grants. The tax-exempt allowances and taxable subsidies are offset in line with depreciation.

In addition to pension benefits, provisions for pensions and similar obligations also include temporary financial assistance in the event of death, as insured under labor law. In the year under review, the method of measuring direct pension obligations was changed in line with the regulations of Section 253 (1) HGB as amended by the BilMoG. For the first time, pensions and similar obligations have now been measured using the internationally recognized projected unit credit method, which also takes into account forecast increases in salaries and pensions. The option provided for under Section 253 (2) sentence 2 HGB was exercised in determining the interest rate. This means that provisions for pensions or similar long-term obligations can be discounted at a flat rate using an average market interest rate for the past seven financial years assuming a remaining term of 15 years. If the change in the discount rate results in only insignificant changes in pension obligations as of the end of the year under review, the value calculated and published by Deutsche Bundesbank as of February 28 of the respective financial year is used. Obligations under pension commitments are predominantly covered by assets that are intended solely to serve pension obligations and that cannot be accessed by other creditors (plan assets). Under the terms of two trust agreements concluded in connection with a contractual trust arrangement (CTA), these assets are used exclusively to finance pension obligations. The plan assets measured at fair value are offset against pension obligations in line with Section 246 (2) sentence 2 HGB. The income from plan assets is netted against interest expenses from the interest on pension obligations and the expenses or income from the change in the discount rate are reported under net interest income. If the conditions for full pension vesting are met, pension calculations are based on the date at which employees began work – but not before their 20th birthday – for employees who did so before their 30th birthday.

Obligations similar to vested pensions under social security provisions and collective bargaining agreements are recognized in installments at their partial value applying an interest rate of 5.14 % and measured in accordance with the 2005G Heubeck mortality tables.

Provisions for early partial retirement obligations are recognized in line with the block model. Provisions for early partial retirement are measured using an interest rate of 3.75 % and on the basis of the 2005G Heubeck mortality tables according to actuarial principles. Provisions for early partial retirement were recognized for early partial retirement agreements already concluded as of the balance sheet date and for potential future agreements. They include step-up amounts and settlement obligations of the Company incurred by the balance sheet date.

Other provisions are measured taking into account all discernible, reportable risks and uncertain liabilities. They are measured at the necessary settlement amount based on prudent business judgment.

Provisions with a remaining term of more than one year are discounted with the average market interest rate of the past seven financial years corresponding to their remaining term. Provisions are also recognized for warranties without legal liability.

Liabilities are recognized at settlement amount and obligations similar to bonds at net present value.

Prepaid expenses and deferred income are recognized for expenditures and revenues that represent expenses and income for a certain period after the balance sheet date.

Any tax expenses are recognized in the balance sheet as deferred tax liabilities. In the event of tax assets, the recognition option of Section 274 (1) HGB has not been exercised.

The carrying amounts of contingent liabilities match the extent of liability as of the balance sheet date.

## NOTES TO THE INCOME STATEMENT

### 4 SALES

| | 2009/2010 | 2010/2011 |
|---|---|---|
| Europe, Middle East and Africa | 459,691 | 523,545 |
| Eastern Europe | 102,480 | 110,801 |
| North America | 58,728 | 77,245 |
| South America | 82,213 | 132,916 |
| Asia/Pacific | 313,046 | 420,301 |
| | 1,016,158 | 1,264,808 |

As of April 1, 2010, the allocation of markets to regions was adjusted in line with the internal lead market sales structure. The Baltic markets and Finland were reclassified from “Europe, Middle East and Africa” to “Eastern Europe” and Mexico from “Latin America” to “North America”. The figures for the previous year have been restated accordingly.

€ 1,054 million or 83 % of total sales were generated abroad.

| | 2009/2010 | 2010/2011 |
|---|---|---|
| HD Equipment | 757,512 | 1,002,767 |
| HD Services | 258,646 | 262,041 |
| | 1,016,158 | 1,264,808 |

### 5 OTHER OPERATING INCOME

| | 2009/2010 | 2010/2011 |
|---|---|---|
| Income from currency translation | 0 | 187,475 |
| Reversal of provisions | 73,497 | 66,307 |
| Income from affiliated companies | 51,592 | 39,726 |
| Reversals of write-downs | | |
| Investments classified as current assets (own shares) | 676 | 0 |
| Shares in affiliated companies | 25,000 | 0 |
| Income from operating facilities | 6,375 | 4,763 |
| Income from the reversal of special reserves | | |
| for investment subsidies | 1,881 | 1,606 |
| Other income | 49,000 | 34,366 |
| | 208,021 | 334,243 |

Other operating income includes prior-period income of € 66.3 million from the reversal of provisions.

At € 35.8 million, the largest single item in the reversal of provisions is the partial reversal of the provision recognized in the previous year for the "efficiency enhancements as part of the new segment structure in place from April 1, 2010" package. The basis for this is the agreement between the management and workforce representatives on the reconciliation of interests at German locations.

The decline in other income essentially resulted from the reduced reimbursement of social security premiums for reduced working hours (see note 7).

From the 2010/2011 reporting year, other operating income and expenses from currency translation are reported gross to ensure the greater clarity required in this item following the introduction of BilMoG.

## 6 COST OF MATERIALS

| | 2009/2010 | **2010/2011** |
|---|---|---|
| Cost of raw materials, consumables, and supplies and of purchased merchandise | 369,912 | 515,073 |
| Cost of purchased services | 75,092 | 92,579 |
| | 445,004 | 607,652 |

The rise in cost of materials essentially resulted from the rise in sales.

## 7 PERSONNEL EXPENSES AND EMPLOYEES

| | 2009/2010 | **2010/2011** |
|---|---|---|
| Wages and salaries | 372,714 | 420,128 |
| Social security and other pension costs | 168,026 | 114,790 |
| – of which: for pensions | (61,470) | (29,142) |
| | 540,740 | 534,918 |

Overall, personnel expenses were down by € 5.8 million in the year under review while wages and salaries rose and social security and other pension costs declined. The rise in wages and salaries was primarily caused by the cutback in reduced working hours. In the year under review, this also includes € 9.6 million for the "efficiency enhancements as part of the new segment structure in place from April 1, 2010" package. This was countered by lower social security costs due to cutbacks in reduced working hours and, for pensions, the interest effect of interest on pension provisions, which is included in interest expenses in the year under review.

In contrast to reimbursements from money for reduced working hours, the reimbursement of social security premiums for reduced working hours cannot be netted in accordance with Section 246 (2) HGB. In the year under review, reimbursement of social security premiums for reduced working hours of € 12.2 million was reported in other operating income (previous year: € 41.7 million).

Average number of employees

| | 2009/2010 | **2010/2011** |
|---|---|---|
| Heidelberg | 1,981 | 1,738 |
| Wiesloch-Walldorf | 5,511 | 4,853 |
| Amstetten | 1,075 | 997 |
| Brandenburg | 639 | 584 |
| Kiel | 322 | 302 |
| Langenfeld | 0 | 79 |
| | 9,528 | 8,553 |
| Trainees | 618 | 583 |
| | 10,146 | 9,136 |

The number of employees does not include trainees, graduating students, dormant employees, and employees in the non-work phase of partial retirement.

