

»Staying on track while remaining flexible: Heidelberg is in a position to achieve this.« //

»Heidelberg has achieved an operational turnaround. Our focus is now on financial stability and value added.« //

»Heidelberg continues to be the first choice for print shops worldwide.« //

»The Heidelberg

ANNUAL REPORT 2010/2011

HEIDELBERG

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



Page 14 // Bernhard Schreier //

Chief Executive Officer and
Chief Human Resources Officer



Page 16 // Dirk Kaliebe //

Chief Financial Officer and
Head of the Heidelberg Financial Services Division



Page 62 // Stephan Plenz //

Management Board Member and
Head of the Heidelberg Equipment Division



Page 64 // Marcel Kiessling //

Management Board Member and
Head of the Heidelberg Services Division

The Financial Year in Review

Q1 2010

Q2 2010

APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER
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New Organization

Heidelberg launches its previously announced restructuring measures. From now on, the Company's operations are organized into three divisions: Heidelberg Equipment, Heidelberg Services, and Heidelberg Financial Services.



Ten Years of the Print Media Academy (PMA) Heidelberg
Bernhard Schreier and Marcel Kiessling welcome approximately 200 guests to the tenth anniversary celebration of the PMA. Each year, up to 9,000 people participate in the training programs and seminars offered by the PMA Heidelberg.

Women in the Print Industry

More than 500 women accept Heidelberg's invitation to presentations focusing on an exchange of experiences: "Women in Print" in Australia and "Women ... Print ... Success" in Russia. Presentations for women in the print industry have become a popular forum for networking.

IPEX 2010 – World Debut of the Speedmaster CX 102
Over 50,000 international visitors inform themselves about Heidelberg's numerous innovations at the IPEX trade show held in the UK. With the Speedmaster CX 102, Heidelberg introduces the world's first printing press with a 70×100 cm format and a production speed of 16,500 sheets per hour.



Groundbreaking for Hall 3 at Qingpu
Start of construction of the third assembly hall at Qingpu. Planned to begin in September 2011, a standard model of the Speedmaster CD 102 printing press will be assembled in this 21,500-square-meter assembly hall.

ExpoPrint Latin America 2010
The strong customer interest in the offerings of Heidelberger Druckmaschinen AG results in numerous sales at this trade show in São Paulo, Brazil. Customers in Brazil also place orders for the Speedmaster CX 102.



InterTech™ Technology Award for Prinect Inspection Control
Heidelberg is presented with the 2010 PIA InterTech™ Technology Award for Prinect Inspection Control, which by means of its high-resolution two-camera system detects print and material defects at an early stage.

Annual General Meeting 2010
Heidelberg's Chairman of the Management Board, Bernhard Schreier, explains developments over the past financial year as well as the Company's realignment and strategy to approximately 1,700 shareholders. The proposed subscription right capital increase is approved by approximately 97 percent of the submitted votes.

Research Platform Prolonged

The Polytechnic University of Darmstadt prolongs its joint research platform with Heidelberg to 2012. The "Functional Printing" development project has been in operation since 2007.

Amstetten Foundry Celebrates Twenty-Fifth Anniversary
The continuous investments by Heidelberg set new standards for foundries as well as for large part manufacturing in terms of quality, precision, and environmental protection. Products and production services are being offered to external customers with growing success.

Successful Capital Increase
Heidelberg successfully completes a capital increase, which comprises approximately 155 million new shares, generating gross revenue of approximately € 420 million. Net underwriting revenue is used entirely to repay financial liabilities and strengthen the equity base.

Start-up of Training Programs
Throughout Germany, on September 1 a total of 156 young people begin their occupational training at Heidelberg in one of 13 professions or one of nine Bachelor's Degree programs.

OCTOBER	NOVEMBER	DECEMBER	JANUARY	FEBRUARY	MARCH
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**HEI ECO
Information Day**

Nearly 100 customers from Western Europe and India obtain information relating to ecological printing. Heidelberg is a trailblazer in ecological printing and delivers the broadest range of offerings for non-polluting printing processes. Moreover, the Company announces a competition for the second Heidelberg ECO Printing Award at this event.

**Product Innovation
for Label Production**

The new Speedmaster XL 105-D is introduced at the Print Media Center Label Days. Unlike previous models, the Speedmaster XL 105-D with rotative die-cutting offers considerable advantages in terms of tool costs, set-up times, and production speed.



**Heidelberg
Financial Services
Receives an Award**

The Heidelberg Financial Services Division is awarded "Captive Finance Provider of the Year 2010" by the specialist journal Leasing Life for supporting the Group by means of its highly consistent and successful strategy.

**International Prinect
End-User Days**

At the Print Media Academy in Heidelberg, some 350 participants from seven countries exchange views on the advantages of the integrated print shop as well as efficient color management. The principal focus is on the topic of Web-to-print with its diverse business models.



**Heidelberg Optimizes
Its Structure of
Financing**

At the end of December, Heidelberg repays prior to maturity and in full the remaining approximately € 100 million outstanding amount under the loan from the KfW (Reconstruction Loan Corporation) by restructuring its financing. This serves to reduce the total credit framework to just under € 900 million.

**1,000th Printing
Press Comes off the
Production Line at
Qingpu**

The Company's strategy of manufacturing standard printing presses in China has proven its success. Every third printing press sold by Heidelberg in China is sourced from local production. The 1,000th printing press, a Speedmaster CD 102 with four printing units, is installed in Nangchang.

druckforum 2011

At the druckforum, nearly 300 visitors inform themselves about the potential of perfecting technology. Heidelberg is by far the leading global supplier of long perfecting presses. Customers also recognize the advantages of Heidelberg's Prinect Inpress Control inline measuring system.

First XL 162 with Perfecting Device Successfully Launched

The world's first Speedmaster XL 162 with Heidelberg's proven perfecting technology is successfully installed at a German customer. Heidelberg originally introduced the Speedmaster XL 145 and XL 162 models at drupa in 2008.



**Cooperation between
Heidelberg and Ricoh**

Ricoh Company Ltd. and Heidelberger Druckmaschinen AG enter into a long-term strategic cooperation agreement. As an initial step, Heidelberg will be marketing its partner's Ricoh Pro™ C901 Graphic Arts Edition as well as the newly developed PxP™ Toner starting in April 2011. This partnership gives customers access to the optimal combination of digital and offset technology.

**New Lines of Credit
and High-Yield Bond**

On March 31, Heidelberg places a high-yield bond issue totaling € 304 million with a term to maturity of seven years. Heidelberg uses the net proceeds among others to repay in full and prior to maturity all of its outstanding government-supported credits. A new revolving line of credit is simultaneously arranged totaling € 500 million.

**Innovation Award –
IT 2011**

Heidelberger Druckmaschinen AG wins the special award presented by the State of Baden-Württemberg in honor of the Company's software-supported service solution Prinect Performance Benchmarking.

// Operationally, Heidelberg exceeded the break-even point. With its new financing structure, the Group is in a position to successfully implement its strategy. In a special feature of this Annual Report, Heidelberg's four Management Board members discuss the goals of this strategy and why they will bear fruit. The quotes shown on the cover are from Bernhard Schreier, Dirk Kaliebe, Stephan Plenz, and Marcel Kiessling. //

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Management Board Member and Head of the Heidelberg Services Division



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FINANCIAL CALENDAR
FIVE-YEAR OVERVIEW



BERNHARD SCHREIER

Chairman of the Management Board
Heidelberger Druckmaschinen
Aktiengesellschaft

Introduction by the Chairman of the Management Board

Dear Reader,

As expected, during the financial year the printing industry in the newly industrializing countries rebounded. In the industrialized countries, our industry is on the threshold of a turnaround; this is the view of the German Engineering Federation as well. Without question, we still face some challenges. Nevertheless, I am pleased to state that this Annual Report largely contains good news for you. An overview of the topics that we discuss in depth in this Report illustrates this:

- > We again exceeded the operating break-even point – on the one hand, because our sales rose as expected, and on the other hand, due to our launch of comprehensive restructuring programs and because of our new organization's high level of efficiency.
- > The Group's refinancing was successfully completed, and Heidelberg again has access to a stable credit facility. The bridge funding under government guarantees was repaid in full prior to maturity.
- > We have the best portfolio in our industry, which we are further expanding and enhancing, based both on our own developments as well as on partnerships and acquisitions. With the Speedmaster CX 102, the Heidelberg Equipment Division launched a new highlight of market

attention, which was extremely well received. Our global cooperation with Ricoh, through which we offer our customers integrated digital and offset solutions, got off to a successful start. Acquiring the software supplier CERM made it possible for us to further improve the solutions offered by our Heidelberg Services Division in the area of “Management Information” systems. Our new Saphira Eco Generation meets the highest environmental standards.

- > Moreover, despite cost-reduction measures in Germany and abroad we undertook investments. For example, we expanded our production site in China in order to take still better advantage of the opportunities offered for the development of our business in this market.
- > Our strategy is showing results. My colleagues on the Management Board and I discuss strategically important issues in more detail in the Report. The importance of comprehensive services for the success of our customers is becoming increasingly evident. We are expanding our position in the packaging printing business. Our job manufacturing has gained momentum. Altogether, the Group is becoming less and less dependent on cyclical developments, which is all the more important because fluctuations have worsened considerably in recent years.

Our outstanding employees have quite clearly been the cause of our being on the right track and of my ability to draw a favorable picture. They swiftly implemented the necessary restructuring measures and processing changes despite short-time work. They ensured that print shops continue to place their complete trust in Heidelberg, especially with regard to quality, reliability, and our customer-driven focus. At the same time, they also carried the main burden of the cost reductions. On behalf of my colleagues on the Management Board, I wish to extend my sincere thanks for their dedication and endurance!

Despite the altogether gratifying developments, once again we had to make use of flexible working-time instruments at the beginning of the current financial year. This was necessary in order to establish the economic prerequisites for our overall refinancing requirements. Some may wonder why, then, we did not cut back jobs further. It would simply be unprofitable today to let go qualified and experienced specialists, many of whom have already completed their training with us, only to again look for, and train, new employees at considerable expense a year down the line in order to cope with the volume of orders. For we assume that demand in our industry, as well as for our products, will rise further. This is because as underlying conditions become more favorable, investments in the industrialized countries will pick up again. It is currently difficult to foresee exactly when this will occur – especially in the US. Moreover, it is still unclear what impact the catastrophe in Japan will have on the global economy. We focus on helping affected print shops to the

greatest possible extent. Our business development in the Japanese market has come to a complete standstill. Developments in recent years have shown the extent to which economic activity can change direction, both upwards as well as downwards.

Our Group is also prepared for difficult times. This is one favorable outcome of what has so far been the worst crisis ever experienced by the printing industry. Heidelberg has become more flexible, has the best and most comprehensive portfolio in our industry, and has tough employees. There are enough reasons to have an optimistic view of the future – among others, because we know what challenges our customers can overcome working together with us. In recent years, our employees have proven to print shops that thanks to our offerings of printing presses and services, we are partners who not only promise success, but who actively contribute to their success. With our financial stability and lower break-even point, we have laid the foundation for sustained and profitable growth, thereby making it possible for us to again offer our shareholders attractive value added in the medium term. I would like to thank all those who contributed to ensuring realization of the prerequisites for this: the German Federal States, the German Federal Government, and the banks, who believed in Heidelberg during the Company's most difficult time and who provided us with guarantees and credits, as well as our employees, customers, and investors!



BERNHARD SCHREIER

Chairman of the Management Board
Heidelberger Druckmaschinen Aktiengesellschaft



STEPHAN PLENZ

Management Board
 Member and
 Head of the Heidelberg
 Equipment Division

> Member of the Board
 since July 2008

MARCEL KIESSLING

Management Board
 Member and
 Head of the Heidelberg
 Services Division

> Member of the Board
 since January 2010

DIRK KALIEBE

Chief Financial Officer
 and Head of the
 Heidelberg Financial
 Services Division

> Member of the Board
 since October 2006

BERNHARD SCHREIER

Chief Executive Officer
 and Chief Human
 Resources Officer

> CEO since October 1999
 > Member of the Board
 since 1995



DR. MARK WÖSSNER

Chairman of the Supervisory Board

Report of the Supervisory Board

Dear Shareholders,

We wish to express our great thanks for the confidence you have shown in us as well as your strong support for our capital increase, which was approved at the 2010 Annual General Meeting. The capital increase in September 2010 had an impact on Heidelberg comparable to successful construction work on the foundation of a house. Equity was sustainably strengthened, debt was cut in half, and Heidelberg achieved stability. This is a foundation upon which we were able to continue to build, thereby finalizing Heidelberg's refinancing at the beginning of April in the form of a high interest bond issued and renegotiation of our credit facilities. We thereby succeeded in freeing ourselves from government aid in the form of guarantees and warranties – which had helped us very much over the past two years. We have now been granted ratings by Moody's and Standard & Poor's that are appropriate to our situation today. We enjoy a favorable and stable outlook and are again able to stand on our own two feet – more so than a year prior to the planned expiration of the government support.

For the third time in a row, our Company generated a considerable triple-digit loss. Nevertheless, we have every reason to view the future optimistically. Heidelberg's employees, Management Board, and Supervisory Board have worked hard to achieve the goals that were set for the past financial year. The business upswing in the printing industry provided us with a boost, with

incoming orders and sales showing gratifying growth over the previous year. Together with our cost reduction measures, this has now resulted in our again attaining an operating result in the black – in accordance with our planning and as we had previously announced. The reduction in debt will make it possible for us to also realize the progress in the financial result during the current financial year that we had planned. If, as expected, the overall economy develops in a stable manner, the pre-tax result for the current financial year should be break-even. Nevertheless, it is currently difficult to gauge if economic developments could be hampered by various factors.

Our focus on the service business, the expansion of our consumables business, and our assigning priority to the packaging area, represent the introduction of correct strategic measures and have already resulted in initial successes. For example, we will further reduce Heidelberg's dependence on global economic developments in the future. The decision by the Management Board to reorganize the Company and subdivide Heidelberg's core business into the divisions Heidelberg Equipment and Heidelberg Services was implemented at the beginning of the financial year. Our third division, Heidelberg Financial Services, continues in operation. Heidelberg has structured all processes to function more efficiently as part of the new organization, which is now subject to our reporting for the first time.

Heidelberg is by far the biggest manufacturer of sheetfed offset printing presses as well as the leading supplier of solutions to the print media industry in this sector. In the face of the crisis, which also affected the other manufacturers, Heidelberg continued to assert its leading position and justified the confidence placed in the Company as a whole. During the current financial year, Heidelberg will further develop its outstanding technical solutions as well as the reliable composition of its product portfolio and service offerings, thereby ideally positioning the Company in advance of the world's largest trade show for our industry, drupa, to be held in May 2012.

We are projecting a continued upswing for the printing industry during the current financial year should the global economy develop as solidly as expected. Overcoming the crisis has required considerable sacrifice, especially on the part of all our employees, and Heidelberg will not be able to avoid unconditionally strict cost discipline in the future as well. With this in mind, at the end of the financial year we instituted further agreements with the Works Council, which allow us to make use of flexible working-time instruments in order to react to fluctuations in capacity. We hope for you, our loyal shareholders, as well as for our employees that we achieve the projected improvement. The Supervisory Board wishes to express its appreciation and special thanks to all our employees and their representatives on the Supervisory Board, in the works councils, and in the Speakers Committee for everything they have taken upon themselves and achieved.

On the road out of the crisis, again during the financial year the Supervisory Board paid considerable attention to supporting the Management Board in its implementation of required measures and in finding solutions to highly complex responsibilities. We undertook this within the framework of regular and many extraordinary meetings of the Supervisory Board and Committees as well as at meetings with shareholder representatives and with staff representatives. Together, we intensively discussed all the important issues and measures. Shareholder and staff representatives again assembled separately in several meetings in order to evaluate the situation and upcoming decisions from the viewpoint of their respective interests and concerns.

We extensively advised and monitored the Management Board in its management of the Company as well as its transactions, and fulfilled all the responsibilities incumbent on us under legal provisions and the Articles of Association. The ongoing close cooperation between the Management Board and the Supervisory Board was not limited to the four ordinary and two extraordinary meetings by conference call of the Supervisory Board, during which the Management Board informed us in depth about the Company's current development and business development. This was also reflected in numerous coordination discussions with the Chairman of the Management Board, the CFO, and their colleagues between meetings. In this manner, the Supervisory Board was always promptly informed in the necessary detail about the Company's business development and financial position. I further cultivated my close contact with the Chairman of the Management Board during the financial year, thereby ensuring that I was continually kept informed of significant developments and available options at an early stage. Together with the Chairman of the Management Board, I was able to ensure that the Supervisory Board and the Management Board were in a position to continuously and credibly represent the interests of the Company. We were always promptly and extensively involved in all significant decision-making processes. We also passed resolutions in writing for projects that necessitated a quick decision. This occurred three times during the financial year. The work in our committees was again of particular importance. For example, the Human Resources Committee, which is made up of equal numbers of staff and other representatives, met twice; the Management Committee held one meeting and made a decision by circulation. The Audit Committee met five times and also held one extraordinary meeting by conference call. The Nomination Committee met once, reached agreement by telephone on numerous occasions, and recommended candidates for election to the Supervisory Board. The Mediation Committee was not required to meet under the terms of Article 27 (3) of the Code-termination Act. The Special Committee, which was formed to approve the agenda for the 2010 Annual General Meeting, met twice by conference call. No member of the Supervisory Board took part in fewer than half of the meetings of the Supervisory Board during the financial year.

Focus of the Supervisory Board's Discussions

Our discussions during the financial year focused mainly on preparing and implementing the capital increase in September 2010, as well as on refinancing measures, and on the high interest bond issue for early April 2011. We also concentrated on securing the Company's liquidity and

equity as well as on the successfully implemented restructuring measures. During the financial year, the development of sales and earnings as well as Heidelberg's financial position were a regular topic of discussion on the Supervisory Board.

The further expansion of the service and consumables segment was also a focus of reporting by the Management Board. This business segment as well as the competitive environment in other areas and the development of certain markets, especially in the newly industrializing countries, were also subject to ongoing analysis.

Further issues that we discussed intensively and passed resolutions on included: the planned utilization of the authorized capital to satisfy the claims of the former shareholders of Linotype-Hell AG following the settlement of arbitration proceedings, as well as the commissioning of Schuh & Co. GmbH, Wuerselen, in which a member of our Supervisory Board is the majority shareholder, within the framework of a consulting project that focuses on complexity management for Heidelberg's research and development activities. We play a major role in the market thanks to the scope, quality, and competitiveness of our offerings. We also came to the conclusion that this highly technical complexity consulting is beyond the framework of the customary control and advisory responsibilities of a member of the Supervisory Board. Moreover, Professor Dr. Schuh was not personally involved in the consulting process.

In connection with the high interest bond issue, since the beginning of calendar year 2011, on numerous occasions and in the meeting we held on March 30, 2011, we again focused on the completion of the planning process for the current and subsequent financial years. In view of the stabilizing influences and upward trend during the financial year, the Supervisory Board looks to the current financial year with optimism. Assuming that economic developments continue to be stable, we are projecting a balanced pre-tax result. Since, due to various risk factors, future developments cannot at present be predicted with precision, within the framework of our planning control we cannot exclude the necessity of making adjustments in the future.