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## OTHER OPERATING EXPENSES

| | 2009/2010 | **2010/2011** |
|---|---|---|
| Costs of currency translation | 6,049 | 190,374 |
| Costs of other third-party services | 63,802 | 55,650 |
| Special direct selling expenses | 45,098 | 51,591 |
| Rental and leasing expenses | 37,951 | 44,700 |
| Maintenance | 20,796 | 24,125 |
| Net transfers to and utilization of provisions, regarding several expense types | 13,489 | 9,574 |
| Insurance costs | 6,603 | 5,803 |
| Travel expenses | 3,961 | 5,785 |
| Write-downs on receivables and other assets | 3,231 | 2,915 |
| Advertising costs | 2,990 | 2,475 |
| Non-production overheads | 1,836 | 1,605 |
| Other taxes | 514 | 551 |
| Other costs | 43,543 | 67,433 |
| | 249,863 | 462,581 |

The rise in other costs essentially results from a settlement in the amount of € 12.2 million for mediation proceedings brought by the former shareholders of Linotype-Hell Aktiengesellschaft, Eschborn.

9

## RESULT FROM FINANCIAL ASSETS

| | 2009/2010 | 2010/2011 |
|---|---|---|
| **Income from investments** | | |
| Income from profit transfer agreements | 4,798 | 43,369 |
| Income from other investments | 5,236 | 14,043 |
| | 10,034 | 57,412 |
| – of which: from affiliated companies | (10,034) | (56,578) |
| **Income from other investments and long-term loans** | 19,397 | 0 |
| **Write-downs of financial assets and investments classified as current assets** | – 29,050 | – 40 |
| **Cost of profit transfer agreements** | – 62,619 | – 15,569 |
| – of which: from affiliated companies | (– 62,619) | (– 15,569) |
| | – 62,238 | 41,803 |

Income from profit transfer agreements indirectly also includes € 16.5 million in distributions by three foreign Group companies to a German Group company.

Income from other investments relates to Heidelberger Druckmaschinen Real Estate GmbH & Co. KG, Walldorf, Heidelberg Schweiz Aktiengesellschaft, Bern, and Heidelberg Middle East Freezone Company, Dubai.

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## OTHER INTEREST AND SIMILAR INCOME

| | 2009/2010 | 2010/2011 |
|---|---|---|
| Interest income | 23,314 | 26,516 |
| – of which: from affiliated companies | (21,809) | (25,642) |
| – of which: income from discounting | (0) | (337) |
| | 23,314 | 26,516 |

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## INTEREST AND SIMILAR EXPENSES

| | 2009/2010 | 2010/2011 |
|---|---|---|
| Interest expenses | 88,555 | 132,451 |
| – of which: to affiliated companies | (8,709) | (9,839) |
| – of which: expenses from discounting | (0) | (46,255) |
| | 88,555 | 132,451 |

The rise in interest and similar expenses primarily results from the increase in financing costs and the interest effect of interest on long-term provisions (see note 7). In the year under review, this item includes consulting expenses of € 11.1 million in connection with the conclusion of refinancing to provide a better presentation of the income situation. In the previous year, similar expenses of € 8.4 million were reported under other operating expenses.

## 12 EXTRAORDINARY RESULT

| | 2009/2010 | **2010/2011** |
|---|---|---|
| Extraordinary income | 122,387 | 103,010 |
| Extraordinary expenses | 0 | 22,355 |
| | 122,387 | 80,655 |

As part of the transition to BilMoG regulations, there is extraordinary income from the remeasurement of plan assets and extraordinary expenses from replenishing provisions in the amount of € 0.7 million. Extraordinary expenses also include the costs for the capital increase in the amount of € 21.7 million.

## 13 TAXES ON INCOME

| | 2009/2010 | **2010/2011** |
|---|---|---|
| Taxes on income | 1,874 | – 17,686 |
| | 1,874 | – 17,686 |

Taxes on income resulted in net income in the year under review. This essentially resulted from the adjustment of tax provisions for external audit risks in the amount of € 11.6 million and retroactive increase in corporation tax credit of € 8.5 million due to the German Annual Tax Act 2010.

The net tax expenses in the year under review predominantly relate to withholding tax deductions on interest income received from subsidiaries.

## NOTES TO THE BALANCE SHEET

### 14 FIXED ASSETS

Intangible assets decreased by € 3.6 million in net terms in the reporting year. This decline is mainly due to amortization. The additions included an acquired right in the amount of € 1.3 million.

The net reduction in tangible assets was € 26.7 million. Additions and disposals are shown in the statement of changes in fixed assets. The main disposals were the sale of the Kiel and Birkenwerder locations (former Berlin branch).

In the current financial year, an area of land was written down in the amount of € 0.1 million (previous year: € 0 million).

Financial assets decreased by € 344.1 million in net terms. The capital increases at four subsidiaries (€ 24.6 million) were offset by the disposal of Eurotecnica Postpress S.r.l., Padua, and Heidelberger Druckmaschinen Eastern Europe GmbH, Vienna.

In the previous year, financial assets included units in a special fund in the amount of € 368.0 million. Under the terms of two trust agreements concluded in connection with a contractual trust arrangement (CTA), these assets are used exclusively to finance pension obligations. Under BilMoG, the units in this fund are therefore plan assets and were thus measured at fair value and offset against pension provisions.

In addition, the change in long-term investments includes the disposal of an investment fund.

### 15 INVENTORIES

| | 31-Mar-2010 | 31-Mar-2011 |
|---|---|---|
| Raw materials, consumables, and supplies | 90,298 | 87,858 |
| Work in progress | 283,724 | 272,865 |
| Finished goods and merchandise | 137,477 | 116,214 |
| Advance payments | 258 | 131 |
| | 511,757 | 477,068 |

Inventories were reduced by € 34.7 million year-on-year as a result of selective measures to lower net working capital.

## 16 RECEIVABLES AND OTHER ASSETS

| | 31-Mar-2010 | of which with a remaining term of more than 1 year | 31-Mar-2011 | of which with a remaining term of more than 1 year |
|---|---|---|---|---|
| Trade receivables | 50,082 | 0 | 40,481 | 0 |
| Receivables from affiliated companies | 296,664 | 0 | 276,774 | 0 |
| Other assets | 133,526 | 29,611 | 66,049 | 9,310 |
| | 480,272 | 29,611 | 383,304 | 9,310 |

Receivables from affiliated companies include short-term loans in the amount of € 273.6 million (previous year: € 294.8 million) and trade receivables of € 3.2 million (previous year: € 1.9 million).

Other assets mainly include paid option premiums, tax refund claims, and receivables from the sale of the retroactive increase in corporation tax credit due to the German Annual Tax Act 2010. € 0.2 million of the tax refund claims arise after the end of the financial year (previous year: € 0.2 million). The reinsurance policies still reported under other assets in the previous year constitute plan assets under BilMoG; they were measured at fair value and offset against pension provisions. This item also included receivables from special fund distributions.