Finally, the Supervisory Board once again intensively focused on the structure of the Management Board's remuneration subsequent to corresponding preparation by the Human Resources Committee. The structure of remuneration corresponds to revisions of statutory provisions. We brought in an independent external reimbursement expert for consultations in order to ensure compliance. This expert monitors observance of statutory requirements in terms of the appropriateness of the established remuneration as well as the extent to which remuneration of the Management Board is customary, and endorses the conformity of the reimbursement system with legal provisions.

Corporate Governance

The corporate governance of the Company was a recurring topic of our discussions in the Supervisory Board, as were the recommendations of the German Corporate Governance Code. The latter recommendations resulted in a further updating of our Rules of Procedure. The “Corporate Governance Report” on pages 46 – 61 provides further information about the Company’s corporate governance and related actions taken by the Supervisory Board.

Work in the Committees

In order to efficiently fulfill its responsibilities, the Supervisory Board established a total of five committees. We also formed a special committee in June 2010, which, based on a corresponding authorization by the Supervisory Board, focused on finalizing the agenda details for the 2010 Annual General Meeting with regard to the proposed increase in share capital. Our committees decisively assisted the Supervisory Board in its work by preparing the discussions and its decisions, thereby facilitating the proceedings of the Supervisory Board meetings. In some cases, the Supervisory Board granted the committees decision-making authority. At meetings of the Supervisory Board, the chairmen of the committees reported on their work in detail, covering all the significant committee discussions. The current composition of the committees is shown in the Notes to the Financial Statements.

At its meeting, the Management Committee dealt with the preparation and execution of the capital increase. In this connection, following the granting of corresponding authorization by the Supervisory Board, the Management Committee also approved a revision to the Articles of Association subsequent to completion of the capital increase. The Audit Committee examined questions, regarding the respective quarter and event-driven, concerning the net assets, financial position, the results of operations, and the Company’s risk reporting. Furthermore, this committee together with the auditor also focused intensively on the non-consolidated and consolidated financial statements as well as the accounting and valuation principles applied. Discussions additionally concentrated on risk management, compliance, controlling of participations, the liquidity situation, the development of the capital structure including measures for its stabilization, and sales financing. The Human Resources Committee discussed remuneration-related and other issues affecting the members of the Management Board and passed appropriate resolutions.

Audit of the Non-Consolidated and Consolidated Financial Statements

The Annual General Meeting held on July 29, 2010 selected PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, as the external auditor. This firm examined and approved without qualification the overall annual financial statements for financial year 2010/2011 as well as the management report of Heidelberger Druckmaschinen Aktiengesellschaft and the consolidated financial statements and Group management report of the Heidelberg Group, which were drawn up by the Management Board. We awarded the contract for auditing the financial statements at the Supervisory Board meeting held on July 29, 2010. The overall annual financial statements, the consolidated financial statements, the management report

for the Company, and the management report for the Heidelberg Group were submitted to the Supervisory Board directly following their completion. The reports of the auditors were circulated to all the members of the Supervisory Board in time for the meeting to discuss the annual financial statements, which was held on June 9, 2011. The auditors, chartered under German law, who signed the audit reports, took part in discussions on the Supervisory Board. During the meeting, they reported on the results as well as on the fact that there are no significant failings of internal control or risk management systems as related to the accounting process. They made themselves available to the members of the Supervisory Board to answer questions in greater detail. The auditor furthermore provided information on services that were provided over and above the audit of the financial statements and confirmed that no circumstances exist that could call its impartiality into question. The Auditor's Report does not include any comments or indications of possible inaccuracies in the Declaration of Compliance with respect to the Corporate Governance Code.

At the meeting of the Supervisory Board held on June 9, 2011, the Audit Committee recommended approval of the non-consolidated and consolidated financial statements. We examined and accepted the overall annual financial statements prepared by the Management Board as well as the consolidated financial statements, the management report of Heidelberger Druckmaschinen Aktiengesellschaft, and the Group management report. We thereby agreed with the audit results of both annual statements, and approved the non-consolidated and consolidated financial statements as of March 31, 2011.

Composition of the Management Board and Supervisory Board

The composition of the Supervisory Board remained unchanged during the reporting year. I wish to express my considerable thanks to all my colleagues on the Supervisory Board for their unwavering commitment and outstanding cooperation based on trust. The Supervisory Board will continue to focus intensively on the interests of the Company and its long-term development, and will do everything in its power for Heidelberg's benefit. There was no change in the composition of the Management Board over the past financial year.

The Supervisory Board wishes to thank the members of the Heidelberg Management Board and the Company's employees for their considerable personal commitment and achievements during the past financial year.

Munich, June 9, 2011

FOR THE SUPERVISORY BOARD



DR. MARK WÖSSNER

Chairman of the Supervisory Board



HEI FLEXIBILITY





»Staying on track
while remaining flexible:
Heidelberg is in a position
to achieve this.«



> The first digi:media trade show, which was held in Duesseldorf during April 7 – 9, 2011 was visited by some 6,100 interested print shop owners, print buyers, as well as agency and marketing representatives. Under the slogan “HEI FLEXIBILITY”, Heidelberg

presented comprehensive solution offerings, ranging from Web-to-Print-front-end offerings and the utilization of both digital and postpress applications, and running all the way to professional postpress applications for the production of mailings and books.

■ The photo on the previous page shows **BERNHARD SCHREIER**, Heidelberg’s Chief Executive Officer, with Simon Sasaki, Corporate Executive Vice President of the Production Printing Business Group of Ricoh Ltd., at Heidelberg’s booth at the digi:media trade show.

■ The digi:media trade show marks the beginning of our global strategic cooperation with Ricoh. We had expected this trade show premiere to attract a large specialized public. I am enthusiastic that we successfully introduced integrated offset and digital printing equipment in Duesseldorf for cost-effective production of the smallest print runs as well as variable printing. We were, incidentally, the only company there to present concrete examples of such hybrid applications.

This trade show made the point clear: print is becoming increasingly diverse and on average increasingly high in quality precisely due to the influence of mobile media. Whereas book printing will be subject to declines in orders and volumes – among others, due to eBooks and declining newspaper sales – print runs are on the rise in areas we have already been focusing on for a number of years: advertising and packaging printing.

The volume of printed products will grow further despite iPad, Blogs, & Co. I regard it as our responsibility to make the best possible solutions available to Heidelberg's customers in order to ensure that they obtain the biggest possible piece of this cake. We can, and we will, achieve this thanks to our technological leadership, our product portfolio, our strong global presence, and our highly qualified team of employees.

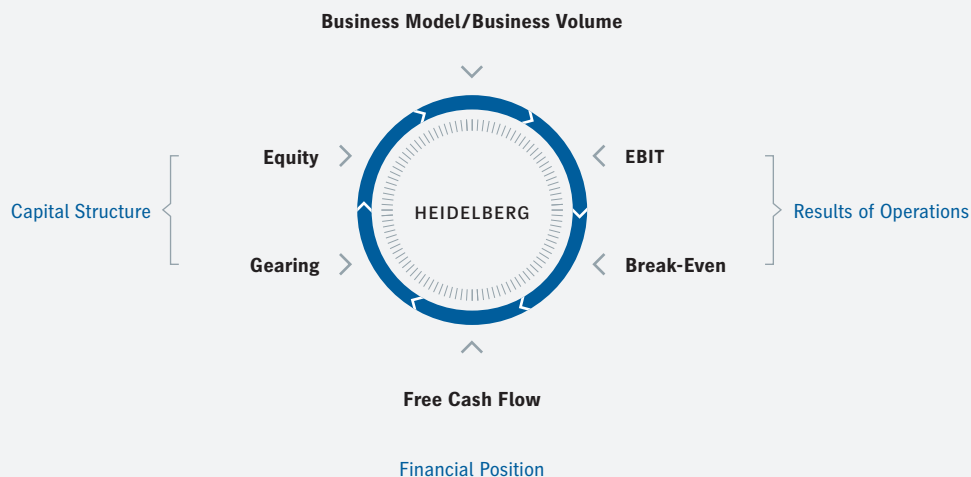
We are adequately flexible to ensure our timely reaction to new trends with offerings that provide the client with true value added and to take advantage of new opportunities. Sheetfed offset printing continues to represent our core business. Our strategic goals are clearly defined. We have established unambiguous goals outlining how we intend to grow profitably.

We remain true to our basic principles in all our new areas of business. Our standards of quality, environmental protection, and customer service are applicable throughout the Group – whether in manufacturing, in consumables, or for suppliers. Even prior to the sales launch of the Ricoh Pro C901 Graphic Arts Edition, together with Ricoh we extensively trained sales and marketing staff to ensure the quality of service from the very beginning that Heidelberg's customers throughout the world justifiably rely on.





»Heidelberg has achieved an operational turnaround. Our focus is now on financial stability and value added.«



> The graphic shows the significant control parameters in operation at Heidelberg. We have adapted and refined our control concept to be in a position to produce convincing key economic data for various scenarios at any time. Thanks to our cost-reduction measures, we have successfully reduced our break-even point and are again operationally in the black. Through our systematic asset

management, we are strengthening free cash flow and thereby our self-financing capacity. For example, we are also minimizing the commitment of funds within the Heidelberg Financial Services Division, which lies in Dirk Kaliebe's area of responsibility, by consistently and to the greatest possible extent externalizing financing arrangements.

■ This photo of **DIRK KALIEBE**, Heidelberg's Chief Financial Officer, with employees from the areas of Investor Relations, Corporate Treasury, as well as Controlling and Accounting, was taken at a meeting held at the head office in Heidelberg.

■ At the time the entire industry was deep in crisis during the past financial year, we received bridge financing supported by guarantees from the German Federal Government and the Federal States for two reasons: first, because we were able to prove that our business model is workable, and secondly, because we were able to show precisely how we would be able to steer the Group through the crisis and achieve a turnaround – during the financial year, we exceeded the operating break-even point.

Our goal from the very beginning was to finance ourselves in the capital market again as soon as possible. We have been successful in returning the government guarantees – in their full amount and prior to maturity. In September 2010, we undertook a capital increase, and just six months later we had already completed refinancing arrangements for the Group through our bond issuance and negotiation of new credit lines. I am personally very pleased about this because, among other things, the success of our measures is a clear sign that the capital market has confidence in Heidelberg's strengths!

Our newly achieved financing structure is resulting in considerable advantages for Heidelberg. The maturities of obligations have shifted significantly into the future – to 2014 and 2018. We have also diversified our funding and considerably improved our capital structure, as is evidenced by the increase in the equity ratio.

We will continue to observe and guide our net assets, financial position, and results of operations on a comprehensive basis. We will further reduce our debt and thereby improve our capital structure, which, in turn, will result in long-term stability and consequently a reliable planning process. Of course, financial goals are not an end in themselves. They are – and this will close the circle – the basis for successfully implementing our strategy. In this manner, we will achieve our principal goals: financial stability and a sustained appreciation in value.

I would like to sincerely thank Heidelberg's customers and employees as well as all those who had confidence in the future of our Company and helped us overcome the crisis: the country, the German Federal Government, the German Federal States, and the participating banks – and especially our shareholders!

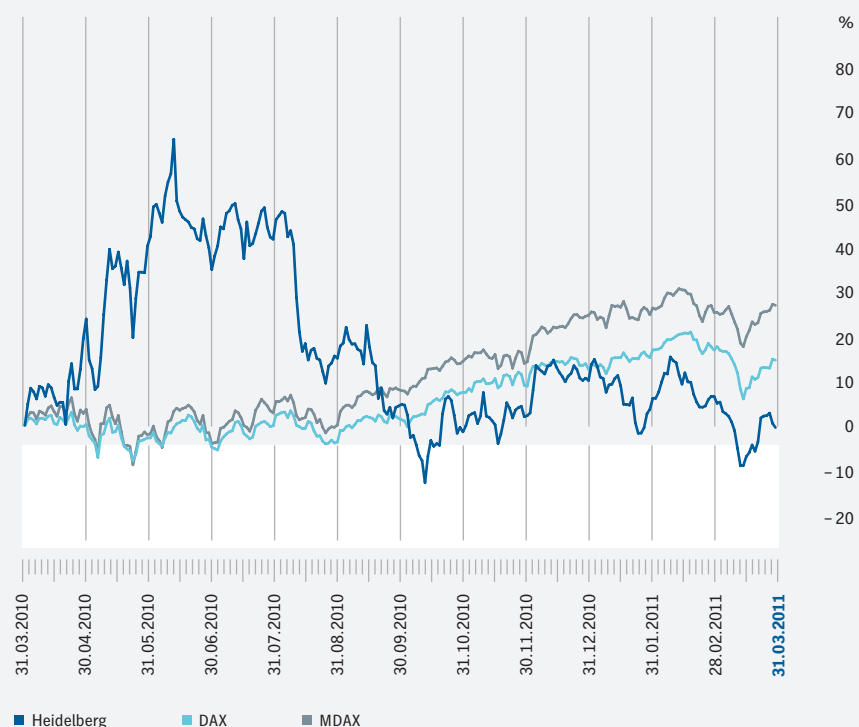
Share, Strategy, and Product Portfolio

During the worst crisis ever faced by the Group, the German Federal Government, the German Federal States, and our banks placed their confidence in Heidelberg's future and made available bridge funding to us. This was because we were able to show them that we are in a position to bring about a turnaround. Our strategy is viable, we have a product portfolio that is tailored precisely to the changing needs of the print media industry worldwide, and we immediately introduced comprehensive cost reduction measures.

When we were securely advancing in the direction of a breakthrough upwards beyond the operating break-even point, the Annual General Meeting laid the cornerstone for our placing the Group's balance sheet on a healthy footing. On July 29, 2010 the Annual General Meeting agreed to our proposal to increase our capital in order to secure the Company's future. We were able to comprehensively refinance the Group on this basis during the financial year. Our capital increase in the autumn of 2010 and the issue of our high yield bond early in April 2011 together with the agreement for a new revolving credit facility were highly successful. The bond issue was considerably oversubscribed. We view the high level of demand as a vote of confidence by the capital market for our Company's strategy.

PERFORMANCE OF THE HEIDELBERG SHARE

Compared to the DAX/MDAX (Index: April 1, 2010 = 0 percent)



The Heidelberg Share – Capital Increase Successfully Completed

- > Trading Volumes Considerably Higher Due to Capital Increase
- > High for the Year at € 5.49; Annual Low of € 2.93
- > Higher Share of Free Float

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

Development of the German Share Indices and the Heidelberg Share

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 concerning European rescue measures. Share prices subsequently continued their upward trend from the preceding year, rising considerably during the second half of the reporting year. This gratifying growth was supported by improved business prospects, especially as it turned out that economic growth continued under its own steam, even though the economic stimulus packages had expired, and due to favorable business reported by DAX and MDAX companies. In December 2010, the DAX and the MDAX, respectively, successfully broke through the psychologically important 7,000 and 10,000 point levels. After March 11, 2011, the reports of the catastrophe in Japan caused a drastic slide in the market. However, the indexes rose again through the end of the financial year, with the DAX up by approximately 14 percent and the MDAX even generating growth for the financial year of some 27 percent.

By contrast, the Heidelberg share was subject to a fluctuating trend during the reporting period. Following publication of preliminary annual financial figures for financial year 2009/2010 and a successful exhibit at the IPEX trade show in Birmingham, UK, our share price rose by up to 63 percent during the first quarter of the financial year. Nevertheless, the price subsequently declined considerably in the run-up to the capital increase. The downturn was interrupted in mid-October,



Robin Karpp assumed management of the Investor Relations department as of January 1, 2011. He has already been active in this department for several years, thereby ensuring continuous and dependable investor relations work.

KEY PERFORMANCE DATA OF THE HEIDELBERG SHARE

Figures in €

	09/10	10/11
Basic earnings per share ¹⁾	- 2.94	- 0.83
Cash flow per share	- 2.30	- 0.26
Share price – high ²⁾	4.66	5.49
Share price – low ²⁾	2.26	2.93
Share price – beginning of financial year ^{2) 3)}	2.43	3.51
Share price – financial year-end ^{2) 3)}	3.36	3.34
Number of shares in thousands ⁴⁾	77,643	156,140
Market capitalization – financial year-end – in € millions	416	779

¹⁾ Determined based on the weighted number of outstanding shares

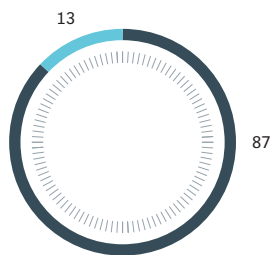
²⁾ Previous year's figures adjusted for the number of shares following the capital increase

³⁾ Xetra closing price; source for prices: Bloomberg

⁴⁾ Weighted number of outstanding shares

SHAREHOLDER STRUCTURE

Figures in percent



■ Free float	87
■ Allianz SE	13

with Heidelberg's share subsequently following the general stock market trend through the end of the reporting period. It closed at € 3.34 on March 31, 2011, slightly below the previous year's closing price after adjusting for the dilution that had occurred.

Capital Increase: Market Capitalization and Trading Volumes Up Considerably

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

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

The average daily trading volume of the Heidelberg share rose as well. As a result, Heidelberg's ranking by Deutsche Börse according to the criterion "Trading Volume" improved from 34th place the previous year to 26th place among the 50 companies listed on the MDAX.

Share Assessed Considerably More Favorably than in the Previous Year

The Heidelberg share continued to be rated on a regular basis by approximately 20 institutions. Whereas only 5 percent of analysts recommended buying our share at the beginning of the financial year, at the financial year-end 58 percent recommended buying; 26 percent recommended "holding" and only 16 percent recommended "selling".

Beside our analysts' and investors' conference covering the annual financial statements, during the financial year we also organized a further capital market conference at the IPEX trade show. This major international trade show was held during May 18–25, 2010 in the UK, and demonstrated that the favorable trend in the print media industry is ongoing. On a guided tour covering the topics HEI Productivity and HEI Eco, analysts and investors were able to acquire information on Heidelberg's numerous innovations. The Company additionally introduced itself at numerous capital market conferences. It also communicated with investors and analysts in a frank and transparent manner within the framework of road shows.

2010 Annual General Meeting Approved All Decisions; Capital Increase Approved by a Wide Margin

Some 1,700 shareholders participated in our Annual General Meeting for financial year 2009/2010, which was held in the Mannheim Rosengarten Congress Center on July 29, 2010. Approximately 49 percent of capital eligible to vote were represented. The shareholders approved all the proposals, including the increase in the 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.

Proposals to the 2011 Annual General Meeting: Updating the Authorizations for Contingent and Authorized Capital As Well As Further Changes to the Articles of Association; No Dividend Payment for the Reporting Year

In addition to the customary issues, the proposals for the agenda of the Annual General Meeting 2011 include two changes to the Articles of Association. The scope of the Company's corporate mission is, among other things, intended to be broadened somewhat in order to include Heidelberg's operations in areas beyond the print media industry – for example, in the production of control electronics elements. In addition, the authorizations for contingent and authorized capital are to be updated.