## 17 SECURITIES

| | 31-Mar-2010 | 31-Mar-2011 |
|---|---|---|
| Own shares | 2,132 | 0 |
| | 2,132 | 0 |

As part of the adjustment in line with BilMoG regulations, own shares were offset in accordance with Section 272 (1a) HGB (see note 20).

**18**

**CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include a bank account in the amount of € 18.8 million held in trust by Heidelberg Pension-Trust e. V.; corresponding restrictions on disposal are in place.

**19**

**PREPAID EXPENSES**

In accordance with Section 250 (3) HGB, prepaid expenses include the difference between the issue and settlement amount of liabilities in the amount of € 5.7 million (previous year: € 18.0 million).

**20**

**EQUITY**

| | 1-Apr-2010 | BilMoG transition 1-Apr-2010 | Capital increase | Net loss for the current financial year | Change in reserves in the current financial year | 31-Mar-2011 |
|---|---|---|---|---|---|---|
| Subscribed capital | 199,791 | 0 | 397,535 | 0 | 0 | 597,326 |
| Own shares | 0 | – 1,024 | 0 | 0 | 0 | – 1,024 |
| **Issued capital** | 199,791 | – 1,024 | 397,535 | 0 | 0 | 596,302 |
| **Capital reserves** | 20,000 | 0 | 21,907 | 0 | 0 | 41,907 |
| **Revenue reserves** | | | | | | |
| Reserve for own shares | 2,132 | – 2,132 | 0 | 0 | 0 | 0 |
| Other revenue reserves | 232,864 | 25,715 | 0 | 0 | – 21,341 | 237,238 |
| | 234,996 | 23,583 | 0 | 0 | – 21,341 | 237,238 |
| **Unappropriated surplus** | 0 | 1,024 | 0 | – 22,365 | 21,341 | 0 |
| **Equity** | 454,787 | 23,583 | 419,442 | – 22,365 | 0 | 875,447 |

## Share capital / number of shares outstanding / own shares

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 2010/2011 financial year, Heidelberger Druckmaschinen Aktiengesellschaft implemented a capital increase on the basis of the resolutions of the Annual General Meeting of July 29, 2010. On this date, the Annual General Meeting resolved to increase the share capital of Heidelberger Druckmaschinen Aktiengesellschaft against cash contributions by up to € 399,582,382.08 by issuing up to 156,086,868 new, no-par-value bearer shares. The Management Board was authorized, with the approval of the Supervisory Board, to determine the further details of the capital increase and its performance, including in particular the conditions for issuing the new shares and the subscription price. The capital increase resolution was entered in the commercial register on September 10, 2010. With the approval of the Supervisory Board, the Management Board exercised the above authorization and stipulated that 155,286,868 new, no-par-value bearer shares would be issued. Since the performance of the capital increase was entered in the commercial register on September 24, 2010, the share capital has been increased accordingly. The share capital of Heidelberger Druckmaschinen Aktiengesellschaft therefore amounts to **€ 597,325,573.12** (previous year: € 199,791,191.04) and is divided into 233,330,302 shares (previous year: 78,043,434).

As of March 31, 2011, the Company holds **400,000** of its own 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 0.17 % as of March 31, 2011 (previous year: 0.51 %). The cost of the acquisition was € 13,246 thousand. Additional transaction fees amounted to € 12 thousand. Accordingly, the total cost of the acquisition was € 13,258 thousand.

### Convertible bond

The convertible bond issued on February 9, 2005 through our wholly owned financing subsidiary Heidelberg International Finance B.V., Boxmeer, the Netherlands, was fully repaid before the start of the reporting period.

By way of resolution of the Annual General Meeting on July 20, 2006, the Management Board was authorized, with the approval of the Supervisory Board, to issue bearer bonds with warrants and convertible bonds with a total nominal amount of up to € 500,000,000 with a term of not more than 30 years on one or several occasions by July 19, 2011, and to grant options to the bearers of bonds with warrants or conversion rights for the bearers of convertible bonds to bearer shares of the Company with a total pro rata amount of the share capital of up to € 21,260,979.20 subject to the further conditions of the bonds.

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 have the same content but which differ with regard to the option and conversion prices stipulated, for the issue of convertible bonds and bonds with warrants, profit-sharing rights, and income bonds (or combinations of these instruments) with or without term with a total nominal amount of up to € 500,000,000 and to grant conversion rights or options to 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 to disapply 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 options, conversion rights, or conversion obligations.

## Contingent capital

In accordance with the resolution of the Annual General Meeting on September 29, 1999, the share capital of Heidelberger Druckmaschinen Aktiengesellschaft was contingently increased in connection with the share option program (**CONTINGENT CAPITAL**). As the last share options expired on August 18, 2010, this Contingent Capital became irrelevant. The Supervisory Board resolved a corresponding amendment of the Articles of Association, which was entered in the commercial register on April 1, 2011.

In addition, according to the resolution of the Annual General Meeting of July 21, 2004, the share capital was 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 became irrelevant on full repayment of the convertible bond. The Supervisory Board resolved a corresponding amendment of the Articles of Association, which was entered in the commercial register on April 1, 2011.

According to Article 3 (3) 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 only be carried out to the extent that bearers of options 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 of the Company exercise their options or conversion rights or fulfill their obligation to convert/exercise 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 ensure the option and conversion rights or obligations of bonds or similar instruments created on the basis of the authorizations created by the Annual General Meeting of July 18, 2008 and described under “Convertible bond”, the following two contingent capitals have been created:

According to Article 3 (5) 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 bonds with warrants, profit-sharing rights, and income 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 right or option to bearer shares in the Company or that stipulate a conversion obligation.

According to Article 3 (6) 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 bonds with warrants, profit-sharing rights, and income 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 right or option 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). Shareholder subscription rights can be disapplied in accordance with the more detailed provisions of Article 3 (4) of the Articles of Association with the approval of the Supervisory Board. 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 (7) of the Articles of Association, with the approval of the Supervisory Board.

### Development of reserves and net profit for the year

The capital reserves reported in the previous year of € 20,000 thousand were originally recognized in accordance with Section 272 (2) Nos. 1 and 2 HGB and Section 237 (5) AktG.

The increase in capital reserves of € 21,907 thousand was due to the capital increase performed in the financial year.

Owing to the new regulations under BilMoG in Section 272 (1a) HGB for the recognition of own shares, the own shares recognized in the previous year's financial statements in the amount of € 2,132 thousand were derecognized and offset against subscribed capital in the amount of their notional share in share capital of € 1,024 thousand and against the reserve for own shares in the amount of € 1,108 thousand. The remaining reserve for own shares in the amount of € 1,024 thousand was reversed.

To settle the loss generated in the year under review of € 22,365 thousand, after offsetting the reversed reserve for own shares in the amount of € 1,024 thousand, the difference of € 21,341 thousand was withdrawn from revenue reserves.

Heidelberger Druckmaschinen Aktiengesellschaft has received the following notifications from shareholders exceeding or falling below voting right thresholds in accordance with Section 21 (1) of the of the German Securities Trading Act (WpHG). The list contains the most recent shareholder notifications in each case:

| Shareholders | Change in threshold | Voting share effective as of | Allocation | Share of voting rights | |
|---|---|---|---|---|---|
| **Allianz Aktiengesellschaft, Munich** | 5 % and 10 % | 20-Sep-2002 | indirect | | **12.03 %**[1)] |
| Jota-Vermögensverwaltungsgesellschaft mbH, Munich | 5 % | 20-Sep-2002 | indirect | 6.04 % | |
| Allianz Lebensversicherungs-Aktiengesellschaft, Stuttgart | 5 % | 20-Sep-2002 | direct/indirect<br>indirect | 6.04 %<br>5.98 % | |
| AZ-Arges Vermögensverwaltungsgesellschaft mbH, Munich | 5 % | 17-Aug-2005 | direct | 5.98 % | |
| AZ-Argos 19 AG, Munich | 5 % | 17-Nov-2005 | indirect | 6.26 % | |
| **RWE Aktiengesellschaft, Essen** | 5 % | 15-Sep-2010 | indirect | | **4.22 %**[2)] |
| BGE Beteiligungs-Gesellschaft für Energieunternehmen mbH, Essen | 5 % | 15-Sep-2010 | direct | 4.22 % | |
| **SEB Investment GmbH, Frankfurt am Main** | 5 % | 24-Feb-2009 | direct/indirect<br>indirect | <br>0.404 % | **5.017 %**[2)] |
| **Capital Research and Management Company, Los Angeles, USA** | 3 % | 26-Nov-2009 | indirect | | **3.14 %**[2)] |
| SMALLCAP World Fund, Inc., Los Angeles, USA | 3 % | 19-Jan-2010 | direct | 3.13 % | |
| **BlackRock, Inc., New York, USA** | 3 % | 7-Apr-2011 | indirect | | **3.02 %**[3)] |

[1)] The share of the voting rights was reported to us before March 31, 2006 and accordingly relates to 85,908,480 shares (number of shares before the share buyback on March 31, 2006)
[2)] The share of the voting rights was reported to us between March 31, 2008 and September 24, 2010 and therefore relates to 78,043,434 shares (number of shares before the share redemption on March 31, 2008 and before the capital increase on September 24, 2010)
[3)] The share of the voting rights was reported to us after September 24, 2010 and therefore relates to 233,330,302 shares (number of shares after the capital increase on September 24, 2010)

## 21 SPECIAL RESERVE

| | 31-Mar-2010 | 31-Mar-2011 |
|---|---|---|
| **Special reserve for investment allocations to fixed assets** | | |
| Taxable subsidies | 3,651 | 2,534 |
| Tax-exempt allowances | 1,388 | 899 |
| | 5,039 | 3,433 |

Taxable subsidies are funds under the regional economic promotion program for investing in Brandenburg.

Tax-exempt allowances are composed solely of allowances in accordance with the German Investment Allowance Act of 1991/1996/1999/2005/2007, which primarily relate to the Brandenburg site.

## 22 PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

Pension provisions are calculated on the basis of the following actuarial premises:

| | |
|---|---|
| Discounting factor: | 5.14 % |
| Salary increase rate: | 3.00 % |
| Pension increase rate: | 2.00 % |
| Fluctuation: | 3.00 % |

The change in the measurement of pension provisions due to BilMoG as of April 1, 2010 (BilMoG opening balance sheet) resulted in an excess as against March 31, 2010 of € 14.2 million. The amount of the excess was reversed in line with Section 67 (1) sentence 3 EGHGB and transferred directly to revenue reserves.

In the 2005/2006 financial year, Heidelberger Druckmaschinen Aktiengesellschaft concluded a contractual trust arrangement (CTA) with the trustee Heidelberg Pension-Trust e. V., Heidelberg, to secure external financing and insolvency insurance for its pension obligations. The assets transferred can be used to finance the pension obligations only. The securities include units in funds, fixed-interest investments, and shares. The units in this fund constitute plan assets and were therefore measured at fair value and offset against pension provisions.

In addition to the CTA, there is a reinsurance policy that was still reported under other assets in the previous year. Under BilMoG, this policy constitutes plan assets and was therefore also measured at fair value and offset against pension provisions. The fair value of the offset assets was € 494.9 million as of the balance sheet date at an acquisition cost of € 506.6 million. The settlement amount of the offset liabilities was € 659.7 million as of the balance sheet date.

The income from the plan assets of € 15.1 million was offset against the interest on pension provisions of € 42.6 million in line with Section 246 (2) sentence 2 HGB. The resulting net figure of € 27.5 million is reported in the financial result under interest and similar expenses.

## 23 OTHER PROVISIONS

| | 31-Mar-2010 | 31-Mar-2011 |
|---|---|---|
| Tax provisions | 95,657 | 84,057 |
| Other provisions | | |
| Obligations from sales activities | 36,421 | 36,543 |
| Personnel obligations | 195,083 | 115,669 |
| Others | 48,578 | 47,093 |
| | 280,082 | 199,305 |
| | 375,739 | 283,362 |

As in the previous year, tax provisions primarily include obligations from possible subsequent assessments arising from external tax audits. Obligations from sales activities essentially include guarantees while personnel obligations include vacation and working time credit, bonuses, anniversary bonuses, and partial retirement obligations. The decline in personnel obligations in the year under review mostly relates to the "Heidelberg 2010" and "efficiency enhancements as part of the new segment structure in place from April 1, 2010" packages.

The change in the measurement of other non-current provisions due to BilMoG as of April 1, 2010 (BilMoG opening balance sheet) resulted in an adjustment as against March 31, 2010 of € 10.8 million. This amount consists of excess cover of € 11.5 million, which was reversed and transferred directly to revenue reserves, and deficit cover of € 0.7 million, which was reported as an extraordinary expense.

24

## LIABILITIES

| | 31-Mar-2010 | of which with a remaining term | | | 31-Mar-2010 | of which with a remaining term | | |
|---|---|---|---|---|---|---|---|---|
| | | of less than 1 year | of between 1 and 5 years | of more than 5 years | | of less than 1 year | of between 1 and 5 years | of more than 5 years |
| To banks | 682,236 | 331,572 | 324,841 | 25,823 | 253,194 | 204,647 | 30,888 | 17,659 |
| Advance payments on orders | 7,770 | 7,770 | 0 | 0 | 7,570 | 7,570 | 0 | 0 |
| Trade payables | 20,839 | 20,839 | 0 | 0 | 24,638 | 24,556 | 82 | 0 |
| To affiliated companies | 630,116 | 630,116 | 0 | 0 | 709,819 | 709,819 | 0 | 0 |
| Other liabilities | | | | | | | | |
| for taxes | 806 | 806 | 0 | 0 | 351 | 351 | 0 | 0 |
| for social security contributions | 6,237 | 2,279 | 2,967 | 991 | 4,815 | 1,810 | 2,162 | 843 |
| Others | 34,263 | 33,967 | 296 | 0 | 40,463 | 34,259 | 6,204 | 0 |
| | 41,306 | 37,052 | 3,263 | 991 | 45,629 | 36,420 | 8,366 | 843 |
| | 1,382,267 | 1,027,349 | 328,104 | 26,814 | 1,040,850 | 983,012 | 39,336 | 18,502 |

Liabilities to affiliated companies include short-term loans in the amount of € 708.6 million (previous year: € 630.0 million) and trade payables of € 1.2 million (previous year: € 0.1 million).