The experience of recent years has shown clearly how important financial stability is. We launched important measures for the stabilization of our financial situation during the past two years. 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 Group's outlook are appropriate. We will not propose a dividend payment to the Annual General Meeting for the reporting year.



PAGES 51 – 54

Information on Section 315 (4) of the Commercial Code and authorized capital is provided in the "Corporate Governance Report".

Strategy – Expanding Our Leading Position in the Print Media Industry

- > Taking Advantage of the Industry's Best Start-up Position in Threshold and Industrialized Countries
- > Greater Need to Catch Up in Printing Press Investments in the Industrialized Countries
- > Further Reducing Dependence on Cyclical Fluctuations through the Services Business
- > Improvement of Positioning in the Market for Short Print Runs through Cooperation with a Digital Printing Press Manufacturer

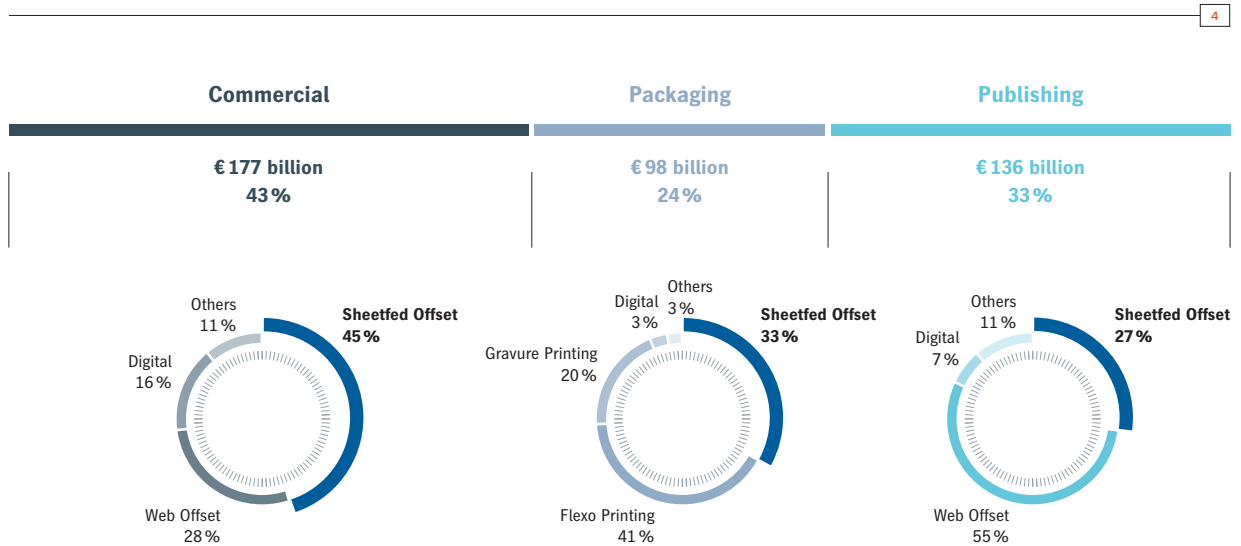
Heidelberg has overcome the worst crisis in its corporate history and preserved its strong position in a tough competitive environment. The Group has a new, highly efficient, and customer-driven organization, and its cost structures have been adapted to the changed market conditions. In the end, we implemented the right strategy during the crisis: competitive products and services, a strong presence in newly industrializing countries, dedication to less cyclical segments such as services and consumables, and the expansion of business with packaging print shops.

The print media industry is also recovering in the industrialized countries. We will make use of our strong market position to benefit to a greater extent than our competitors. The capital increase and the successful refinancing have served to enhance the Group's financial stability. These measures are an important signal for the Group's turnaround and also serve to improve our ability to respond to new situations.

Print Media's Business Picks Up Again

The global production of printed products currently totals approximately € 411 billion, and this figure will increase further over the next few years – primarily due to rapid growth in the newly industrializing countries as well as stable growth rates in packaging printing. Over 40 percent of the printing volume is currently for print advertising, nearly 25 percent for packaging printing, and over 30 percent for the publishing sector. The graph on page 23 illustrates the technologies used to produce the printed products in the various market segments. Packaging printing will account for a higher share in the future, whereas the volume of publishing will decline.

GLOBAL PRINTING VOLUME IS SUBDIVIDED INTO VARIOUS MARKET SEGMENTS
AND THE PRINTING TECHNOLOGIES THEY UTILIZE



The Goal: Further Expand Business in the Newly Industrializing Countries

In the industrializing countries, which are important for us, such as China and Brazil, during the crisis investments of the print media industry declined to a considerably lesser extent than in the industrial countries. Even in the time of crisis, the growth in gross domestic product hardly dropped below zero. After all, increasing urbanization in these regions is resulting in a greater need for packaging, higher demand for print advertising, and more information that is spread in printed form. In addition, the quality of printed products is increasing. We offer customers in the newly industrializing countries a strong portfolio of products and services, which support them in their expansion of business.

The Chinese market in particular is still growing strongly. Demand in that market is primarily for standard printing presses. We continue to be the only European supplier with local manufacturing facilities. We are now meeting some of the demand for standardized printing presses and folders in other Asian countries from China.

The significance of the digital printing process will increase, even though it will only account for a minor share in the overall volume of printing. The increasing use of electronic media for the publication of information will result in a decline in the number of orders in publishing printing; this will primarily affect web offset printing. We discuss trends and developments in detail on pages 121–126.



On pages 86–95, we discuss the strategies of our three divisions. Local characteristics of the various regions are described on pages 97–105. An overview of our product portfolio is shown on pages 28–29.

The Goal: Further Reduce the Dependence of Our Business on Cyclical Fluctuations

In recent years, we have focused especially on expanding those areas of business whose sales trend is less dependent on economic cycles than print advertising – in particular, on our product offerings in packaging printing, which is growing at a greater pace than print advertising, our product line of consumables, and the range of our service offerings. We have additionally considerably lowered the Group's break-even point.

On the one hand, we will generate internal growth and also considerably expand our cooperation with financing partners in order to realize the projected medium-term expansion of the Heidelberg Services Division's sales, which also include the consumables business. On the other hand, we will also focus on external growth opportunities through business acquisitions if this approach results in value added.



We intend to focus on external growth opportunities for Heidelberg – also encompassing corporate acquisitions – if we can thereby realize favorable value added.

The Goal: Expand Sales Volumes in Promising Printing Technologies and Penetrate New Areas of Business

In the Heidelberg Equipment Division, in addition to research and development as well as purposeful investments, we also favor cooperation agreements in order to expand our offerings and further adapt them to customers' requirements. We entered into a long-term strategic partnership with Japan's Ricoh Group, a manufacturer of digital printing systems, during the financial year. In some European markets, we have been selling Ricoh printing presses since April 1, 2011, which ideally supplement our own product portfolio for very small or personalized print runs. By the time drupa 2012 is held, we will have extended these sales to all regions. Together with Ricoh, we are pursuing the goal of pointing print shops in the direction of new opportunities and paths for satisfying customer demand more simply, more productively, and more profitably. With this innovative approach, we provide our customers with permanent added value.

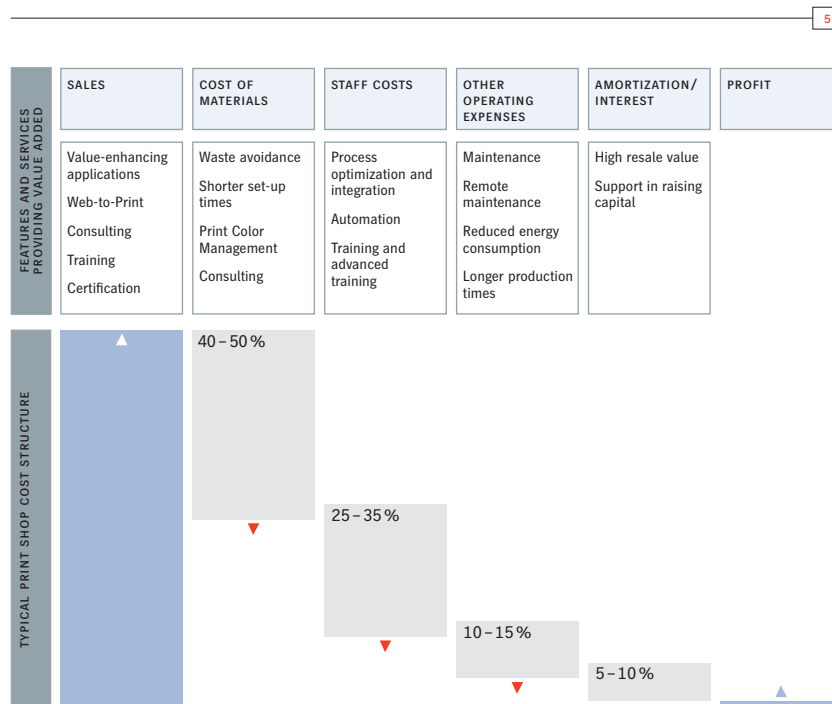
We can also make use of our employees' expertise, our global sales network, and our manufacturing facilities above and beyond the print media industry. After just 1 ½ years following the launch of the Heidelberg System Manufacturing business area, we are supplying over 20 companies as customers in order-based production, primarily in the energy and engineering sectors.

Product Portfolio – Solutions for Various Customer Groups in All Regions

- > Production Costs Determine Print Shop Profits
- > Heidelberg: Sole Supplier of Integrated Solutions
- > Optimization Potential through Services
- > Comprehensive Offerings for Ecological Printing

The upward pressure on costs has worsened further for print shops in recent years. Although trends such as Web-to-Print open up new opportunities for our customers, they also confront them with new challenges. Fortunately, demand for printed products produced with minimal environmental impact has grown considerably in all areas.

TYPICAL PRINT SHOP COST STRUCTURE



Already for over ten years, our priority has been on offering solutions for various target groups, ranging from Prepress and Printing, and extending all the way to Finishing – all of which can be entirely networked via our Prinect software and equipped with most modern measuring devices. We thereby make possible extremely efficient print production with little spoilage. Because we have built up our whole range of offerings on a modular basis and with open interfaces, we can put together an appropriate package for each customer.

We satisfy the requirements of our various customer groups both for printing presses as well as for service in the industrial and newly industrializing countries, supplying them from a single source – since the beginning of the current year,



Since our solutions meet the most varied requirements, reduce production costs, and work with a minimal environmental impact, we are in a position to further extend our market shares in the various customer segments.

with Ricoh digital printing presses as well, which we integrate as part of our workflow. We measurably enhance the production and investment security of customers by means of a perfect interplay of all components. The cost structure of print shops is a key factor in the development of new products and services as well as their design. We make this clear in the graphic on page 25. Details concerning individual products and services are included in the Reports of the Divisions in this Annual Report as well as in the Internet.

PACKAGING PRINT SHOPS are subject to fierce international competition because the bulk buyers of packaging are generally internationally active groups that select their suppliers on a strategic basis. Our printing presses are more productive and offer various coating options for unique packagings. Our offerings in the finishing area also make it possible for our customers to set themselves off from their competition. Additional factors are the opportunities provided by our universally applicable, integrated solutions, which make it possible for customers to optimize all the processing steps of folding carton manufacture – beginning with administration, data preparation, printing, surface coating, die-cutting and gluing, and extending all the way to logistics. This has an even greater impact on the costs of the production and the quality of the final products for packaging printing than in commercial printing, among others because packaging printing is very material-intensive. With the help of our color management systems, print shops can ensure and guarantee absolute color fidelity on a cost-effective basis. In addition, environmental friendliness and food safety are playing an increasingly important role for the suppliers of packaging in the commercial marketing of their products. With our large format printing presses for prepress, printing, and finishing, we are increasingly penetrating industrial packaging print shops as a customer group.

Over three-quarters of all print shops around the globe are **SMALL AND MEDIUM-SIZED COMMERCIAL PRINT SHOPS**. In the **INDUSTRIALIZED COUNTRIES**, their final customers are increasingly placing orders for such standard print jobs as flyers and advertising brochures to supra-regional print shops via the Internet. Small commercial print shops that serve regional markets usually offer a large range of products. Among others, through special applications that are possible based on our consumables, smaller print shops can differentiate themselves from the competition at low cost. With digital printing presses and using variable data, they can complete small print runs and print jobs at a profit. We offer standard printing presses with a low degree of automation and high print quality for our customers in **NEWLY**

INDUSTRIALIZING COUNTRIES. In the finishing area, we also rely on OEM products. Demand for our printing presses manufactured in China is quite high. Over and above the reliability of our solutions and the high print quality of our printing presses, our global presence as well as access by many customers in newly industrializing countries to our services are crucial factors in the competitive advantages provided by Heidelberg. Digital printing presses will supplement the portfolio of print shops in the newly industrializing countries as well.

INDUSTRIAL COMMERCIAL PRINTERS also acquire customers nationwide and in some cases have branches in several countries. They also produce a large variety of printed products, albeit generally in larger print runs. The better the data and production workflow is organized, the more favorable are the answers to the questions: “How efficiently and appropriately are the individual printing presses utilized?” and “How high is profit per print run?” We recently improved our software Prinect as well as our business consulting offerings in order to ensure that this customer group can optimally distribute orders to various printing presses, boost the productivity of its printing presses, and ensure that fewer bottlenecks arise between the prepress, printing, and finishing stages. We have developed modules for our large format printing presses that are specifically tailored to the requirements of this customer group.

We highlight our product offerings on the follow double page. We discuss the share of various printing technologies in the annual total global production of printed products in the chapter “Strategy”.



In the industrialized countries, integrated, highly-automated, and optimized processes in production and administration have meanwhile become essential for the business success of print shops.

Heidelberg Equipment Division – HEI Tech

PRINTING

- > **SPEEDMASTER**
Format categories
100 × 140, 120 × 160
70 × 100
50 × 70
35 × 50
- > **WEB OFFSET PRINTING (GOSS)**
- > **FLEXO PRINTING (GALLUS)**
- > **DIGITAL (RICOH)**



Speedmaster CX 102

FINISHING

- > **POLAR/MOHR** (Cutting)
- > **STAHLFOLDER, BAUMFOLDER** (Folding)
- > **STITCHMASTER** (Saddle-stitching)
- > **EUROBIND** (Adhesive binding)
- > **VARIMATRIX, DYMATRIX** (Die-cutting)
- > **DIANA, EASYGLUER** (Folding carton gluing)



Stitchmaster ST 350



PAGES 114 – 116

We do not offer a separate “ECO” printing press product line since ecological aspects are part of the development of all our products.

The **PRODUCT LIFE CYCLES** of printing equipment are very long. Printing presses remain in the market for 20 years or longer, whereas digital printing equipment and imagesetters have a life cycle of some five years and software components for shorter periods. With our printing presses in the highest performance category, we offer the most advanced systems platform available in the market – for the foreseeable future as well. Depending on the particular product, in judging its expected success in various markets, we distinguish between technological requirements and cost factors in determining which will be most decisive.

Our comprehensive **SOLUTION OFFERINGS** provide a nearly unlimited selection of printing stocks, special inks, and innovative coating variations for offset print shops. Our offerings cover all printed applications, and with the appropriate workflow software, they also

support all forms of Web-to-Print applications. By supplementing our range of products with Ricoh’s digital production printing systems, we also make it possible for print shops to offer the well-known advantages of variable data printing: immediate delivery of time-sensitive print jobs and low-cost production with very short print runs.

The **RICOH PRO™C901** Graphic Arts Edition was developed to specifically meet the requirements of professional print shops, thereby making possible high-quality digital color printing. With a printing speed of 90 pages per minute, this is the quickest and highest-capacity system in the Value-Digital Printing Segment. For example, by combining a Speedmaster SM 52 Anicolor and a digital printing press, print shops can very profitably produce personalized printed products in the highest possible quality.

Heidelberg Services Division

TECHNICAL SERVICES AND CONSUMABLES:

- > **SAPHIRA CONSUMABLES** (for print products of the highest quality)
- > **24/7 ACCESS** (to over approximately 3,200 Systemservice employees worldwide)
- > **REMOTE SERVICES** (remote diagnosis and eCall)
- > **RAPID DELIVERY** (of service parts and consumables)
- > **SYSTEMSERVICE 36PLUS** (or personalized Partner Programs)



Saphira Consumables

PERFORMANCE SERVICES:

- > **PRODUCTIVITY OPTIMIZATION**
(for example, Print Color Management and -training programs)
- > **PROCESS OPTIMIZATION**
(for example, process optimization with Prinect)
- > **EMPLOYEE DEVELOPMENT**
(for example, 17 Print Media Academies throughout the world)
- > **BUSINESS DEVELOPMENT**
(for example, implementation of lean manufacturing concepts)



Remote Services

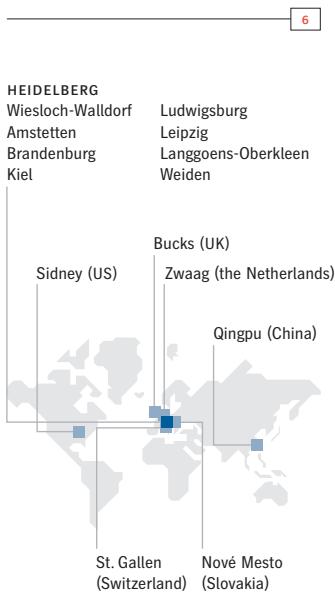
ADDITIONAL SERVICES/PRODUCTS:

- > **SUPRASETTER** (computer-to-plate)
- > **REMARKETED EQUIPMENT**

Production and Purchasing – Securing the Highest Quality and Compensating for Exchange Rate Effects

- > Over 150 Years of Experience in Precision Engineering
- > Production and Purchasing Volumes Expanded beyond the Euro Region
- > Supplier Base an Important Factor for Success –
Heidelberg's Distinguished Purchasing Organization

DEVELOPMENT AND PRODUCTION LOCATIONS



For the production of our printing presses, specialized manufacturing plants work in sync within the framework of a production network.

Print quality and reliability are extremely important criteria for how the Heidelberg brand name is perceived by our target groups and their customers. A Heidelberg printing press is a high tech system that comprises tens of thousands of parts and components. In addition, high-performance software is utilized in order to control up to 600 individual drive shafts and as many as 300 pneumatic parts. Tolerances in thousandths of millimeters ensure the required precision. Because at the end of the production process, up to 50 metric tons of cast iron and electronics must function even more precisely than a Swiss watch – and this at a production speed of up to 18,000 sheets per hour. This kind of complex interplay presupposes long-standing experience in production technology. Heidelberg can build on 150 years of expertise.

Production Sites: Capacities Adjusted to Expected Demand; Strategic Expansion of Overseas Units

By means of our Heidelberg Production System, which we describe in the chapter “Report from the Divisions” beginning on page 87, as well as via comprehensive measures and programs, in recent years we considerably reduced the cost of manufacturing of our systems. Nevertheless, we continue to stand for the highest quality – as well as for our global respect for social and environmental standards. Within the framework of our job manufacturing, we also offer our expertise in precision engineering to other companies.

We have adapted our capacities worldwide to the anticipated requirements of the print media industry in recent years. In Germany, we reduced and merged production capacities and centralized the development activities of high-tech areas in the city of Heidelberg. Furthermore, we strengthened manufacturing facilities abroad, with the principal focus on strategic considerations to better penetrate markets and the goal of compensating for exchange rate effects in manufacturing. During the reporting year, we expanded the capacities of our production site in Qingpu in China in order to satisfy a higher share of demand from China with

locally built products. On pages 103–105 we describe the distinctive features of the Chinese market and our manufacturing there. During the current financial year we are planning to invest in a production site for the manufacture of our own coatings in the US.

Vertical Integration Again Further Reduced

In manufacturing, our focus is on parts for which quality is a key factor and on products that procure competitive advantages for us through specialization. The number of parts that we require in the manufacturing process has increased over the past decade. Based on a total cost of ownership analysis, we expanded the share of third-party supplies in prepress and printing from approximately 50 percent to over 60 percent. Due to the product types in the finishing area, the share in this segment was considerably higher. Since our capacities were not fully utilized in the past, we further increased vertical integration in the short term. As the market continues to recover, vertical integration will be reduced to its pre-crisis level.

Policies Regarding Purchasing and Suppliers: Comprehensive Selection Criteria

Our supplier base is an important factor for our success. Accordingly, we take great care when selecting new suppliers. Selection criteria include, among others, suppliers' innovative power and standard of performance as well as their ability, working together with us, to optimize products and processes.

Close cooperation is the key to ensuring deliveries of parts and components of top quality that precisely satisfy requirements, even with short-term fluctuations in the order backlog. We continuously optimize inventories throughout the added-value chain in order to keep the capital commitment as low as possible.

Since we generate approximately 60 percent of our sales beyond the borders of the euro zone, we are expanding our global procurement, thereby making the Group less dependent on exchange rate effects. Additionally, we take advantage of differences in the wage levels. Over the past three years, we nearly doubled the procurement volume denominated in currencies other than the euro. We are especially emphasizing local procurements for our production site in China. More information on this topic is provided on page 103.



Within the framework of a European-wide benchmarking project, the Fraunhofer Institute for Production Technology singled out the Heidelberg purchasing organization. Particularly worthy of mention were the systematic efforts to support innovations by suppliers.

Organization, Management, and Control

For the first time, we are including all the texts covering organization, management, and control in a single chapter of this Annual Report. In this manner, we emphasize how the importance of these issues in the Group has grown even further during the crisis years. We have integrated the Corporate Governance Report in this chapter, and thereby as part of the management report.

This is the first Annual Report in which we report on our new corporate organizational structure, which comprises the divisions Heidelberg Equipment, Heidelberg Services, and Heidelberg Financial Services. This new organization, with which we can more reliably establish and attain our targets, has been in effect since the beginning of the reporting year. You will read that we have also implemented some innovations during the year in order to even better manage the Group. Among others, we launched a uniform management and reimbursement system worldwide. The remuneration of the Management Board has also been adjusted.

Group Corporate Structure and Organization – Adapted to New Requirements

- > Organization Aligned on Divisions
- > Responsibilities Reorganized
- > Continuous Profit Responsibility

We launched a new corporate organization at the beginning of the reporting year in order to more purposefully market our comprehensive service offerings and make them more efficiently available. In the course of the reorganization, we restructured the Press and Postpress segments which originally both included services.

The Organization Reflects Strategic Goals and Customer Requirements

Our business is organized within three divisions: **HEIDELBERG EQUIPMENT** develops, produces, and markets precision printing presses and print finishing equipment. Our offerings are rounded out by Linoprint, our solution for the personalized decorating and marking of folding cartons, labels, and blister packs based on inkjet technology, and, since April 2011, the marketing of digital printing presses. In addition to Heidelberg's proven Systemservice and global parts delivery service, the **HEIDELBERG SERVICES** Division also supplies Saphira consumables to customers worldwide, Prinect software solutions, platesetters, as well as services and consulting services, which help companies in the print media industry achieve long-term success; additionally, the division sells remarketed equipment. As in the past, Heidelberg's overall sales financing operations are organized within the **HEIDELBERG FINANCIAL SERVICES** Division. The work of this Group-owned specialist for sales financing, which won awards during the reporting year, has focused for many years primarily on the successful mediation of financing provided for medium-sized customers via Heidelberg's financing partners.



www.heidelberg.com
 PAGES 28 – 29

Our products are presented in detail on our Web site; this report includes an overview.

ORGANIZATIONAL CHART

7

Bernhard Schreier Chief Executive Officer and Chief Human Resources Officer	Dirk Kaliebe Chief Financial Officer and Head of the Heidelberg Financial Services Division	Stephan Plenz Management Board Member and Head of the Heidelberg Equipment Division	Marcel Kiessling Management Board Member and Head of the Heidelberg Services Division
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FUNCTIONAL RESPONSIBILITIES

<ul style="list-style-type: none"> > Markets & Sales Network > Human Resources > Marketing > Communications > Corporate Development > Enterprise Governance & Compliance 	<ul style="list-style-type: none"> > Controlling > Accounting > Treasury > Taxes > IT > Investor Relations 	<ul style="list-style-type: none"> > Development, Purchasing & Product Marketing of the Division > Manufacturing & Assembly > General Purchasing > Patents > Quality & Environmental Management > Occupational Health and Safety & Product Safety 	<ul style="list-style-type: none"> > Development, Purchasing & Product Marketing of the Division
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RESPONSIBILITY FOR THE BUSINESS AREAS

<ul style="list-style-type: none"> > Financial Services 	<ul style="list-style-type: none"> > Press-Products > Postpress-Products 	<ul style="list-style-type: none"> > Service & Service Parts > Prepress-Products > Prinect Software > Consumables > Remarketed Equipment > Business Consulting & Training
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Significant Subsidiaries in Germany and Abroad

Heidelberger Druckmaschinen Aktiengesellschaft is the parent company of the Heidelberg Group. It carries out central management responsibilities for the overall Group, but is operationally active as well.

In the overview below, we list the companies that were among the significant subsidiaries included in the consolidated financial statements as of March 31, 2011. Our affiliate in Turkey has been among the significant subsidiaries included in the consolidated financial statements since the reporting year; the software supplier CERM, which we have acquired, was not consolidated due to its size.

LIST OF MATERIAL AFFILIATES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS*

Heidelberger Druckmaschinen Vertrieb Deutschland GmbH	Heidelberg CIS 000
Print Finance Vermittlung GmbH	Heidelberg Print Finance Americas, Inc.
Heidelberg Postpress Deutschland GmbH	Heidelberg USA, Inc.
Heidelberg International Ltd. A/S	Heidelberg Canada Graphic Equipment Ltd.
Heidelberg Graphic Equipment Ltd.	Heidelberg Mexico Services S. de R.L. de C.V.
Heidelberg France S.A.S.	Heidelberg do Brasil Sistemas Graficos e Servicos Ltda.
Heidelberg Schweiz AG	Heidelberg Graphic Equipment (Shanghai) Co. Ltd.
Heidelberg Sverige AB	Heidelberg Japan K.K.
Heidelberg Graphic Systems Southern Africa (Pty) Ltd.	Heidelberg Graphic Equipment Ltd.
Heidelberger Druckmaschinen Osteuropa Vertriebs-GmbH	Heidelberg China Ltd.
Heidelberger Druckmaschinen Austria Vertriebs-GmbH	Heidelberg Hong Kong Ltd.
Heidelberg Polska Sp z o.o.	Heidelberg Asia Pte Ltd.
Heidelberg Grafik Ticaret Servis Limited Sirketi	Heidelberg Korea Ltd.
Heidelberg Praha spol s.r.o.	Heidelberg Malaysia Sdn Bhd.

 www.heidelberg.com

The list of total shareholdings of Heidelberg Druckmaschinen Aktiengesellschaft in accordance with Articles 285 and 313 of the Commercial Code can be viewed on our Web site in the "Investor Relations" section under "Annual General Meeting".

* The information that underlies this overview is largely unaudited and was compiled in accordance with IFRS.

Management System – Adapted and Fine-Tuned

- > Close Cooperation between Divisions and Lead Markets
- > New Management and Remuneration System Launched throughout the Group
- > Ongoing Management and Control of Key Performance Indicators

On the previous pages, we describe our introduction of a new corporate organizational structure at the beginning of the reporting year. We can set and attain our goals better through our establishment of integrated profit center responsibilities for all strategic business areas.

As the impact of the financial and economic crisis on the Group became apparent, we determinedly adjusted our control concept. To manage and guide the Company through the crisis, we needed simulations – continuously and without delay; we shortened the planning process and worked increasingly with central objectives; simultaneously, we needed to take note of interdependencies between an operating turnaround and refinancing, and to coordinate measures for short- and medium-term refinancing. We also implemented a new management and remuneration system during the reporting year.



Our management system contributed to the success of our quick and comprehensive refinancing. Banks require long-term projections of key financial data to secure their credits. A flexible and prompt reporting and forecasting system, which can quickly portray various scenarios, is therefore indispensable.

We manage and monitor net working capital and free cash flow more closely than in the past, and have considerably strengthened the significance of financial management control components in our internal reporting systems.

Matrix-Like Organizational Structures Enhance Flexibility

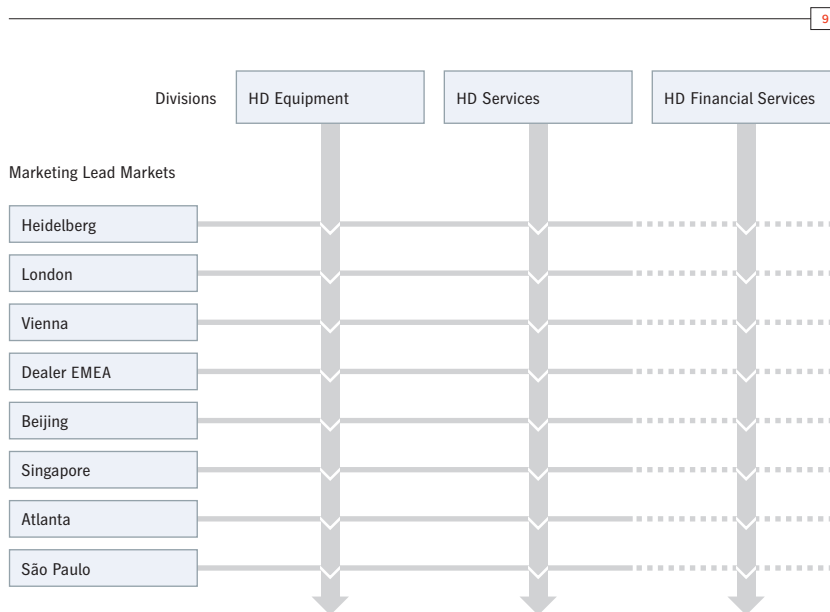
In setting up the management system, we focused on various requirements:

- > We needed appropriate structures in order to quickly achieve our goals, even with a considerably reduced staff.
- > These structures had to guarantee that we could react even more quickly to changes in the market, in customer behavior, and in risks; in addition, the information flow should accelerate.
- > We did not want to create a new administrative superstructure.

The organization, which we show on the next page, was successful during the financial year, with only a few aspects adjusted additionally. Management functions are carried out primarily by the divisions, with the production companies reporting to them. Marketing activities are organized into regional lead markets, with so-called business drivers implementing the divisions' performance targets. In order to keep administrative structures as lean as possible, we make use of divisional and cross-regional processes as well as committees subject to regular, mandatory meetings. These committees are given specific objectives, and working together, they must jointly develop appropriate measures and bindingly implement these in their respective areas. In this manner, measures are supported by the various

units and fully implemented all the more quickly. Moreover, we thereby reduce the danger that individual areas could pursue goals that deviate from the primary goals or do not support the Company's overall strategy. The periodic meetings of the units promote an intensive Company-wide dialog and close cross-divisional cooperation.

MANAGEMENT AT HEIDELBERG



Concrete sales and financial marketing goals are agreed upon with the management of the lead markets. Decisions on how these goals should be reached are undertaken together with so-called business drivers in the divisions. These business drivers fully implement the strategies for the various areas of the divisions in the markets, ranging from recognition of special regional customer requirements for products or consumables all the way to new product marketing.

New Management System Integrates Balanced Scorecards (BSC)

We retained our basic principle of Management by Objectives. We continue to be committed to qualitative and quantitative goals in balanced scorecards, which are subdivided into the four areas "Customers, Finance, Employees, and Processes".

Due to the Group's economic situation, during the previous two years – and at present as well – our principal priority has clearly been on financial goals.

In our new management system, we are therefore even more systematic in our administration of financial goals. In a so-called scorecard, which in the end also influences remuneration, depending on the particular function, important defined

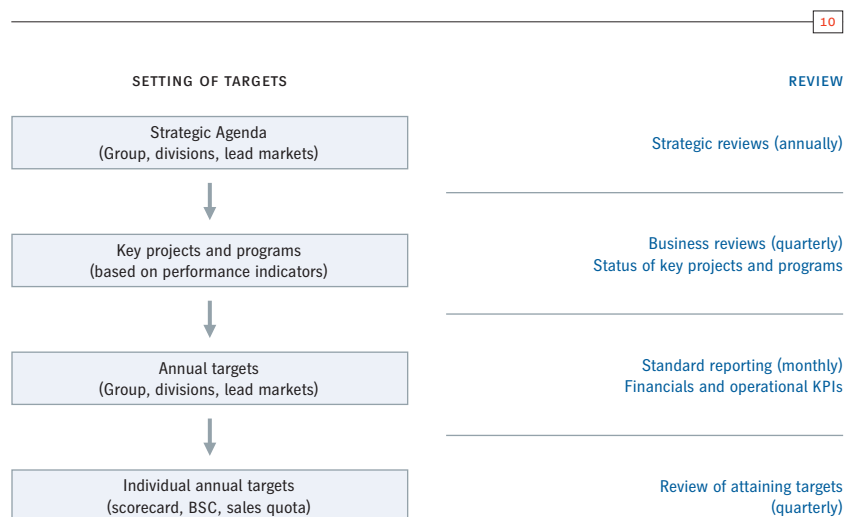
PAGES 43 – 45

We are aware that a focus on financial goals could result in greater qualitative risks. We therefore oriented our risk management system on the latter to a greater extent.

financial goals are considered and assigned various weightings. Umbrella financial goals of the Heidelberg Group are taken into account for all senior executives. The targets in the balanced scorecard are also utilized in the centralized units.

Throughout the Group, we launched a new leadership structure worldwide during the financial year at two integrated management levels. Moreover, we manage operating units more closely than in the past. At regular intervals, at every unit we monitor fulfillment of the planned key performance data relating to various management control components, including sales, EBIT, free cash flow, market share and other factors. Below, we present schematically the process for setting and reviewing targets.

OVERALL PROCESS FOR SETTING AND REVIEWING TARGETS



Key Long-Term Goal: Value Added

Our shareholders, customers, and employees benefit in the long term from our sustainably raising the Company's value. ROCE and value added are therefore important management control components. Value management also encompasses the safeguarding of our strategic competitive advantages and factors for success, which thereby strengthens the "Heidelberg" brand name, our most important intangible asset.

In undertaking our reorganization and in the restructuring of our administration and marketing activities, we focused on ensuring that, whenever possible, customers retained their personal advisor, so that long-term business relationships and the existing strong links with Heidelberg are continued. We focus on our customers and provide reliable service as a matter of course. Heidelberg maintains the most tightly meshed service and sales network in our industry. We continue to guarantee the quality and reliability of our printing presses and services – a policy that protects significant features of the Heidelberg brand name. Moreover, we maintain a superior technological position over our competitors. We also refuse to make any concessions to our high expectations in environmental protection as well as our standards of social responsibility in our own production and with our suppliers.

Planning Cycles and Control Processes Firmly Fixed; Binding Guidelines throughout the Group

Our work in the Group is based on a rolling multi-year planning process. The process by which the Company's main goals merge into concrete targets for individual units for the next few years is bindingly predetermined throughout the Group. The Planning Clock (right) illustrates this process schematically in a highly simplified manner. We compare targets vs. actual performance on a monthly basis for all areas that are significant for our business development – for example for sales, EBIT, and free cash flow. Based on the values obtained as well as a wide range of data from the overall business environment, we regularly compile scenarios – among others, in order to counteract risks and to be in a position to take advantage of opportunities.

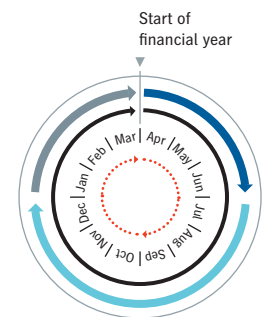
All the processes and interrelationships in the Company are made transparent in the Group's organizational directives and made accessible to employees at all times on the Intranet: structures and responsibilities, control logic, processes and units, and all regulations. These regulations deal with the Company's general values as well as such principles as our quality standards and binding guidelines – for example, the contents of the annual appraisal interview with each employee. This reliable framework firmly establishes responsibilities, thereby ensuring effectiveness – and also makes it possible to precisely monitor the extent to which agreed-upon targets have been met.



With market recognition in the printing industry of over 99 percent worldwide and outstanding ratings by target groups, Heidelberg has one of the strongest brand names. Fortunately, the major crisis of the preceding years did not harm the standing in the market of our brand name.

PLANNING CLOCK

11



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



The **FOUR-EYES PRINCIPLE** is in effect for all transactions. Every declaration of intent that is binding on the Heidelberg Group or which exposes the Group to a risk, must be authorized by at least two individuals.

Sufficient **FUNCTIONAL SEPARATION** is assured through the organizational separation of administrative, implementing, invoicing, and authorization functions.

Limits and responsibilities are predetermined in an **AUTHORIZATION TABLE** and must be observed when authorizing transactions.

Within the framework of our planning, the responsible financial heads (lead markets, production sites, and central units) confirm that all significant risks have been recorded completely, and that the internal control system has been followed.

Control System – Significant Features

- > Periodic Controls
- > Global Accounting Review
- > Internal Confirmation of Risk Recognition and the Internal Control System

In the preceding section, we describe how we derive goals based on the Group's strategic agenda and imbue them with concrete measures – and how during the year we continuously monitor the observance of target agreements. Moreover, we understand that clear values, principles, and guidelines help us manage the Group. Our internal auditors examine regularly, based on spot checks, the observance of all guidelines and accounting standards.

General Control System

The principles, processes, and measures of our internal control system must ensure that management decisions are implemented effectively, that business activities are profitable, that legal provisions and internal regulations are observed, and that accounting is undertaken properly.