In June and August 2009, Heidelberg had negotiated loan agreements with its financing banks for a total facility of € 1,400 million to mature in mid-2012. This consisted of a loan from the KfW's special program, originally for € 300 million, a credit line of € 550 million 90 % backed by guarantees from the German government and the states of Baden-Wuerttemberg and Brandenburg, and a syndicated credit line from a syndicate of banks of € 550 million.

Following the successful completion of the capital increase in September 2010 (see note 20), Heidelberg used the net proceeds, less issuing costs, to repay some of these financial liabilities in full. Thus, the required amount was repaid for the syndicated credit line and the credit line guaranteed by the public sector in the second quarter of the 2010/2011 financial year, thereby reducing the amount of the two lines to € 445 million each. The repayment of the loan from the KfW's special program was increased to include a voluntary extraordinary repayment in addition to the required amount as of the end of the first half of the 2010/2011 year;

Heidelberg repaid the remaining amount early and in full in the third quarter of the year under review. These measures significantly reduced our liabilities to banks.

On March 25, 2011, Heidelberg agreed a comprehensive refinancing of the credit lines due in summer 2012. Firstly, this included the high-interest bond of nominally € 304 million with a term of seven years successfully issued on April 7, 2011. Heidelberg will use the net proceeds for the early repayment of the two partially government-backed credit lines still in place as of March 31, 2011 and for general refinancing of the Company. Secondly, the lines previously in place will be replaced by a new revolving credit facility of € 500 million from a banking syndicate, maturing at the end of 2014. The agreement on the new credit facility contains standard financial covenants regarding the financial situation of the Heidelberg Group.

Collateral was provided by us and several Group companies in connection with the loan agreements concluded in June and August 2009 as part of a collateral pool concept.

As part of the collateral pool concept, we have provided collateral of € 197.6 million as follows for liabilities to banks as of the balance sheet date (up to one year: € 197.6 million):

> provision of land charges without certificate
> pledging of trademarks, shares in affiliated companies, and bank accounts
> transfer of current and non-current assets
> global transfer of certain receivables

## 25 DEFERRED TAXES

There was an excess of assets in deferred taxes in the year under review. The option provided by Section 274 (1) HGB to recognize the resulting tax relief as deferred tax assets was not exercised.

The deferred tax assets result from temporary differences in the balance sheet line items intangible assets, other loans, inventories, other assets, pension provisions, and other provisions, and from the capitalization of deferred tax assets on tax loss carryforwards at the level of the Company as the parent company or of the companies included in the tax entity. Deferred tax liabilities result from temporary differences in tangible assets and other liabilities. An effective tax rate of 28.43 % was applied for corporation tax in addition to the solidarity surcharge and trade tax in the calculation of deferred taxes.

## 26 CONTINGENT LIABILITIES

| | 31-Mar-2010 | 31-Mar-2011 |
|---|---|---|
| Liabilities arising from the issue and endorsement of bills | 67,217 | 59,959 |
| – of which: to affiliated companies | (67,217) | (59,959) |
| Guarantees, warrantees, collateral for third-party liabilities | 287,555 | 261,632 |
| – of which: to affiliated companies | (0) | (0) |
| | 354,772 | 321,591 |

Some of the credit facility still in place as of March 31, 2011 that is 90 % backed by guarantee pledges from the Federal Government and the states of Baden-Wuerttemberg and Brandenburg (see note 24) can be passed on locally to Group companies via the syndicate banks. The credit lines actually utilized by our Group companies as of the balance sheet date of € 76.3 million are reported under contingent liabilities. An additional amount of € 72.8 million was covered but not utilized as of the balance sheet date. As part of the collateral pool concept, on which the guaranteed credit facility also still in place as of March 31, 2011 is based as well, Heidelberger Druckmaschinen Aktiengesellschaft and some Group companies are jointly and severally liable for the liabilities assumed with the collateral contributed. In addition to the liability on the basis of the individual collateral listed under note 24, we are also liable as guarantor.

The other obligations from guarantees and warrantees essentially relate to rent obligations for subsidiaries and warranties for third parties for assumed customer finance. The risk of utilization of contingent liabilities is considered low as there are no indications of corresponding credit problems.

## 27 DERIVATIVE FINANCIAL INSTRUMENTS

Heidelberger Druckmaschinen Aktiengesellschaft centrally manages and controls the Heidelberg Group's interest rate and foreign currency risk. Derivative financial instruments are used to hedge the currency and interest rate risks from business operations and from financing transactions. The aim of this is to reduce the fluctuations in earnings and cash flows that relate to changes in exchange and interest rates.

The partners in the external contracts for the derivative financial instruments are all banks of excellent credit standing. The internal contracts are concluded with our Group companies.

Most of the transactions are currency-related. They are concluded largely on behalf of our foreign subsidiaries in connection with the purchase of German products. Interest rate derivatives serve to hedge financing costs which, due to their variable interest rate are subject to market fluctuations. In order to quantify the effects of currency and interest rate risks on the income statement, the impact of hypothetical changes in exchange and interest rates is calculated in the form of sensitivity analyses and corresponding measures are derived from this.

The nominal volumes and market values of foreign currency and interest rate derivatives were as follows as of the balance sheet date:

| In € thousands | Nominal volumes | | Fair values | |
|---|---|---|---|---|
| | 31-Mar-2010 | **31-Mar-2011** | 31-Mar-2010 | **31-Mar-2011** |
| Forward exchange transactions | 1,222,091 | 1,089,028 | 9,832 | – 3,185 |
| Currency options | 1,663,700 | 1,195,200 | – 3,672 | 8,965 |
| Interest rate swaps | 172,686 | 50,404 | – 2,398 | – 1,074 |

The nominal volumes result from the total of all the purchase and sale amounts of the underlying hedged items.

The fair values were calculated using standardized measurement methods (discounted cash flow method and option pricing model) used to calculate the relevant market data on the balance sheet date as input parameters.