Guidelines and operating instructions are available at all times – among others, via either the Group's Intranet or the respective Intranet of the individual area. These form the basis for the Heidelberg Group's internal control system. It is the responsibility of all senior executives to establish an internal control system for their areas of responsibility – which includes the following issues:

- > Control environment: Integrity, ethical values, and employee competence should be promoted. Senior executives convey the corporate strategy, and delegate responsibility and administrative authority to their subordinates.
- > Risk assessment: Senior executives must identify risks that could endanger meeting of targets. They determine how recognized risks are dealt with.
- > Control activities: Senior executives establish regular activities, by means of which they monitor the meeting of their performance targets. They should also prevent undesirable risks from arising.
- > Information and communications: Senior executives must make adequate information available, so that their subordinates can fulfill their responsibilities and document control elements.

- > **Monitoring:** The effectiveness of controls must be regularly monitored, either through self-assessments or independent checks. In the case of computer-based controls, senior executives must ensure the security and reliability of the computer system.

The effectiveness of the internal control system at the processing level is monitored by the internal auditors based on random sampling. The effectiveness of risk management systems is also regularly monitored by the internal auditors, and the adherence to selected processes by Corporate Treasury is checked.

Worldwide Internal System for Controlling Accounting Measures

Accidental or deliberate accounting errors could theoretically result in a picture of the net assets, financial position, and results of operations that do not correspond to reality. We systematically undertake countermeasures against this risk – as well as further risks that could result from it. The control system that we have established for this purpose is based on the framework for internal control systems by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). By means of systematic controls and predetermined processes, which also stipulate spot check examinations, we undertake every conceivable measure to prevent errors in the consolidated financial statements and in the Group management report. For example, we adequately ensure:

- > that the presentation of the consolidated financial statements is in accord with the International Financial Reporting Standards (IFRS), as applied in the European Union, as well as with commercial law provisions under the provisions of Section 315 a (1) of the German Commercial Code; and
- > that the information prepared in external financial reporting is reliable and relevant to the decision-making of those to whom the information is addressed.

Central accounting responsibilities are undertaken by an internal unit for the entire Group – for example, consolidation of the financial figures and examination of any loss in value of capitalized goodwill. This internal unit also regularly monitors whether the account books are properly maintained and the Group-wide guidelines adhered to in drawing up the financial statements, thereby ensuring that the financial information corresponds to regulatory requirements. The internal auditors, who have access to all data, additionally examine individual areas and subsidiaries on the basis of spot checks. In doing so, the auditors examine whether the internal control system has been implemented or transactions controlled, and

whether the four-eyes principle is adhered to in all areas. The latter is stipulated and binding – for example, for every order that is placed, for every invoice that is presented, and for every investment decision that is made. The observance of all other internal guidelines and directives that have an impact on accounting operations are also monitored.

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

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

Risk and Opportunity Management System – Group-Wide Data Acquisition and Management

- > Dual-Track Approach for a Realistic Picture
- > Focus on Qualitative Risks As Well
- > Formal Process That Is Uniform Worldwide

Risk and opportunity management are solidly integrated as part of our strategic five-year planning. In the previous section, we described how the effectiveness of our risk management process is examined regularly by our internal auditors. Our early risk identification system satisfies the legal requirements of the Corporate Sector Supervision and Transparency Act (KonTraG).

Both our risk as well as our opportunity management take advantage of a dual-track approach, under which the focus is on an open and proactive approach to dealing with risks and opportunities at all levels, while on the other hand there is a strictly formal process.

Strategic Risks: Discussed and Observed on a Cross-Sector Basis

All cross-sector panels 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 could increase due to our focus on financial targets. We discuss this in more depth in the section “Management System”. Such panels as our Program Management Teams, therefore, also focus especially on strategic risks and the questions: Are we reacting appropriately to trends and changes of the various markets? How are our strategic factors for success developing compared with those of the competition? Are we maintaining the leading technological position? What developments are foreseeable in market prices? How can we ensure that opportunities are being taken advantage of promptly? Heidelberg’s reaction speed can be enhanced when these panels act together in making extensive decisions vis-à-vis the appropriate measures.



PAGES 127 – 133

Please refer to the “Risk and Opportunity Report” for information on how risks developed against the previous year.



Risks are quantified in accordance with the key parameters “probability of occurrence”, “extent of loss upon occurrence”, and “expected risk development during the planning period”. Responsibility is assigned to the top management of each corporate unit. We also appointed individuals who are responsible throughout the Group for the 30 greatest risks.

Uniform Action for the Quantification of Risks and Opportunities

Our guidelines and organizational directives stipulate a strictly formal process with whose help we systematically identify individual risks and the Group's overall risk and also assess and quantify opportunities. All operating units and divisions are integral components of this process. Information on risks is collected locally. The risk-significant 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 the 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 is assigned a risk catalog, which they fill out and report back to the Group. Risk controlling summarizes the reported risks three times a year at the Group level and assigns them to risk categories. The reports go to the entire Management Board as well as to the Audit Committee of the Supervisory Board. We publish an **ORGANIZATIONAL DIRECTIVE** and underscore the procedures in a corporate guideline to ensure adherence to our requirement that risks and opportunities be addressed on a uniform basis. This directive is updated regularly and is accessible by each employee.

Financial and Liquidity Risks Systematically Minimized

The centralized "Corporate Treasury" area manages and secures the Group's financing and liquidity. We systematically minimize liquidity risks throughout the Group. Early on, we pinpoint potential funding needs of affiliates and the resulting potential liquidity risks with the help of our rolling liquidity planning system that is generated every other week. Corporate Treasury identifies risks arising from the change of interest rates or exchange rates, on the basis of which this department 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 this subject and on the impact of our hedging transactions are presented in the Financial Section under note 32. The functional separation of trading, processing, and risk controlling in the Corporate Treasury area is ensured, as is their physical separation. Furthermore, this area is regularly monitored by our

internal auditors. We also systematically reduce risks arising from sales financing. Close cooperation with external financing partners have made it possible for us to considerably cut back on financing arrangements taken on by Heidelberg in recent years. Moreover, we only make our own credits available following a comprehensive examination that includes the customer's business model and credit standing. We regularly monitor our sales financing commitments on the basis of internal rating processes. Similarly to the current Basel II standard, these comprise both debt-specific and transaction-specific components.

Risk Management and Accounting

Accidental or deliberate accounting errors could theoretically result in an unrealistic view of net assets, financial position, and the results of operations. We systematically undertake countermeasures to avoid this risk by means of our internal control system, which we describe on pages 40 – 42 of this report.

Corporate Governance – Effective Management and Control in the Group

- > Recommendations of the German Corporate Governance Code Implemented with Few Exceptions
- > Important Topic of Discussions by the Supervisory Board and Management Board: Remuneration of the Management Board
- > Objectives for the Composition of the Supervisory Board Concretized

The current version of our **CORPORATE GOVERNANCE STATEMENT** is permanently accessible on our Web site www.heidelberg.com in the “Investor Relations” section under “Corporate Governance”. In contrast, in this section of the Annual Report we discuss the developments and revisions in the **COMPANY’S CORPORATE GOVERNANCE DURING THE REPORTING YEAR** which the Management Board and the Supervisory Board were concerned with.

Comments on Corporate Governance – Statement in Line with Section 289a of the Commercial Code*

CORPORATE GOVERNANCE continues to be an **IMPORTANT ISSUE FOR OUR MANAGEMENT BOARD AND SUPERVISORY BOARD**. We worked together with the Supervisory Board again during the financial year on improving our corporate governance. The principal focus was on ensuring effective management and control within the new corporate structure in order to satisfy the interests of Heidelberg’s various stakeholders. Furthermore, we also examined compliance with all legal provisions, rules, and regulations throughout the Group within the framework of the new organization, and whether acknowledged standards and recommendations, as well as our values, the Code of Conduct, and our Business Guidelines are followed. As in the past, we thereby relied on the Corporate Governance Code as our point of reference and with few exceptions followed its recommendations.

IN ADDITION TO OUR DECLARATION OF COMPLIANCE ACCORDING TO SECTION 161 OF THE STOCK CORPORATION ACT we would like to list the following activities: On July 21, 2010 the Supervisory Board and Management Board corrected the previous year’s Declaration of Compliance of November 26, 2009, because a discrepancy had been identified in the case of one member of the Supervisory Board with regard to the number of external mandates recommended by the Code in line with No. 5.4.5 of the Code.

On November 24, 2010, the Supervisory Board and Management Board of Heidelberger Druckmaschinen Aktiengesellschaft issued the periodic, new Declaration of Compliance under the terms of the German Corporate Governance Code



We are aware that our new organization establishes more efficient business processes, but that it entails new risks as well. This applies especially to areas between which new interfaces have been established – for example, placement of the remarketed equipment business within the Heidelberg Services Division. We minimize these risks on a sustainable basis by means of clear-cut objectives and close agreement among the individual areas.

* Unevaluated according to Section 317 (2) 3 of the Commercial Code

and published it in the Internet. In this context, several sections of the Supervisory Board's Rules of Procedure were revised in order to largely comply with the new regulations of the Code. All the recommendations have now been complied with except for the following:

Since the presentation of the previous Declaration of Compliance, one member of the Supervisory Board, who is on the Management Board of a stock-exchange-listed corporation, has been holding four Supervisory Board mandates in other corporations listed on the stock exchange. The member in question had already held these mandates at the time the Code was amended in 2009. Furthermore, this member of the Supervisory Board holds another Supervisory Board mandate in the supervisory unit of a company with comparable requirements as defined by No. 5.4.5 of the Code; the member held this Supervisory Board mandate not only at the time the Code was revised in 2010, but as early as in 2009 as well. The recommendation of No. 5.4.5 of the Code that at most three mandates be held was thereby not complied with. Nevertheless, Heidelberger Druckmaschinen Aktiengesellschaft does not see any impairment of the obligatory performance of responsibilities here because the member of the Supervisory Board has adequate time to carry out his mandate at Heidelberger Druckmaschinen Aktiengesellschaft. The Supervisory Board intends to take this recommendation into consideration for future nominations of members of the Supervisory Board.

Heidelberger Druckmaschinen Aktiengesellschaft accepted the recommendations of Nos. 4.1.5 and 5.1.2 of the version of May 26, 2010 of the Code in this respect, and will more consciously pay close attention to ensure that the diversity of the workforce is taken into account in an appropriate manner when filling top executive positions in the future. The Company's Supervisory Board and Management Board are in agreement that as in the past, proposals and decisions on personnel matters should be primarily based on the qualifications of the particular candidates, with no special significance attached to the candidate's sex; they therefore do not claim full compliance with these recommendations. Up to now, the Supervisory Board has not defined specific goals regarding the participation of women in accordance with No. 5.4.1. (2) of the Code. The Supervisory Board and the Management Board nevertheless expressly welcome all endeavors to appropriately counteract every form of discrimination and promote diversity. In November 2011, upon examination of the Declaration of Compliance for 2011, the Supervisory Board and the Management Board will further discuss the recommendations of the Code concerning appropriate observance as well as the participation of women.



FINANCIAL SECTION, NOTE 41

Comprehensive transparency includes the ongoing control of significant transactions concluded between members of the Heidelberg Group and members of the Company's Management Board, members of the Supervisory Board, or related parties. No such transactions occurred during the reporting period. We report on so-called related party transactions in the Financial Section.



PAGES 8 – 13

Additional information concerning the work of the Supervisory Board as well as its cooperation with the Management Board is presented in the "Report of the Supervisory Board".

The suggestions of the code are also largely complied with. Heidelberg implements and fully complies with the recommendations in Nos. 2.2.1, 2.2.4, 2.3.3, 3.7, 3.10, 5.1.2, 5.2, 5.3.2, 5.3.4, and 5.3.5 of the Code. The recommendations in Nos. 3.6 and 6.8 cannot be carried out in full. Not every meeting of the Supervisory Board requires individual preparation by shareholder and staff representatives. Also, in view of their large number, not all of the Group's publications are translated into English. Finally, Heidelberg still does not plan to make the entire Annual General Meeting accessible via the Internet as is stipulated in No. 2.3.4. Nevertheless, the opening of the Annual General Meeting by the Chairman of the Supervisory Board as well as the speech by the Chairman of the Management Board will continue to be transmitted via the Internet in the future.

During the financial year, we **COMMUNICATED** intensively **WITH OUR STAKEHOLDERS**: the capital market; the banks that provide our financing; the trade press; analysts; and with additional stakeholders. In particular, the implementation of our capital increase in September 2010 as well as the preparations for the placement of a high yield bond at the end of the reporting period necessitated and promoted an intensive dialog with these stakeholders. The – at times critical – feedback that we received was of considerable assistance to us in the further implementation of both projects. We disclose quarterly reports on a regular basis and intensively discuss current questions with the trade and financial press.

The **SUPERVISORY BOARD AND THE MANAGEMENT BOARD WORKED ESPECIALLY CLOSELY TOGETHER** during the financial year because of the necessity of holding a number of additional information and coordination discussions in conjunction with implementation of the capital increase in September 2010 as well as the refinancing and placement of a high yield bond as of the financial year-end. Irregardless of the above, the Management Board always informs the Supervisory Board – immediately, regularly, and extensively – concerning all developments and events that are of significance for the evaluation of the net assets, financial position, and results of operations of the Heidelberg Group and for significant affiliates of the Group. The Management Board and the Supervisory Board again worked closely together in an atmosphere of trust during the reporting year. Another example of this close relationship are the strategy workshops that were held together with the representatives of the shareholders and employees, during which all current questions concerning the Company's strategy were highlighted from every point of view and discussed extensively.

The criteria and the **OBJECTIVE FOR THE COMPOSITION OF THE SUPERVISORY BOARD** have been set out in the Rules of Procedure for the Supervisory Board for many years. The Nomination Committee has meanwhile examined and accepted additional selection criteria, which will help it in the succession search for members of the Supervisory Board in an individual case. The Nomination Committee was thereby guided by the idea of retaining and even broadening the existing good mix from various areas of expertise as well as professional and personal experience on the Supervisory Board. Whether each and every member of the Supervisory Board fulfills particular or even all criteria is not important for the composition. Rather, the Supervisory Board with its individual personalities must fulfill all the requirements that confront a professional Supervisory Board. Another aspect here are the advanced educational measures, which the members of the Supervisory Board must undertake independently and which are also required by the Code. The Supervisory Board agreed to this procedure at its meeting held on November 24, 2010.

The Management Board and the Supervisory Board will ask shareholders to approve **PLANNED CHANGES IN THE ARTICLES OF ASSOCIATION** at the 2011 Annual General Meeting. Two of these proposed changes involve Corporate Governance in the strict sense of the term:

- > On the one hand, Heidelberg wants to expand its corporate mission in order to be in a position to also take advantage of business opportunities that are not covered by the current corporate purpose – in other words, beyond the print media industry. Although equipment and services for the print media industry unequivocally continue to be Heidelberg's core business, it is becoming increasingly evident, however, that Heidelberg's expertise can be utilized profitably in other industries as well.
- > On the other hand, we intend to ask shareholders at the Annual General Meeting to approve a change in the provisions of our Articles of Association for an update of our contingent and authorized capital.



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Our **FINANCIAL CALENDAR**, which is included in this Annual Report as well as in our Quarterly Reports and also on the Internet, presents all the dates that are significant for our Company. Our Internet Web site provides access to **CURRENT INFORMATION** about Heidelberg in the section "Investor Relations". Besides key performance data, publications, and actions that are subject to reporting, we also report on the Company's corporate governance in that section; we also publish the so-called Annual Document as well as Declarations of Compliance from previous years.


**FINANCIAL SECTION,
NOTES 42 AND 43**

The **STOCK OPTION PROGRAM** and the **LONG TERM INCENTIVE PLAN** have not made any payments to participants; both programs are no longer being offered. Additional information about these former programs is presented in the Notes to the Consolidated Financial Statements.

The invitation to, and agenda for, the 2011 Annual General Meeting contain additional information on these proposals for changing the Articles of Association.

For the reporting year, we report the following **INFORMATION CONCERNING SHAREHOLDINGS AND COMMUNICATIONS ON SHARE TRANSACTIONS**: The members of the Management Board and the Supervisory Board do not hold either shares or financial instruments that are based on shares in the Company, either individually or collectively, that exceed 1 percent of the outstanding shares issued by the Company. There is therefore no reportable shareholding in accordance with the terms of No. 6.6 of the Code. Securities transactions subject to reporting that were undertaken by the members of the Company's executive bodies or by individuals with management responsibilities in accordance with Section 15 of the Securities Trading Act were immediately disclosed in the Internet following receipt of notification. This provision applied to 12 reports during the financial year.

The Company has structured **RISK MANAGEMENT AND RISK REPORTING** procedures in place that are oriented to practical requirements. These procedures were updated during the financial year and some of them were strengthened further in selected passages. Within the framework of this updating, the internal guidelines and management bodies that deal with opportunity and risk management were restructured in order to improve effectiveness and the division of labor. This helps the Company recognize risks early on, to assess them, and to quickly introduce necessary countermeasures. We describe risk management in detail on pages 43–45, and show the development of risk on pages 127–133.

The **AUDIT** of our **FINANCIAL STATEMENTS** was executed by PricewaterhouseCoopers. No relationships are maintained between the auditor, the auditor's management organs, and the chief auditors at either Heidelberger Druckmaschinen Aktiengesellschaft or the Company's executive bodies that could raise doubts concerning the auditor's independence. The Supervisory Board obtained a statement from the auditor to this effect before submitting a recommendation concerning the selection of the auditor. In accordance with No. 7.2.3 of the Corporate Governance Code, the Supervisory Board also arranged with the auditor for reports to be made immediately of all determinations and occurrences that arise from the execution of the audit and that are of fundamental importance with regard to the responsibilities of the Supervisory Board. The auditor is furthermore expected to inform the Supervisory Board or to include a notification in the audit report if discrepancies are identified from the Declaration of Compliance that was issued by the Management Board and the Supervisory Board. However, this did not occur.

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

In accordance with Section 315 (4) Nos. 1 – 9 of the Commercial Code, in the Group management report we address all points that may be of significance should a public takeover bid 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 is 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 (6) of the Articles of Association.

With the consent of the Supervisory Board, up to July 1, 2014 the Management Board is authorized to increase the share capital of the Company at one time or in stages through the issue of new shares against cash or contributions in kind, up to a maximum amount of € 39,958,236.16; the subscription right of shareholders may be excluded. Details concerning "AUTHORIZED CAPITAL 2009" can be found in Section 3 (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.

All syndicated credit lines of Heidelberger Druckmaschinen Aktiengesellschaft have standard “**CHANGE OF CONTROL**” clauses that grant the contracting parties additional rights to information and cancellation should a change occur in the control over or the majority ownership structure in the Company. 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 101 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.

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 Chairman of the Supervisory Board in consultation with the Human Resources Committee, taking into consideration the particular duties and areas of responsibility. With full disbursement, the personal bonus 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



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.

play an important 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 notes 42 and 43 of the consolidated financial statements.

DETAILED REMUNERATION OF THE MEMBERS OF THE MANAGEMENT BOARD:

Figures in € thousands

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		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 were 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.

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

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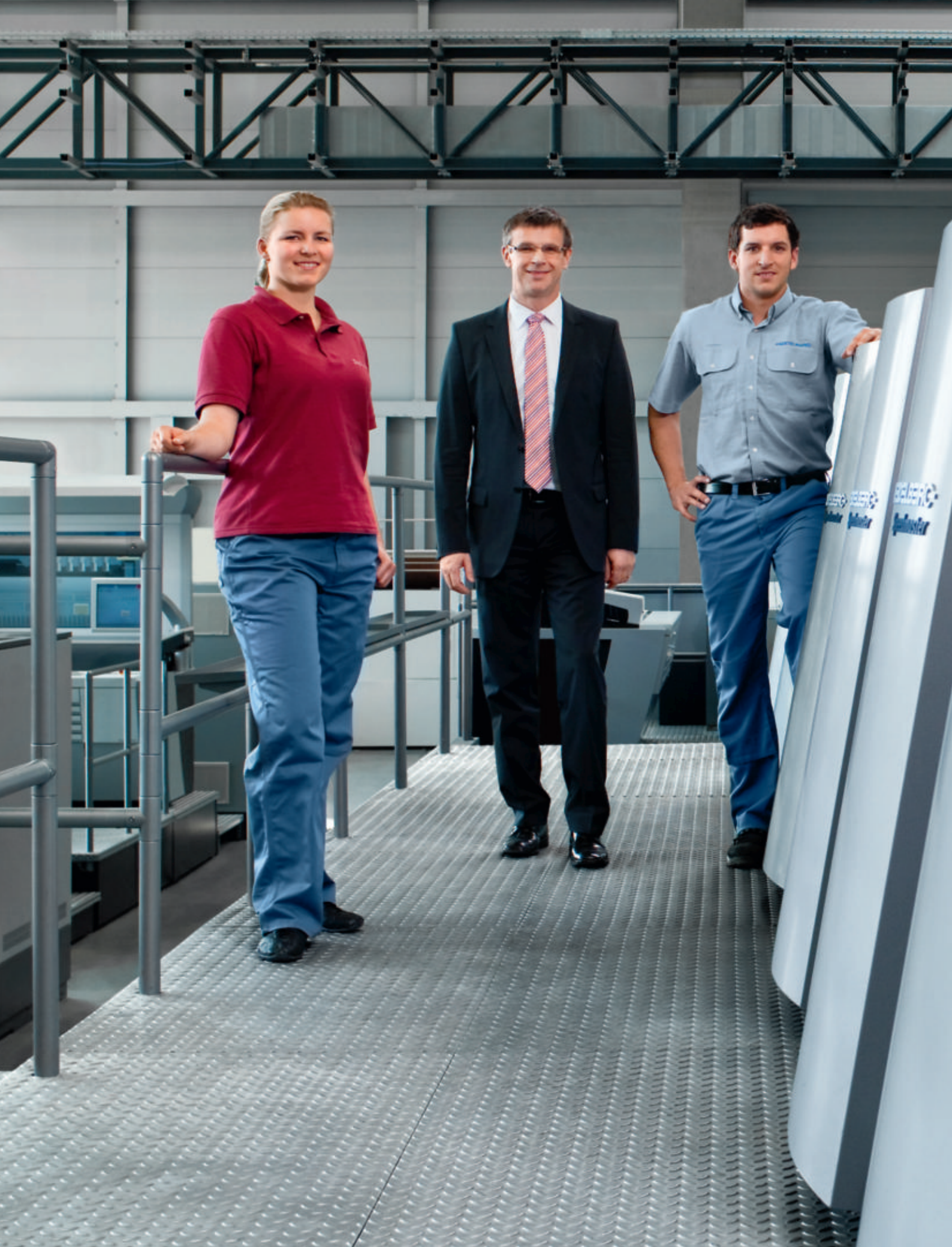
Figures in €

	2009/2010 Total			2010/2011 Total		
	Fixed remuneration	Variable remuneration		Fixed remuneration	Variable remuneration	
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





HEIDELBERG
Speedmaster



HEIDELBERG
Speedmaster

»Heidelberg continues
to be the first choice for
print shops worldwide.«



> The latest in approaches to logistics and the series production of printing presses are put into practice in Hall 11, whose doors opened in 2007. Heidelberg's large format printing presses are produced in this hall, which also has a demonstration center for packaging printing solutions.

The quality and reliability of Heidelberg printing presses are highly valued by print shops throughout the world. The photo on the right was taken at the Print China trade show in April 2011.

■ **STEPHAN PLENZ**, Head of the Heidelberg Equipment Division, standing with employees next to a Speedmaster XL 105 six-color printing press in Hall 11 at the Wiesloch-Walldorf production site.

■ The core elements of a successful print shop comprise not only its employees, but Heidelberg printing presses as well. I am convinced that this statement will be applicable even more frequently in five years' time than it is today. By this, I mean not only that we will sell even more printing presses in newly industrializing countries. My statement is also applicable to the industrialized countries, for print shops that are sustainably successful and want to make appropriate profits must be in a position to increasingly and precisely analyze their economic circumstances: our printing presses may not be the cheapest in the market, but they represent an investment that demonstrably pays off.

More than ever, print shops today need a strong partner, one that understands their business model and that provides them with competitive advantages. Our employees reliably support Heidelberg customers worldwide with their experience and expertise. Thanks to their on-the-spot service they are also in a position to take note of which particular technologies we need to develop for our customers. We make extensive use of this knowledge. Our market leadership allows us to develop a clear leading technological position – one that we intend to maintain and which ensures that we will continue to rise above our competitors.

In addition, we have built up our industry's most modern and efficient manufacturing network. This is of considerable advantage not only for us, but for our customers as well, who also have access, for example, to our special models with up to 16 printing units. Special configurations make it possible for print shops to differentiate themselves from the competition. In addition to a reduction in material consumption, this is an essential aspect for us, especially in packaging printing, which is of considerable strategic importance for us.

We are the only international printing press manufacturer to assemble standard printing presses for the Chinese market locally in China. We further expanded our Chinese plant's capacities during the financial year, thereby securing greater competitive advantages in this rapidly growing market.

The quality standards in the newly industrializing countries are clearly rising. At the Print China trade show, we launched our new sheetfed offset printing press, the Speedmaster CX 102, with great success in the Chinese market. This printing press is applicable for print advertising and furthermore, in particular, for packaging printing, and stands out with its flexibility, cost-effectiveness, and outstanding environmental qualities. I am convinced that the ecological advantages of our offering will also contribute to my being right with my introductory assertion.





»The Heidelberg Team
helps print shops achieve success –
throughout the world and in every way.«



The offerings of the **HEIDELBERG SERVICES** Division comprise among others:

- > Systemservice technical service packages that can be precisely tailored to customers' requirements
- > Saphira consumables, which ensure a stable production process
- > Performance Services for the optimization of productivity and processes, including Prinect Workflow Software and Suprasetter CtP
- > Employee development training programs
- > Business development consulting services

During the financial year, we added an award-winning IT solution, with which print shops worldwide are now able to pinpoint appropriate benchmarks; improved offerings of "Management Information Systems"; and the new Saphira Eco consumables line, which meets the highest environmental standards.

■ On the previous page: **MARCEL KIESSLING**, Head of the Heidelberg Services Division, with employees in the Saphira Consumables stockroom in Heidelberg.

■ Heidelberg's approach has always been characterized by consistently customer-driven policies. Yet, the success of print shops depends on many and varied factors. For example, structural change has resulted among others in an upward pressure on costs around the globe. We have done everything possible to help our customers improve their competitiveness.

On the one hand, of course, we accomplish this with innovative technology; and on the other hand, through our creation of a service and consumables portfolio that optimizes the overall capabilities of an entire print shop. Together with customers, we penetrate new areas of business, and with Prinect, integrate the overall production process. Of course, we also ensure absolutely stable production at the highest quality and the greatest possible operational availability of the equipment. This is evident with our certified Saphira consumables as well as Heidelberg System-service. This promise is applicable regardless of our customers' geographic location in the world.

In my view, the extent to which we take seriously the goal of ensuring that customers enjoy the greatest benefit from us in every respect can be seen in the range of products offered by the Heidelberg Services Division. We set the standards for our industry – for example, with the specialized expertise of our service and application technicians; with our remote services, which make possible remote diagnosis and remote problem-solving; with spare part shipments within hours from our four logistics centers worldwide; with our consulting expertise in lean manufacturing concepts; and with our global network of Print Media Academies, which offer basic and advanced training programs.

The multiplicity of our offerings reflects our customers' highly specialized requirements. Our employees are also subject to correspondingly high demands. This applies to both their technical know-how and business management expertise, for when a choice of business models is under discussion, customers must be satisfied and successful over the long-term with the advice provided. Through training programs offered via the Internet as well as our own Print Media Academies, we make sure that the know-how of our service teams is always up to date. This promise is also valid – for each and every one of our employees.

Business Development

After the Group had suffered the full impact of the financial and economic crisis in the recent past, which strongly affected the print media industry, we have been successful in surpassing the operating break-even point during the financial year. When the capital market became unavailable for financing, the German Federal Government, and German State Governments as well as the affected banks actively supported us with bridge funding. During the financial year, the Group was successful in arranging comprehensive refinancing in several steps, which we represent below.

TIMELINE FOR THE REFINANCING – FROM THE CRISIS TO HEIDELBERG’S STABILIZATION

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CRISIS

- > Slump in incoming orders and sales

BRIDGE FINANCING

- > High net loss due to underutilization of capacity
- > Launch of the cost-reduction program Heidelberg 2010
- > Refinancing totaling € 1.4 billion from banks supported by the German Federal Government and the States of Baden-Wuerttemberg and Brandenburg
- > Financing secured through the summer of 2012

STABILIZATION

- > Issue of € 300 million high-yield bond, with term to maturity running to 2018
- > New syndicated revolving line of credit from banks amounting to € 500 million and running through 2014
- > Early and full cancellation of the government guarantees

2008

2009

2010

2011

OPERATING TURNAROUND

- > Implementation of action programs for cost reduction and lowering the break-even point
- > Focus on free cash flow management and strengthening of equity financing
- > Successful € 400 million capital increase to strengthen equity
- > Gradual reduction in debt and the credit facilities

Prior to the crisis in the printing industry, Heidelberg had access to credit of more than € 1.5 billion. As is generally the case, the commitment to the lines of credit was in some respects tied to compliance with certain parameters. As the crisis unfolded, these could no longer be complied with. In the case of the convertible bond, due to the marked decline in our share’s price, we had to assume that investors would exercise their right of redemption at the reference date. As a consequence, it was necessary to restructure nearly our

entire credit facilities in the shortest possible time. How did we succeed in receiving bridge funding despite the extremely difficult underlying conditions in 2009? Because we were able to convince the affected banks and guarantors that our business model is workable – that within a particular time frame and with certain measures we would generate a turnaround. This entailed detailed presentations of various scenarios, which included the respective overall impact on net assets, the financial position, and the Company's results of operations. The bridge funding comprised a line of credit totaling €1.4 billion, which was made available through the summer of 2012. It was made up of three components: a loan under the special program of the Reconstruction Loan Corporation (KfW) of initially €300 million; a line of credit of €550 million that was 90 percent secured by guarantees from the German Federal Government and the States of Baden-Wuerttemberg and Brandenburg, as well as a syndicated line of credit from a bank underwriting syndicate of €550 million, which was prolonged at revised terms.

We achieved our goal of financing Heidelberg via the capital market again as quickly as possible, of returning the Federal Government and State guarantees early and entirely, and of reducing the net financial debt. We carried through a capital increase in the autumn of 2010, thereby reducing existing credit arrangements by approximately €400 million. We utilized the net underwriting revenue entirely for the repayment of financial liabilities, among others reducing the KfW credit. We repaid the remaining approximately €100 million out of free cash flow and through restructuring our financial arrangements in December 2010.

Due to the improved capital structure, we reduced the Group's overall credit facility from the previous level of €1.4 billion to approximately €900 million. This considerably improved our start-up position for arranging additional refinancing.

In our refinancing measures, we focused closely on attaining a well-balanced structure of maturities while at the same time diversifying our sources of financing. Our goal was to discontinue our exclusive dependence on banks and the accompanying need to renegotiate the entire line of credit at a particular point in time. We were successful in this endeavor thanks to the seven-year, high-yield bond, which we successfully issued at the beginning of April 2011. At the same time, a new €500 million revolving line of credit with a banking syndicate came into force on April 7, 2011, which will run until the end of 2014. We discuss the structure and the maturities in more detail in the chapter "Financial Position" beginning on page 83.



By making use of the revenue resulting from the capital increase and the positive free cash flow during the first half of the financial year, we succeeded in the first step of reducing financial liabilities by approximately €377 million as of the end of September 2010, down from €816 million at the end of March 2010.

Overall Picture of Underlying Conditions and Business Developments

- > Industrialized Countries Recover Again Slowly; Strong Growth in Newly Industrializing Countries; As Expected, Sales Adjusted for Exchange Rate Effects Up Modestly
- > Favorable Underlying Conditions in All Divisions; Strong Business in New Printing Presses; Improved Result In Line with Projections
- > Optimized Capital and Financing Structure – Cancellation of Federal Government and State Guarantees



We discuss developments in various countries and at trade shows as well as such distinctive factors as country risks and changes in legislation in the Reports on the Regions and our Divisions beginning on page 86 and 97, respectively.

As we had expected the previous year, the world economy developed sustainably during the financial year. The print media industry was also able to overcome the major crisis in this industry – in the industrialized countries as well. Economic vigor was already strong in the newly industrializing countries at the beginning of the year. In the industrialized countries, the basic conditions for the printing industry improved steadily during the year. The cyclically sensitive Heidelberg Equipment Division benefited in particular from this.

Although risks exist that could put a stronger brake on further growth in the world economy, the Management Board continues to view conditions as being mostly favorable at the time of this report's printing.

Cyclical Dependence Highly Varied in the Divisions

We are vigorously further expanding the more non-cyclical business areas such as packaging printing as well as our consumables and services. Since most of our customers are commercial printers, the business development of our Heidelberg Equipment Division is heavily dependent on cyclical trends. Print advertising accounts for approximately 60 percent of orders for commercial printers. In turn, the expenditures of the advertising industry correlate closely with the overall economic situation. Packaging print shops have been subject to less strong declines in orders in the past because private consumer spending does not slump to the same degree in periods of economic crisis. Overall, more was being printed again during the financial year; this had a favorable impact on demand for consumables. The underlying conditions for our Heidelberg Financial Services Division have also developed favorably. Contrary to expectations, the general credit environment has further improved. Moreover, our customers in some newly industrializing countries benefited from growing structures for financing medium-sized firms.

GROSS DOMESTIC PRODUCT ¹⁾

Change from previous year in percent 1.6

	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

Economic Growth Slowly Strengthens Business Developments in Our Industry; Heidelberg's Incoming Orders and Sales Up in All Regions

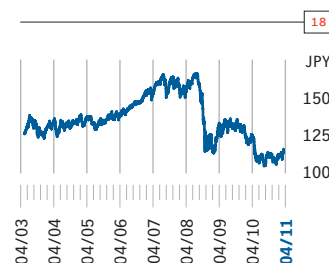
The graph on the preceding page shows **GDP GROWTH RATES** in the various regions and in our key markets. As we had expected in our previous year's planning, most newly industrializing countries already started out the calendar year with a high degree of vigor. By contrast, with few exceptions the economies of the industrialized countries only gradually picked up steam. 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 other uncertainties is still unclear. We discuss these issues in the chapter "Outlook".

The German economy was the principal engine for growth in the **EURO ZONE**. Companies relaxed their rigid belt-tightening measures, which they had adopted during the global economic crisis, increased their advertising budgets again, and ordered more print products. The business expectations of print shops rose as a consequence, as the graphic on the following page shows, and print shops invested to a considerably greater extent in printing presses. On the other hand, in countries that were affected by the debt crisis, both GDP and the printing industry hardly grew. GDP in **ASIA** increased by a total of 8 percent. With growth of 10 percent in calendar year 2010, China returned to approximately the same high growth rates as 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 generating success for us. By contrast, in the **US**, where the capacity utilization of the print shops fell to historic lows 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 largely Poland that recorded strong growth rates. However, following a marked downturn of GDP in 2009, Russia also returned to an upward trend, from which the printing industry also benefited.

EUR/USD EXCHANGE RATE



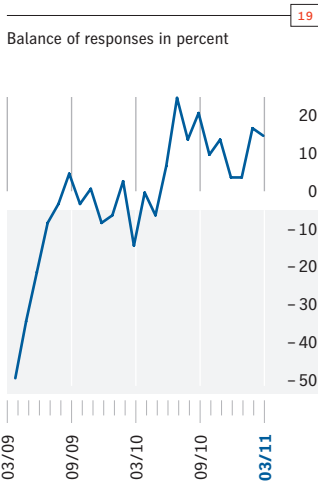
EUR/JPY EXCHANGE RATE



Source: Bloomberg

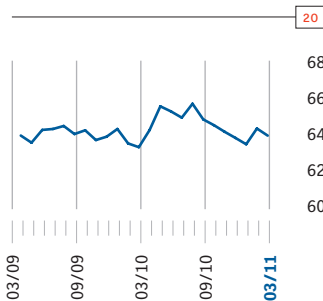
The volatility of exchange rates and their parities again had a considerable impact on general economic developments during the financial year. The US dollar, the Japanese yen, the Chinese renminbi, the Swiss franc, and the British pound are especially important for Heidelberg's international business.

BUSINESS EXPECTATIONS FOR THE PRINTING INDUSTRY



Source: Ifo Institute for Economic Research

CAPACITY UTILIZATION IN THE US PRINTING INDUSTRY



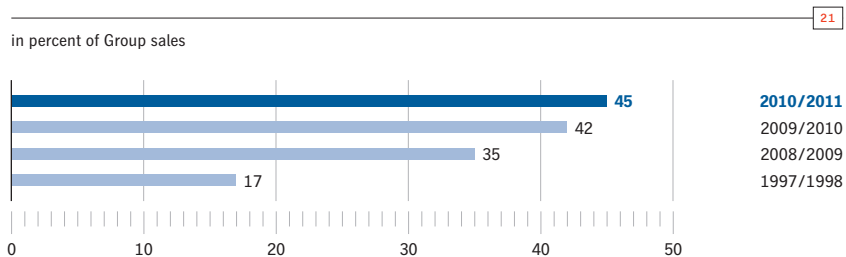
Source: Global Insight

VDMA reports that the share of deliveries by printing and paper companies to Asia increased from 17.1 percent in 2000 to 18.3 percent in 2005 – and rose further to 33.2 percent during calendar year 2010.

In contrast to such other specialized branches as textile printing presses, fittings, and ventilation technology, which in some cases surpassed their pre-economic crisis levels, according to the specialist association **PRINTING AND PAPER TECHNOLOGY** of the German Engineering Federation (VDMA), the printing and paper technology sector is now only at the beginning of an upswing. According to the VDMA, although our industry has overcome the global economic crisis, so far it has only realized modest growth. In calendar year 2010, incoming orders were on the rise for the first time in over two years. Underlying this development was the slow recovery in our industry's traditionally strong markets in Europe and North America.