## Derivative financial instruments for hedging currency risks

Forward exchange transactions with a nominal volume of € 495.3 million (previous year: € 559.1 million) were concluded with external partners to hedge currency risks from the receivables and liabilities of Heidelberger Druckmaschinen Aktiengesellschaft recognized on the balance sheet date. The hedges were portfolio hedges in the amount of the net total per currency of receivables and liabilities (net positions) with terms of up to one year. As of the balance sheet date, the nominal volumes of net receivable positions per currency were € 81.5 million (previous year: € 110.5 million) while net liability positions amounted to € 371.0 million (previous year: € 339.7 million). In line with the gross hedge presentation method, the offsetting changes in value of both the hedged items and the hedge instrument are recognized. The foreign currency receivables and liabilities were translated at reporting date rates. Forward exchange transactions are measured using the appropriate forward rates. As of the balance sheet date, other assets with a total amount of € 1.7 million (previous year: € 11.9 million) were capitalized for forward exchange transactions with positive fair values and other liabilities of € 1.9 million (previous year: € 1.6 million) were expensed for forward exchange transactions with negative fair values.

To hedge purchases of products in euros, foreign Group companies conclude internal forward exchange transactions with Heidelberger Druckmaschinen Aktiengesellschaft for periods of up to one year. To hedge these internal derivatives and the highly likely additional requirements of Group companies for internal derivatives on account of product sales planning for a period of up to two years, Heidelberger Druckmaschinen Aktiengesellschaft concludes currency forwards and options with external partners. As of the balance sheet date, internal currency hedges with a nominal volume of € 418.2 million (previous year: € 606.6 million) were offset by external forward exchange transactions with a nominal volume of € 175.5 million (previous year: € 256.4 million) and external currency options with a nominal volume of € 1,195.2 million (previous year: € 1,463.7 million). The currency options are recognized at acquisition cost. Other liabilities were recognized for currency options with negative fair values. If there is a risk of losses on the remeasurement of currency portfolios, either other assets are written down or other provisions are recognized depending on the case in hand. As of the balance sheet date, other assets from paid option premiums in the amount of € 23.5 million (previous year: € 23.9 million) and other liabilities of € 17.5 million (previous year: € 26.6 million) were recognized. Other provisions of € 4.5 million (previous year: € 5.7 million) were recognized for anticipated losses. The recognized anticipated losses are essentially offset by the opposing effects arising from operating hedged items.

The effectiveness of hedge accounting is reviewed prospectively using the critical terms match method.

### Derivative financial instruments for hedging interest risks

To hedge interest risks arising from floating-rate liabilities as of the balance sheet date, interest rate swaps were concluded with an external partner for a nominal amount of € 50.4 million (previous year: € 52.7 million) with a remaining term of up to two years. Other provisions of € 1.1 million (previous year: € 2.4 million) were recognized for negative fair values.

## 28 OFF-BALANCE-SHEET TRANSACTIONS/OTHER FINANCIAL OBLIGATIONS

| | 2009/2010 | 2010/2011 |
|---|---|---|
| Rental and lease payments | 306,014 | 260,388 |
| – of which: to affiliated companies | (138,183) | (120,910) |
| Long-term purchase commitments for raw materials, consumables, and supplies | 17,114 | 11,299 |
| – of which: to affiliated companies | (0) | (0) |
| Order commitment from investment orders | 11,684 | 11,269 |
| – of which: to affiliated companies | (0) | (0) |
| | 334,812 | 282,956 |

Rental and lease payment obligations include € 228.4 million (previous year: € 248.5 million) from sale-and-leaseback agreements and relate to the Kiel location in the amount of € 7.5 million in this reporting year and, in past years, to the Print Media Academy (1999/2000 financial year), the World Logistics Center (1999/2000 financial year), and the Heidelberg Research and Development Center (2006/2007 financial year). In the previous year, operating properties at the Wiesloch-Walldorf location (land, buildings, exterior facilities) were sold to Heidelberger Druckmaschinen Real Estate GmbH & Co. KG, a wholly owned and fully consolidated subsidiary. Future rental payments of € 120.9 million over the basic term of the lease to Heidelberger Druckmaschinen Real Estate GmbH & Co. KG are offset in the amount of the net annual profits generated by this company.

The other rental and lease payment obligations essentially relate to other real estate and operating and office equipment.

## OTHER INFORMATION

### 29 DECLARATION OF COMPLIANCE IN ACCORDANCE WITH SECTION 161 AKTG

The Management Board and the Supervisory Board of Heidelberger Druckmaschinen Aktiengesellschaft issued the declaration of compliance in accordance with Section 161 of the German Stock Corporation Act and made it permanently accessible to the shareholders on the Web site of Heidelberger Druckmaschinen Aktiengesellschaft in the "Investor Relations" section under "Corporate Governance". Earlier declarations of compliance were also made permanently accessible there.

### 30 EXECUTIVE BODIES OF THE COMPANY

The information on the members of the Supervisory Board and the Management Board in line with Section 285 No. 10 HGB is listed in an annex to the notes.

The basic features of the systems of remuneration and amounts for the members of the Management Board and the Supervisory Board are presented in the management report.

Total cash remuneration of the Management Board for the year under review including non-cash remuneration amounted to € 2,653 thousand (previous year: € 4,464 thousand), bonus remuneration accounted for € 1,080 thousand of this in total (previous year: € 784 thousand). As in the previous year, no performance share units were awarded under the long-term incentive plan in the year under review as its last tranche has expired. Thus, total remuneration in the period under review amounted to € 2,653 thousand (previous year: € 4,464 thousand). As in the previous year, stock options awarded from the stock option program in previous years and long-term incentive performance share units were not paid out in the year under review.

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 end of the reporting period, the Management Board members held no stock options (previous year: 30,750 stock options) under the stock option plan.

Former members of the Management Board and their surviving dependents received € 3,087 thousand (previous year: € 3,086 thousand). € 855 thousand of this (previous year: € 873 thousand) relates to liabilities to former members of the Management Board of Linotype-Hell Aktiengesellschaft and their surviving dependents, which were assumed in the 1997/1998 financial year as part of universal succession.

Provisions of € 39,495 thousand (previous year: € 39,572 thousand) have been recognized for pension obligations to former members of the Management Board and their surviving dependents. € 8,831 thousand of this (previous year: € 9,009 thousand) relates to the pension obligations of the former Linotype-Hell Aktiengesellschaft, acquired in the 1997/1998 financial year under the provisions of universal succession. Former members of the Management Board held no stock options (previous year: 21,000 stock options) as of the end of the reporting period.

No loans or advances were paid to members of the Company's Management Board or the Supervisory Board in the reporting period. One member of the Management Board has loans dating back to before Group affiliation in the amount of € 522 thousand at interest of 5.31 %, secured with a standard local property lien; the remaining term of the loans is 23 ½ years. These loans were 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 € 404 thousand (previous year: € 392 thousand), but no variable remuneration, as in the previous year, was paid to the members of the Supervisory Board for the 2010/2011 financial year; these payments do not include value added tax.

## 31 STOCK OPTION PLAN

The Annual General Meeting of September 29, 1999 approved a contingent increase of share capital by up to € 10,996,288 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 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 by means of their entry in the commercial register in tranches of no more than 30 % of the total volume in a single 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 period of validity expire without compensation.

### Exercise period and exercise waiting periods

Subscription rights can be exercised at any time after the end of the vesting period during the respective period of validity. However, the subscription rights cannot be exercised during vesting periods that have been established by the Management Board and Supervisory Board in the interests of the Company, such as 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 conclusion of the respective Annual General Meeting may also be designated as exercise waiting periods.