The **HEIDELBERG GROUP'S INCOMING ORDERS AND SALES**, which totaled, respectively, € 2,757 million and € 2,629 million, surpassed the previous year's figures by 16 percent and 14 percent, respectively. As expected, after adjusting for exchange rate effects the growth figures were a moderate 10 and 8 percent, respectively. All regions generated growth – which in some respects was considerable. Because the trade shows ExpoPrint in Brazil and IPEX in the UK generated a considerable number of orders during the first quarter, we posted an overall higher volume of incoming orders during the first half of the year than in the second half. Since the considerable vigor in the newly industrializing countries favored strong growth of the print media industry, the share of sales accounted for by the newly industrializing countries increased further – from 42 percent the previous year to 45 percent through the end of the financial year. Contributing to this development, in addition to Brazil, was in particular the very high rate of growth seen in China. That country's share of sales is now 16 percent! The strongest market until now, Germany, reached 15 percent.

SALES PORTION NEWLY INDUSTRIALIZING COUNTRIES



Competitive Structure in Sheetfed Offset Printing: Exchange Rate Advantages of European Suppliers; Heidelberg's Gains in Market Share Due to Its Advanced Product Platforms and Strong Presence in Newly Industrializing Countries

We believe we have been able to further strengthen our position as the world market leader in sheetfed offset printing. Other than our two principal competitors in the sheetfed offset area, Koenig & Bauer and manroland, most of whose manufacturing facilities are located in Germany, there are a few Japanese competitors, such as Komori, Ryobi, and Mitsubishi. Due to the drastic strengthening of the yen, during the financial year competitive conditions shifted further in favor of European suppliers, who were able to benefit from the market turnaround to a greater extent.

All the large manufacturers substantially reduced their capacities the previous year and adapted to the expected growth. Since the upswing in our industry has been only modest up until now, the competitive pressure was still clearly perceptible during the financial year.

Because we offer the market's most advanced product platforms, which ensure considerable competitive advantages for print shops, our competitive position was strong. As we had announced, due to our leading technological position we have grown considerably, especially in new printing presses for medium and large formats. We also further strengthened our position in packaging printing. On pages 25–29, we show why our product portfolio satisfies the requirements of various target groups.

Also as expected, we succeeded in additionally expanding our market position in the rapidly growing newly industrializing countries. Our manufacturing in China and our tightly meshed service and sales network contributed to this decisively.

Heidelberg's Consolidated Result Considerably Improved and In Line With Expectations Due to the Increase in Sales and Cutbacks in Fixed Costs

With our gradually **INCREASING SALES** during the year, profit contributions were up – especially in view of our favorable sales mix. In the Heidelberg Equipment Division, due to the slow turnaround in the industrialized countries, more highly automated printing presses in larger formats, which have higher profit margins than standard printing presses, are being sold again. In the Heidelberg Services Division, demand further strengthened for coatings and specialized inks. The share of sales of remarketed equipment declined, whereas at the same time prices of this equipment increased again.



PAGES 121 – 126

General economic conditions are of less importance for the business development of the HEIDELBERG SERVICES DIVISION – although our consumables area did benefit from the increase in the volume of printed material during the financial year. We discuss in more detail the parameters that are crucial for growth in this division as well as competitive structures in the section “Expected Underlying Conditions”.



Germany accounts for a nearly 57 percent world market share of sheetfed offset printing presses, with Japanese competitors accounting for 16 percent. (Source: German Engineering Federation [VDMA].)



The prices for raw materials such as raw iron, steel scrap, and crude oil have risen considerably during the reporting year due to the recovery of the global economy and high demand from China. Please refer to the chapter "Expected Underlying Conditions" for information on further developments.

We were able to largely compensate for higher costs in individual areas, and beginning in the third quarter of the financial year to surpass the operational break-even point with the positive quarterly result – and to book a positive **RESULT OF OPERATING ACTIVITIES** excluding special items for the year as a whole. The sustained reduction in our fixed costs was a major factor contributing to this development, by means of which we lowered Heidelberg's operating break-even point, adjusted for exchange rate effects, to approximately € 2.5 billion. We succeeded in this among others with our **HEIDELBERG 2010** program, with which we reduced costs by € 400 million annually, and for another, through boosts in efficiency resulting from the **REORGANIZATION** during the financial year, which generated further cost reductions of € 60 million. The cost reduction measures from the reorganization will only become fully effective in the following year and will amount to € 480 million annually compared with the base year 2008. Income from special items slightly exceeded expenses during the financial year, with income of € 2 million generated as a result.

As we announced, the **FINANCIAL RESULT** of € – 149 million dropped further below the previous year's figure of € – 127 million. This was caused by both the considerable financing costs as well as non-recurring expenditures from the repayment of financial liabilities and from the restructuring of the funding. We were able to take countermeasures against this development by means of the capital increase as well as the premature repayment of financial liabilities. Our current interest payments declined noticeably during the second half-year – we had assumed in our planning that we would depend on the Government credits for a longer period.

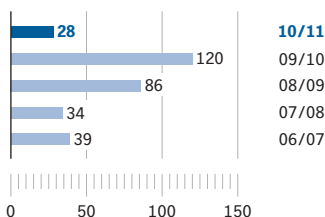
Because income before taxes continued to be substantially burdened by the financial result, as we had already forecast the previous year we suffered a marked **NET LOSS** totaling € – 129 million.

Our **FREE CASH FLOW** developed much better than had been expected, reaching € 75 million during the financial year despite high restructuring expenditures, and thereby surpassing the previous year's figure by € 137 million. Contributing to this development were on the one hand the substantially reduced net loss, and on the other hand the successes realized from our Net Working Capital Project. Furthermore, the volume of receivables from sales financing declined. In order to keep the cash outflow low, we also only moderately increased investments. We thereby succeeded in considerably reducing the commitment of funds.

The successful refinancing enabled us to considerably reduce **FINANCIAL LIABILITIES**, which fell from € 816 million the previous year to € 395 million at the end of the reporting period. The stable capital structure is especially noticeable when looked at from the point of view of the debt ratio. After rising from 34 percent in the pre-crisis years to 120 percent the previous year, we were able to bring it down under its pre-crisis level to 28 percent as of the end of the reporting year.

DEBT RATIO

Net financial debt
with reference to equity in percent



Business Development – Modest Growth Due to the Turnaround in the Printing Industry

- > Heidelberg Equipment Division Benefits Disproportionately from Improved Underlying Conditions
- > Newly Industrializing Countries Accelerate Strongly; Mixed Picture in the Industrialized Countries
- > China – the Market with the Highest Volume Of Sales During the Financial Year

The underlying conditions for the print media industry improved towards the end of the previous year, with the volume of orders growing at a rapid pace during the fourth quarter. As expected, the order backlog of print shops improved during the financial year and demand for printing presses accelerated perceptibly. Because the service business is largely non-cyclical, the printing industry's upswing was much less noticeable in the Heidelberg Services Division than in the Heidelberg Equipment Division.

Growth was especially strong in China. For the first time, during the financial year our sales in that country surpassed our sales in Germany. Other newly industrializing countries also developed very favorably – for example, Turkey. In addition to the economic upswing, the ExpoPrint trade show also contributed to the substantial growth in sales in Brazil.

The picture was mixed in the industrialized countries. Whereas the German market recovered solidly and we also generated gratifying growth rates in the UK through the IPEX trade show, developments largely stagnated in markets that were affected by the debt crisis. The printing press market in the US saw a modest, temporary upswing during the third quarter – this sales market which had formerly generated the highest volume of sales in the equipment area had collapsed entirely in the previous years.

BUSINESS DEVELOPMENT BY SIX-MONTH PERIODS

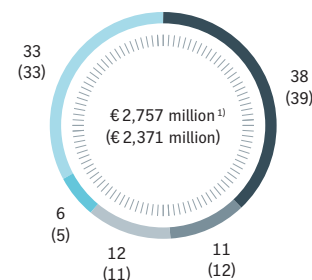
Figures in € million

	1 HY	2 HY	Total
Incoming orders	1,436	1,321	2,757
Net sales	1,196	1,433	2,629
Result of operating activities ¹⁾	-41	45	4

¹⁾ Excluding special items

INCOMING ORDERS BY REGION

Shares in the Heidelberg Group in percent
(in parentheses: previous year)



Figures in € millions

	2009/10	2010/11
■ EMEA	933	1,049
■ Eastern Europe	273	308
■ North America	272	331
■ South America	123	172
■ Asia/Pacific	770	897

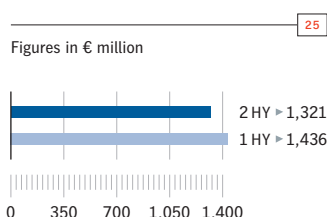
¹⁾ Includes positive exchange rate effects totaling € 140 million

Incoming Orders: Growth in All Regions and Markets; Especially Favorable Developments in China

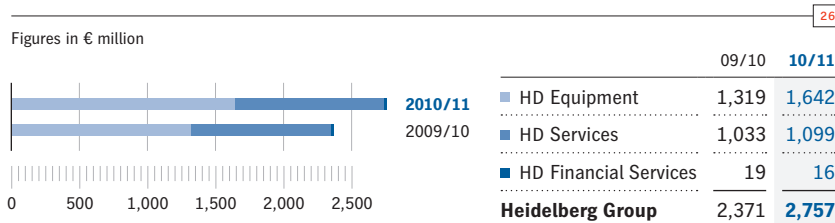
The overall volume of orders of € 2,757 million was up by 16 percent over the preceding year. Growth after adjusting for exchange rate effects of 10 percent exceeded our forecast. Incoming orders during the first quarter were especially high thanks to the successful trade shows ExpoPrint in Brazil and IPEX in the UK – the reason for the figure for the first half-year being somewhat higher than in the second half of the year.

The Heidelberg Equipment Division is dependent on business developments in the industry and was heavily impacted by the global economic crisis. The 24 percent growth posted by this division is therefore rather considerable. We benefited from the higher propensity of print shops to invest, primarily in the medium and large formats. As expected, the Heidelberg Services Division grew at a slower pace. This division's growth of 6 percent included a marked increase in consumables and service parts as well as a decline in remarketed equipment. Despite the higher volume of sales, we were able to maintain the refinancing volume, which was taken over directly from the Financial Services Division, at the previous year's level – on the one hand, because the underlying conditions on the credit market improved, and on the other hand, because we work together closely with financing service providers.

INCOMING ORDERS BY SIX-MONTH PERIODS



INCOMING ORDERS BY DIVISION



Incoming orders surpassed the previous year's figure in all regions, with the newly industrializing countries growing more rapidly than the industrialized countries. Please refer to the previous section, where we discuss this development in more detail.

Sales: China in First Place; Generally Strong Second Half-Year

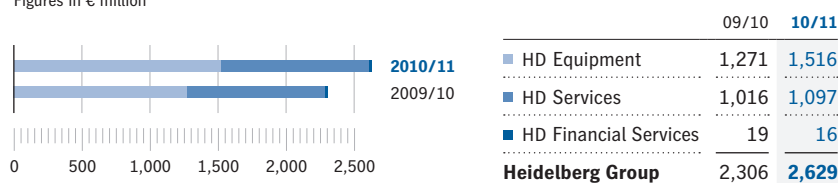
As planned, we were successful in boosting sales throughout the financial year. During the first half-year we generated sales of € 1,196 million and in the second half of the year, € 1,433 million. Overall sales grew by 14 percent – adjusted for exchange rate effects, by 8 percent – over the previous year's figure to € 2,629 million.

In terms of sales as well, similarly to the development of incoming orders, the upswing of the printing industry affected cyclically sensitive machinery sales to a greater extent than the considerably less cyclically sensitive consumables and service

sectors. The Heidelberg Equipment Division generated growth of 19 percent, and the Heidelberg Services Division increased by 8 percent. The sales of the Financial Services Division fell because the smaller portfolio of direct financing resulted in lower interest income.

SALES BY DIVISION

Figures in € million



Because the newly industrializing countries grew at a more rapid pace than the industrialized countries, the shares of sales accounted for by various markets have shifted in recent years. In the section “Underlying Conditions”, we describe how the share of sales to the newly industrializing countries increased further to its current level of approximately 45 percent. In the industrialized countries, the sales trend was good primarily in Germany and the UK.

Order Backlog: Increase Over the Previous Year; Length of the Order Backlog Approximately Three Months

The order backlog initially rose by leaps and bounds following the IPEX and Expo-Print trade shows, with developments subsequently stabilizing during the course of the financial year. Compared with the low order backlog that we posted at the end of the previous year, during the reporting year the order backlog increased by 6 percent to € 634 million. The length of the order backlog throughout the Group amounted to approximately three months – the same length as at the end of financial year 2007/2008. The figure is lower due to the short delivery times of the Heidelberg Services Division, with the length of the order backlog over four months in the Heidelberg Equipment Division.

FIVE-YEAR OVERVIEW – BUSINESS DEVELOPMENT

Figures in € millions

28

	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011
Incoming orders	3,853	3,649	2,906	2,371	2,757
Sales	3,803	3,670	2,999	2,306	2,629
Order backlog (March 31)	1,018	874	650	596	634
Length of the order backlog ¹⁾	3.2	2.9	2.6	3.1	2.9

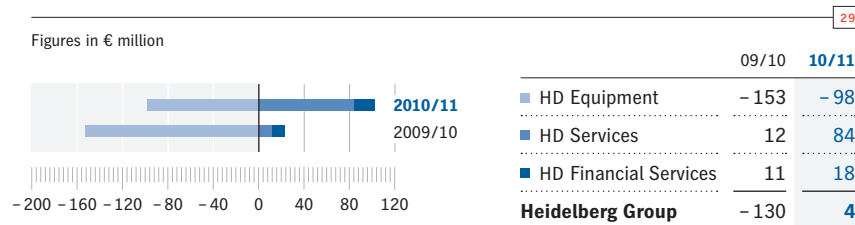
¹⁾ Order backlog divided by average monthly sales

Results of Operations – Break-Even Point Exceeded

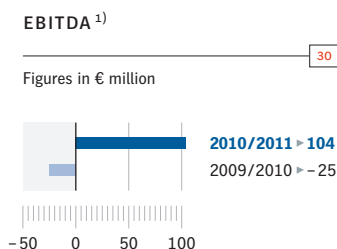
- > Operating Result in the Black Again for the First Time Following Two Years of Losses
- > Annual Fixed Costs Reduced by €460 Million Due to Cost-Cutting Measures
- > Negative Financial Result Strongly Burdens Income before Taxes

Our quarterly operating result was again in the black beginning in the third quarter of the financial year. Contributing to this were the gratifying increase in sales and the lower fixed cost basis, which we realized thanks to our cost reduction measures. Although the result of operating activities excluding special items was positive, as expected, we suffered a substantial net loss because the financial result continued to present a heavy burden.

RESULT OF OPERATING ACTIVITIES EXCLUDING SPECIAL ITEMS BY DIVISION



Income Statement: Operating Result and EBITDA Up by Some €130 Million



¹⁾ Result of operating activities excluding special items and depreciation or amortization

Whereas the result of operating activities excluding special items was still in the red for the first half-year, in the second half of the year we were successful in generating a positive operating result, and were able to compensate for the loss of the first half-year. For the first time since the beginning of the economic crisis in financial year 2008/2009, we thereby again exceeded the operating break-even point for the year as a whole. The result of operating activities excluding special items of €4 million as well as EBITDA of €104 million were considerably higher than in the preceding year and in line with our expectations.

Various developments contributed to this. Due to the – albeit slow – upswing of the printing industry, net sales adjusted for exchange rate effects grew modestly and generated higher profit contributions. Moreover, the Heidelberg Equipment Division benefited from increasing demand not only in the newly industrializing countries, but in the industrialized countries as well, where the share of sales accounted for by highly automated printing presses with higher profit margins is

greater. In the Heidelberg Services Division, the market environment resulted in greater demand for consumables as well as a favorable trend with remarketed equipment. The share of sales fell in this segment, which has rather low profit margins. Moreover, demand and prices for remarketed equipment rose again.

In the Heidelberg Equipment Division, we thereby succeeded in reducing the previous year's loss by a third. The result of operating activities excluding special items improved from € - 153 million the previous year to € - 98 million. In the Heidelberg Services Division, following income of € 12 million the previous year, we generated an operating result of € 84 million. Although the financing volume of Heidelberg Financial Services fell again during the financial year, this division's result of € 18 million was again favorable.

Income Statement: Financial Result Substantially Burdens

Income before Taxes

We were successful in boosting Heidelberg's total operating performance by 19 percent. The **COST OF MATERIALS** increased in line with the marked growth in sales. Because the share of sales accounted for by printing presses with special features increased, the ratio of the cost of materials to total operating performance rose slightly from 47.3 percent to 47.5 percent. We continue to work on expanding our purchasing operations in foreign currencies in order to reduce risks from exchange rate fluctuations.

STAFF COSTS increased slightly in absolute terms. The consequences of our cost-reduction measures can be easily seen in the staff cost ratio in total operating performance.

We had cut back investments to a minimum and adjusted them to the reduced business volume during the previous year. We were able to increase them again somewhat during the financial year. **DEPRECIATION AND AMORTIZATION** fell somewhat compared with the previous year due to the low level the previous year.

When **OTHER OPERATING EXPENSES** are considered in relationship to the total operating performance, our sustained cost-cutting measures become noticeable here as well, with this ratio decreasing from 23.4 percent the previous year to 20.2 percent.

We booked income from special items of € 2 million during the financial year. We were able to release part of the provision for boosting efficiency that we had carried the previous year. Compensation payments in connection with last year's staff reductions were lower than had been expected. These reversals contrasted with expenses that largely included provisions for costs that will accrue due to the concentration of our business activities, including office space reductions, the concentration of production sites, and ongoing optimization measures.



We **CONSIDERABLY REDUCED OUR FIXED COSTS BASIS** – on the one hand, through our Heidelberg 2010 Program, and on the other hand through the boosts in efficiency resulting from the reorganization during the financial year. Among other things, our ability to maintain and expand our leading technological position with an R&D rate of approximately 5 percent had a favorable impact. Altogether, we have been able to reduce fixed costs on a sustainable basis by € 460 million annually compared with the base year 2008. We are projecting an additional, sustained reduction in costs of € 20 million during the current financial year.



PAGES 109 – 113

Despite the cutbacks in short-time work, we were able to reduce the **STAFF COST RATIO** in accordance with projections, generating a decrease from 37.5 percent the previous year to 33.6 percent during the reporting year. The number of employees was reduced by approximately 4,500. Additional personnel measures were implemented during the reporting year.

INCOME STATEMENT

31

Figures in € millions

	2009/2010	2010/2011
Net sales	2,306	2,629
Change in inventories/Other own work capitalized	- 128	- 31
Total operating performance	2,178	2,598
Result of operating activities¹⁾	- 159	6
Financial result	- 127	- 149
Income before taxes	- 286	- 143
Taxes on income	- 58	- 14
Net loss	- 229	- 129

¹⁾ Including special items of € - 28 million in financial year 2009/2010 and of € + 2 million in financial year 2010/2011

The **FINANCIAL RESULT** of € - 149 million was below the previous year's figure of € - 127 million, primarily as a result of the high financing costs. We counteracted this development by means of the capital increase and early repayments of financial liabilities. The charges resulting from the financial result were lower following the successful capital increase. Nevertheless, the restructuring of financing by means of the new credit facility and the issue of the high-yield bond resulted in non-recurring expenses that considerably burdened the financial result during the second half of the year.