### Investment on own account

When granting subscription rights, the condition can be imposed that the eligible persons must acquire shares of the Company on their own account and that they retain the shares for the appropriate vesting period.

### Condition for exercising subscription rights

Subscription rights can be exercised only 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 thereby determined of our share exceeds the Index. If subscription rights are not exercised despite the target having been reached, they may not be exercised again until the target has once more been reached.

### Exercise price

The exercise price is defined as the average closing price of the Company's shares on the last ten consecutive trading days in Frankfurt/Main before the relevant subscription period for the respective subscription rights (the exercise price). If the closing price of the shares in the electronic trading system of Deutsche Börse Aktiengesellschaft, which is used to determine the target price, is more than 175 % 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 Section 9 (1) AktG.

### Non-transferability/dividend rights of the new shares

The subscription rights are not legally transferable. The new shares are entitled to a share of profits from the beginning of the financial year in which the issue occurs.

### Tranche 2004

The principal underlying conditions for the last remaining tranche are shown in the following table:

| | End of vesting period | End of term | Exercise price in € | Number of stock options[1] 31-Mar-2010 | Number of stock options[1] **31-Mar-2011** |
|---|---|---|---|---|---|
| Tranche 2004 | 18-Aug-2007 | 18-Aug-2010 | 25.42 | 493,860 | 0 |

[1] Including stock appreciation rights (SARs)

### Servicing 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 thereby receive the plan profit in the form of shares. However, this only applies if no cash settlement was required (for example, due to the form of the subscription rights as stock appreciation rights (SARs).

### Accounting policies

As Tranche 2004 expired in August 2010, the provision recognized for this was reversed in the year under review.

**32 LONG-TERM INCENTIVE PLAN (LTI)**

The last tranche of the long-term incentive plan expired in 2007. The LTI plan was as follows:

### Participants

Heidelberger Druckmaschinen Aktiengesellschaft offered 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 included 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 granted performance share units (PSUs) to employees. This was dependent, however, on employees investing on their own account. A requirement for participation was 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 were satisfied either by means of a payment or by the delivery of Heidelberg shares.

### Term of performance share units

The PSUs had 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 LTI 2007 on March 31, 2010.

### Performance criteria

The performance criteria comprised 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.

The two targets were weighted equally. The free cash flow ratio, EBIT (earnings before interest and taxes), and sales were consistent with the terms used in IFRS accounting. They were determined based on the consolidated financial statements prepared and audited in accordance with IFRS for the financial years falling within the respective assessment period.

### Disbursement

During the term of the respective tranche of the LTI, the Company was 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 could 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 were settled in cash.

### Cap

The plan provided for a cap on profit opportunities. The profit per PSU was limited to double the calculated average share price for a period of three months following the date at which the unit was issued.

### Accounting policies

As Tranche 2007 expired on March 31, 2010, the LTI did not give rise to any income or expenses in the year under review.

### 33 AUDITORS' FEES

As details of the full auditors' fees can be found in the consolidated financial statements of Heidelberger Druckmaschinen Aktiengesellschaft, we have exercised the facilitation provisions provided for under Section 285 No. 17 HGB.

### 34 SHAREHOLDINGS

The list of all shareholdings of Heidelberger Druckmaschinen Aktiengesellschaft in accordance with Section 285 No. 11 HGB, which is a component of the notes to the financial statements, can be found on the Web site www.heidelberg.com in the “Investor Relations” section under “Annual General Meeting”; it is also published in the electronic Federal Gazette. The principal holdings are listed on pages 74 to 75.

Heidelberg, May 25, 2011

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 annual financial statements give a true and fair view of the net assets, financial position, and results of operations of the Company, and the management report of the Company includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company.

Heidelberg, May 25, 2011

HEIDELBERGER DRUCKMASCHINEN AKTIENGESELLSCHAFT
The Management Board

Bernhard Schreier

Dirk Kaliebe

Marcel Kiessling

Stephan Plenz

# Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement, and the notes to the financial statements, together with the bookkeeping system, and the management report of Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg, for the financial year from April 1, 2010 to March 31, 2011. The bookkeeping and the preparation of the annual financial statements and the management report in accordance with German commercial law are the responsibility of the Management Board of the Company. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Section 317 of the German Commercial Code 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 annual financial statements in accordance with (German) principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company 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 books and records, the annual financial statements, and management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company's Management Board, as well as evaluating the overall presentation of the annual financial statements and 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 annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position, and results of operations of the Company in accordance with (German) principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Mannheim, May 26, 2011

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Ernst-Wilhelm Frings | ppa. Stefan Sigmann |
| Wirtschaftsprüfer | Wirtschaftsprüfer |
| (German Public Auditor) | (German Public Auditor) |

> LIST OF MATERIAL INVESTMENTS IN AFFILIATED COMPANIES (FIGURES IN € THOUSANDS IN LINE WITH IFRS)

| Name | Location | | Share in equity in percent | Equity | Net sales |
|---|---|---|---|---|---|
| **Domestic** | | | | | |
| **Europe, Middle East and Africa** | | | | | |
| Heidelberger Druckmaschinen Vertrieb Deutschland GmbH [1)2)] | D | Heidelberg | 100 | 54,901 | 24,378 |
| Print Finance Vermittlung GmbH [1)2)] | D | Heidelberg | 100 | 34,849 | 18,013 |
| Heidelberg Postpress Deutschland GmbH [1)2)] | D | Heidelberg | 100 | 25,887 | – 14,134 |
| **Foreign** | | | | | |
| **Europe, Middle East and Africa** | | | | | |
| Heidelberg International Ltd. A/S | DK | Ballerup | 100 | 30,924 | 490 |
| Heidelberg Graphic Equipment Ltd. [3)] | GB | Brentford | 100 | 19,460 | – 2,215 |
| Heidelberg France S.A.S. | F | Tremblay-en-France | 100 | 13,634 | 1,426 |
| Heidelberg Schweiz AG | CH | Bern | 100 | 8,801 | 2,729 |
| Heidelberg Sverige AB | S | Solna | 100 | 4,195 | – 551 |
| Heidelberg Graphic Systems Southern Africa (Pty) Ltd. [3)] | ZA | Johannesburg | 100 | 2,870 | 192 |
| **Eastern Europe** | | | | | |
| Heidelberger Druckmaschinen Osteuropa Vertriebs-GmbH [4)] | A | Vienna | 100 | 150,142 | 6,728 |
| Heidelberger Druckmaschinen Austria Vertriebs-GmbH | A | Vienna | 100 | 138,877 | 6,146 |
| Heidelberg Polska Sp z.o.o. | PL | Warsaw | 100 | 9,420 | 1,989 |
| Heidelberg Grafik Ticaret Servis Limited Sirketi | TR | Istanbul | 100 | 4,584 | 948 |
| Heidelberg Praha spol s.r.o. | CZ | Prague | 100 | 642 | – 543 |
| Heidelberger CIS OOO | RUS | Moscow | 100 | – 14,866 | – 1,344 |
| **North America** | | | | | |
| Heidelberg Print Finance Americas, Inc. | USA | Portsmouth | 100 | 121,410 | 806 |
| Heidelberg USA, Inc. | USA | Kennesaw | 100 | 85,026 | – 4,717 |
| Heidelberg Canada Graphic Equipment Ltd. | CDN | Mississauga | 100 | 8,079 | – 1,502 |
| Heidelberg Mexico Services S. de R.L. de C.V. [3)] | MEX | Mexico City | 100 | 5,685 | – 27 |

| Name | Location | | Share in equity in percent | Equity | Net sales |
|---|---|---|---|---|---|
| **South America** | | | | | |
| Heidelberg do Brasil Sistemas Graficos e Servicos Ltda. | BR | São Paulo | 100 | 16,262 | 1,577 |
| **Asia / Pacific** | | | | | |
| Heidelberg Graphic Equipment (Shanghai) Co. Ltd. | RC | Shanghai | 100 | 43,648 | 6,961 |
| Heidelberg Japan K.K. | J | Tokyo | 100 | 19,872 | – 2,175 |
| Heidelberg Graphic Equipment Ltd. | AUS | Melbourne | 100 | 17,812 | – 2,832 |
| Heidelberg China Ltd. | RC | Hong Kong | 100 | 17,327 | 5,126 |
| Heidelberg Hong Kong Ltd. | RC | Hong Kong | 100 | 17,261 | 1,187 |
| Heidelberg Asia Pte Ltd. | SGP | Singapore | 100 | 11,241 | 1,120 |
| Heidelberg Korea Ltd. | ROK | Seoul | 100 | 4,549 | 942 |
| Heidelberg Malaysia Sdn Bhd | MYS | Petaling Jaya | 100 | 879 | – 326 |

[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
a) Douglas Holding AG;
Loewe AG
b) AEG Power Solutions B.V., the Netherlands

**Rainer Wagner***
Chairman of the Central Works Council, Heidelberg/Wiesloch-Walldorf
Deputy Chairman of the Supervisory Board

**Dr. Werner Brandt**
Member of the Management Board of SAP AG, Walldorf
a) Deutsche Lufthansa AG
b) QIAGEN N.V., the Netherlands;
SAP (Schweiz) AG, Switzerland;
SAP America, Inc., US;
SAP (UK) Limited, UK;
SAP Japan Co. Ltd., Japan

**Edwin Eichler**
Member of the Management Board of ThyssenKrupp AG, Essen/Duisburg
a) Hüttenwerke Krupp Mannesmann GmbH;
SGL Carbon SE;
ThyssenKrupp Materials International GmbH (Chairman);
ThyssenKrupp Nirosta GmbH (Chairman)
b) ANSC-TKS Galvanizing Co., Ltd., China (Chairman);
ThyssenKrupp Industries and Services Qatar LLC, Qatar;
ThyssenKrupp Steel Americas, LLC, US (Chairman)

**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
a) ABB AG

**Gunther Heller***
Chairman of the Works Council, Amstetten

**Jörg Hofmann***
Regional head of IG Metall, Baden-Wuerttemberg region, Stuttgart
a) Daimler AG;
Robert Bosch GmbH

**Dr. Siegfried Jaschinski**
Member of the Management Board of MainFirst Bank AG, Frankfurt

**Robert J. Koehler**
Chairman of the Management Board of SGL Carbon SE, Wiesbaden
a) Demag Cranes AG;
Klöckner & Co. SE;
LANXESS AG
b) Benteler International AG, Austria (Chairman)

* Employee representative
a) Membership in other Supervisory Boards
b) Membership in comparable German and foreign control bodies of business enterprises

**Dr. Gerhard Rupprecht**
Freelance Consultant
a) Fresenius SE

**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
a) Schott AG;
Zwiesel Kristallglas AG
b) Gallus Holding AG, 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
a) Bayer AG;
Hannover Rückversicherung AG
b) Österreichische Industrieholding AG, Austria;
Sulzer AG, 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

Beate Schmitt

**Audit Committee**

Dr. Klaus Sturany (Chairman)

Dr. Werner Brandt

Mirko Geiger

Rainer Wagner

**Nomination Committee**

Dr. Mark Wössner (Chairman)

Dr. Klaus Sturany

**Special Committee Annual General Meeting Agenda**

Dr. Mark Wössner (Chairman)

Dr. Werner Brandt

Dr. Siegfried Jaschinski

Robert J. Koehler

Dr. Gerhard Rupprecht

Dr. Klaus Sturany

Rainer Wagner

## The Management Board

**Bernhard Schreier**
Bruchsal
Chief Executive Officer and
Chief Human Resources Officer
* ABB AG;
Bilfinger Berger AG;
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)

**Dirk Kaliebe**
Sandhausen
Chief Financial Officer and
Head of the Heidelberg
Financial Services Division
* Heidelberger Druckmaschinen Vertrieb
Deutschland GmbH;
** Heidelberg Graphic Equipment Ltd., UK;
Heidelberg Americas, Inc., US;
Gallus Holding AG, Switzerland
(Member of the Administration Board)

**Marcel Kiessling**
Heidelberg
Head of the Heidelberg
Services Division

**Stephan Plenz**
Sandhausen
Head of the Heidelberg
Equipment Division
** Gallus Holding AG, Switzerland
(Member of the Administration Board);
Heidelberg Graphic Equipment
(Shanghai) Co. Ltd., China
(Chairman of the Board of Directors)

* Membership in Supervisory Boards
** Membership in comparable German and foreign control bodies of business enterprises

## ADDITIONAL FINANCIAL INFORMATION ON THE INTERNET

For a PDF download of the non-consolidated report, please visit

> www.heidelberg.com
> Investor Relations
> Reports and Presentations 2010/2011

On this page, you will also find both a PDF and an HTML version of the consolidated annual report of Heidelberger Druckmaschinen Aktiengesellschaft.

# Financial Calendar 2011/2012

| | |
|---|---|
| JUNE 16, 2011 | Annual Press Conference, Analysts' and Investors' Conference |
| JULY 28, 2011 | Annual General Meeting |
| AUGUST 9, 2011 | Publication of First Quarter Figures 2011/2012 |
| NOVEMBER 8, 2011 | Publication of Half-Year Figures 2011/2012 |
| FEBRUARY 8, 2012 | Publication of Third Quarter Figures 2011/2012 |
| JUNE 14, 2012 | Annual Press Conference, Analysts' and Investors' Conference |
| JULY 26, 2012 | Annual General Meeting |

Subject to change


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»Staying on track while remaining flexible: Heidelberg is in a position to achieve this.« // »Our focus is now on financial stability and value added.« // »Heidelberg continues to be the first choice for print shops worldwide.« // »The Heidelberg Team helps

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69115 Heidelberg
Germany
www.heidelberg.com

print shops achieve success – throughout the world and in every way.« //