We reported tax income of € 58 million for the past financial year; during the reporting year tax income amounted to € 14 million. Our overall **TAX RATE** accordingly fell from 20 percent the previous year to 10 percent during the reporting year. Overall, as expected we again suffered a substantial **NET LOSS**, which amounted to € - 129 million during the financial year. This nevertheless represented a considerable improvement over the previous year. Earnings per share thereby amounted to € - 0.83, compared with € - 2.94 the previous year.

FIVE-YEAR OVERVIEW OF THE RESULTS OF OPERATIONS

32

Figures in € millions

	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011
Sales	3,803	3,670	2,999	2,306	2,629
EBITDA ¹⁾	491	391	51	- 25	104
Result of operating activities ²⁾	362	268	- 49	- 130	4
- in percent of sales	9.5	7.3	- 1.6	- 5.6	0.2
Special items	-	-	- 179	- 28	2
Financial result	- 62	- 69	- 119	- 127	- 149
Net profit/loss	263	142	- 249	- 229	- 129
- in percent of sales	6.9	3.9	- 8.3	- 9.9	- 4.9

¹⁾ Result of operating activities excluding restructuring expenses/special items as well as depreciation and amortization

²⁾ Excluding special items

Net Assets – Equity Strengthened

- > Equity Ratio at Over 30 Percent Thanks to Successful Capital Increase
- > Considerably Reduced Net Financial Debt
- > Comprehensive Asset Management Reduces Commitment of Funds

We improved the structure of Heidelberg's statement of financial position considerably during the financial year. The successful capital increase in September 2010 strengthened Heidelberg's equity base; we succeeded in reducing net financial debt by nearly two-thirds. We also reduced the commitment of funds by means of our Asset Management and Net Working Capital Program, which we had launched in 2009.

ASSETS

Figures in € millions

33

	31-Mar-2010	31-Mar-2011
Fixed assets	924	869
Inventories	827	748
Trade receivables	396	377
Receivables from sales financing	212	178
Other assets	399	323
Cash and cash equivalents	121	148
	<u>2,879</u>	<u>2,643</u>

Assets: Capital Commitment Down among Nearly All Items

The Heidelberg Group's **TOTAL ASSETS** amounted to € 2,643 million as of March 31, 2011, or € 236 million less than the previous year. Despite the strong, 19 percent rise in total operating performance, total assets fell by an additional 8 percent. **FIXED ASSETS** declined due to our more intensive utilization of resources, so that as in the previous year, we were able to limit investments largely to replacement investments. We are in the process of considerably expanding our Chinese production site at Qingpu. We discuss the background to this development beginning on page 103. When it is economically appropriate, we continue to make use of leasing as a form of financing. We rely on leasing especially in the car fleet, IT, and real estate areas.

The measures undertaken under our Net Working Capital Program continue to have a favorable impact on **INVENTORIES**. Despite the higher total operating performance, we were successful in reducing inventories by € 79 million to € 748 million as of the reporting date. We were also able to considerably reduce the commitment of funds during the year.

With our strict receivables management, we also succeeded in again improving our **TRADE RECEIVABLES**. On March 31, 2011 they amounted to € 377 million, compared with € 396 million the previous year. Because we continued to pursue our out-placement strategy, the development of **RECEIVABLES FROM SALES FINANCING** was especially favorable. This item totaled € 178 million, thereby falling to the lowest figure in the last ten years. This was the result on the one hand of the low directly financed volume, and on the other hand of the high repayments and liquidations. The decline in **OTHER ASSETS** largely resulted from the sale of land and the decline in deferred tax assets.

EQUITY AND LIABILITIES

Figures in € millions

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	31-Mar-2010	31-Mar-2011
Equity	579	869
Provisions	938	815
Trade payables	132	130
Financial liabilities	816	395
Other liabilities	414	434
	<u>2,879</u>	<u>2,643</u>



The court-approved settlement totaling approximately € 12 million in favor of the former shareholders of Linotype-Hell AG served to reduce our equity. On the statement of financial position we have already taken into consideration the additional payment that is to be made in June 2011 in the form of Heidelberg shares out of authorized capital.

Equity and Liabilities: Successful Capital Increase Strengthens Equity

Within the framework of the capital increase on September 24, 2010, we issued approximately 155 million new shares and generated gross revenue of € 420 million. We used the net underwriting revenue resulting from the capital increase in its entirety to reduce financial liabilities and strengthen the equity base. Thanks to these measures and the considerable improvement in the net loss, Heidelberg again had a solid **EQUITY RATIO** of 32.9 percent of total assets at the end of the reporting period, compared with only 20.1 percent at the previous financial year-end.

PROVISIONS declined to € 815 million during the financial year. The main cause for this were the provisions for our Heidelberg 2010 cost reduction program and for the boost in efficiency under the reorganization, which fell back to € 52 million. On the one hand compensation payments for last year's personnel cutbacks were payable during the financial year, and on the other hand some of the provision that had been capitalized during the previous year could be released.

TRADE PAYABLES amounted to € 130 million as of March 31, 2011.

Our **FINANCIAL LIABILITIES** developed very favorably during the financial year. They fell to € 395 million at financial year-end, down by € 421 million compared to the previous year. At the end of the second quarter, we used the net proceeds from the capital increase to reduce outstanding credits by € 400 million, and during the third quarter we repaid the loan from the special program of the Reconstruction Loan Corporation (KfW) completely and prior to maturity. Net financial debt thereby fell from € 695 million the previous year to € 247 million – by nearly two-thirds! The successful capital increase, greater profitability, and the continuing optimization of free cash flow caused a substantial improvement in the structure of the Company's statement of financial position. This becomes especially clear when spotlighting the debt ratio, which fell from 120 percent the previous year to 28 percent – and thereby returned to its pre-crisis level.

CONTINGENT LIABILITIES under guarantees and warranties of approximately € 3 million remained at the previous year's level. **OTHER FINANCIAL COMMITMENTS**, which comprise leasing liabilities, investments and other purchasing liabilities, declined from the previous year by € 55 million to € 328 million as of March 31, 2011.

FIVE-YEAR OVERVIEW – NET ASSETS

35

Figures in € millions

	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011
Total assets	3,339	3,507	3,241	2,879	2,643
Net working capital	1,276	1,193	1,212	1,031	908
– in percent of sales	33.6 %	32.5 %	40.4 %	44.7 %	34.5 %
Shareholders' equity	1,202	1,193	796	579	869
– in percent of total assets	36.0 %	34.0 %	24.6 %	20.1 %	32.9 %
Net financial debt ¹⁾	467	402	681	695	247
Debt ratio ²⁾	38.9 %	33.7 %	85.6 %	120.0 %	28.4 %

¹⁾ Balance of financial liabilities and cash and cash equivalents

²⁾ Relationship of net debt to equity

Financial Position – Stable Financing Structure

- > Debt Reduction Thanks to Capital Increase and Positive Free Cash Flow
- > Collateralized Government Loans Repaid in Full and Prior to Maturity
- > New, Diversified Financing Structure with Maturities through 2014 and 2018

We achieved several important goals during the financial year. We succeeded in perceptibly reducing debts, we are financing Heidelberg without government aid, and we have diversified our sources of financing. The new financing structure comprises a high yield bond in the nominal amount of € 304 million and a term to maturity of seven years, and a new revolving credit facility of € 500 million that is available through the end of 2014. The new financing structure has been reflected in our statement of financial position since April 2011, because although the high yield bond was placed on March 31, 2011, it was only issued on April 7, 2011, and the new credit facility, which was linked to the bond issue, only went into effect at that time as well.

Statement of Cash Flows: Asset Management Contributes to Very Positive Free Cash Flow Despite High Restructuring Expenditures

The positive operating result resulted in an increase in the **CASH FLOW** by approximately € 140 million over the previous year's figure to € – 41 million.

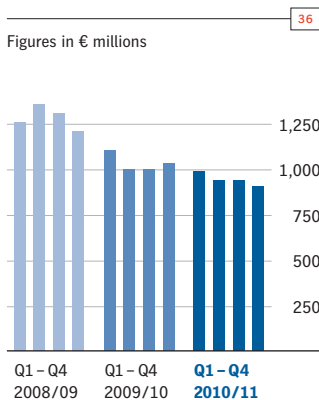
Cash generated by **OTHER OPERATING CHANGES** was especially high, reaching € 141 million despite burdens caused by the expenses for the Heidelberg 2010 cost reduction program as well as the reorganization. This shows that our net working capital program has been successful and contributed to our ability to reduce inventories and trade receivables and increase advance payments from customers. By reducing receivables from sales financing, we were also able to generate a high cash inflow.

CASH USED IN INVESTMENT ACTIVITY of € 25 million during the financial year exceeded the low level posted in the previous year. We also largely limited investments in new capacity to our strategically important Chinese production site in Qingpu during the reporting year.

Despite the restructuring expenditures, we were able to boost **FREE CASH FLOW** over the previous year by € 137 million to € 75 million – considerably higher than our projection.

DEVELOPMENT OF NET WORKING CAPITAL

Figures in € millions



	2008/09	2009/10	2010/11
Q1	1,261	1,107	987
Q2	1,360	1,000	940
Q3	1,308	999	940
Q4	1,212	1,031	908

FIVE-YEAR OVERVIEW – FINANCIAL POSITION

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Figures in € millions

	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011
Cash flow	398	290	– 238	– 179	– 41
Other operating changes	– 73	127	234	138	141
of which: net working capital	– 125	32	43	186	125
of which: receivables from sales financing	47	80	63	66	32
of which: other	5	15	128	– 114	– 16
Cash used in investing activities	– 96	– 202	– 197	– 22	– 25
Free cash flow	229	215	– 201	– 62	75
– in percent of sales	6.0	5.9	– 6.7	– 2.7	2.9

Financing Structure: New Lines of Credit and High-Yield Bond Secure Heidelberg's Medium-Term Liquidity

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 totaling € 1.4 billion from the banks providing financing. 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) initially amounting to € 300 million; a syndicated line of credit from a bank underwriting syndicate totaling € 550 million, which was 90 percent secured by guarantee commitments from the German Federal Government and the German States of Baden-Wuerttemberg and Brandenburg, and another syndicated line of credit of € 550 million.

In order to repay the financial liabilities under the bridge funding, we made use of the entire net underwriting revenue of approximately € 400 million from our capital increase in the autumn of 2010. During the second quarter, we repaid the compulsory share of the syndicated line of credit and the line of credit, including guarantee, from the German Federal Government and from 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 made a voluntary special repayment at the same time. During the third quarter, we were able to repay the remaining amount in advance and in full out of free cash flow and by restructuring our financing.

The simplified capital structure offered an optimal prerequisite for the refinancing prior to maturity, so that at the end of March 2011 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



The financing package that was repaid in April was based on comprehensive collateral, such as land charges, chattel mortgages, assignments of receivables, a pledge of shareholdings, and a pledge of brand names and patents. Moreover, the financing contracts included financial covenants customary in the market with reference to the financial position of the Heidelberg Group that related to five key financial figures.



We discuss the capital increase, which we successfully completed in September 2010, in the section on "Net Assets" on pages 79–81. We present the timetable for the refinancing on pages 66–67.



Heidelberg acquired a credit rating by two prominent rating agencies for the first time during the financial year. Standard & Poor's assigned a long-term rating of B+ with stable outlook. Moody's assesses Heidelberg with a Corporate Family rating of B2, with a favorable rating outlook.

Standard & Poor's gave a B rating to the high yield bond and Moody's rated the bond issue at Caa1.

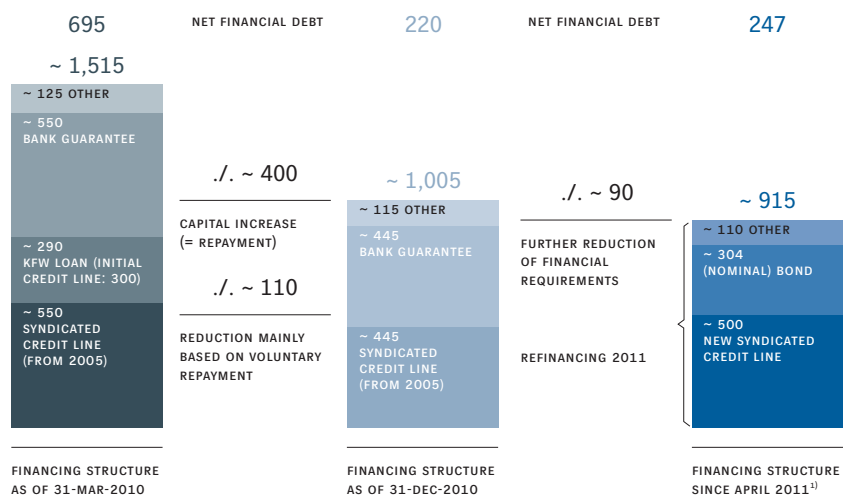
revenue for the early repayment of the two credits, of which one was secured by the German Government, as well as for general financing of the Company. Furthermore, simultaneously with the bond issue in April, a new revolving credit facility of € 500 million from a bank underwriting syndicate and running through the end of 2014 went into effect. The new financing contracts contained financial covenants with reference to the financial position of the Heidelberg Group, which are customary in the market.

With the successful refinancing and capital increase, not only have key performance data such as the debt ratio considerably improved, but Heidelberg was also able to reduce its dependency on banks and diversify its sources of financing. The table below illustrates the timing and scope of Heidelberg's debt reduction and refinancing. Our Company now has access to a stable liquidity framework that ensures adequate scope to take action.

DEVELOPMENT OF THE FINANCIAL STRUCTURE

Figures in € millions

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¹⁾ Effective as of April 7, 2011

In addition to the above-mentioned financing instruments, Heidelberg still has two borrower's note loans outstanding with a nominal value of € 55 million, which mature in 2011 and 2013. Furthermore, another loan is outstanding in the amount of € 56 million, which is secured by usufructuary rights on three developed plots of land.

The funding is supplemented by operating lease contracts when economically appropriate. Other off-balance sheet financing instruments do not have any significant impact on the economic condition of the Group.

ROCE and Value Added – ROCE in the Black and Increasing Value Added

- > ROCE in the Black for the First Time following Two Years of Losses
- > Cost of Capital Burdens Value Added
- > Loss Reduced by More than Half

ROCE and value added, in addition to other key financial indicators such as EBITDA/ EBIT, and free cash flow, are integral components of the Group's strategic planning. The overview below shows developments in recent years and makes clear that we are on the right track. Our target is to generate a favorable value added in the next financial year and to thereby again sustainably increase the Heidelberg Group's corporate value.

ROCE at €10 Million, Up by €148 Million

Thanks to the marked improvement in the operating result, for the first time in the past two years, ROCE was in the black again, reaching €10 million. We succeeded in simultaneously further reducing operating assets – beside the lower level of investments, our Net Working Capital Program was the principal cause of the reduced commitment of funds in recent years. As a consequence, ROCE amounts to a 0.7 percent share of operating assets. Primarily due to the considerably higher equity ratio, the average cost of capital rose slightly to 9.9 percent. Although as expected, value contribution still remained clearly negative, it was up considerably over the previous year and amounted to more than €160 million.



ROCE, the abbreviation for "Return on Capital Employed", is self-explanatory. We calculate this ratio by correlating the result of operating activities excluding special items plus income from participations to average operating assets. On the basis of a weighted average cost of capital, which is calculated on the basis of the share of the capital components, we determine the cost of capital. In the reporting year, we utilized a riskless interest rate of 3.75 percent in calculating the average cost of capital, a market risk premium of 5.0 percent, and a beta factor of 1.3.

FIVE-YEAR OVERVIEW – ROCE AND VALUE ADDED

Figures in € millions

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	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011
Operating assets (average)	1,879	1,887	1,771	1,564	1,429
ROCE¹⁾	295 ²⁾	254	-63	-138	10
– in percent of operating assets	15.7	13.5	-3.6	-8.8	0.7
Cost of capital	185	183	206	153	142
– in percent of operating assets	9.9	9.7	11.6	9.8	9.9
Value added	110	71	-269	-291	-132
– in percent of operating assets	5.8	3.8	-15.2	-18.6	-9.2

¹⁾ Includes the result of operating activities excluding special items and income from investments

²⁾ Adjusted for positive one-time effects totaling €60 million

Heidelberg Equipment – Marked Sales Increase

- > Differentiated and Integrated Product Portfolio Ensures Competitive Advantages for Customers
- > Offerings Expanded to Include Digital Printing Presses
- > Platform Strategy Pays Off



The Heidelberg Equipment Division is responsible for the development, production, as well as sales and marketing of our printing and finishing printing presses for all target groups. This division also includes the equipment business of our participation in the label and flexo-printing press sales of the Swiss firm Gallus. The digital printing press business is also covered by this division.

The goal of the Heidelberg Equipment Division is to remain or become the preferred partner of the print media industry in all areas of sheetfed offset printing worldwide. Structural changes have accelerated considerably in the printing industry of the industrialized countries, and the wave of print shop consolidations has continued. As we show on pages 25–29, our product portfolio precisely meets the requirements of our various target groups. We made progress with print shops in the industrialized countries due to the leading technological position of our wholly integratable systems and our ability to precisely tailor our offerings to their requirements. In the newly industrializing countries, the quality of our standard printing presses and our strong local presence are competitive advantages.

The Most Advanced Machine Platforms in the Market Ensure Success for Customers



We offer our customers opportunities for the production of high-finish, forgery-proof folding cartons, ranging all the way to “IN-MOLD” PRINTING of yogurt cups. We were thereby able to win over more and more industrial packaging print shops as customers.

We have been continually strengthening our position in packaging printing for a number of years. This segment is less cyclically sensitive than traditional commercial printing and print advertising, and offers higher potential for growth as well. The brand name strategy of many manufacturers requires ever more exclusive packaging. Products and foodstuffs in developing and emerging markets are increasingly being sold packaged rather than loose. With our systems, customers can produce not only high-finish cardboard packaging, but bulk packagings as well. Regardless of the size and the particular strategic focus that a packaging print shop has, we can provide a comprehensive solution that is precisely tailored to their requirements and customer groups, extending all the way to finishing – a unique point of sale that is especially important in this domain of our industry.

The flexibility and adaptability of our printing presses are a crucial competitive factor – not only in packaging printing, but for commercial printing establishments as well. The Speedmaster XL 105, which we introduced in the market in 2004, represented a new generation of printing presses in the high-performance class. The XL 145/XL 162 models, our new, largest format class, was later introduced in 2008. Both of these model series have been designed for packaging printing and highly productive commercial printing. Thanks to our platform strategy and the

modular concept of our systems, our Speedmaster SM 102 and CD 102 customers were able to benefit from the achievements of our XL developments right from the start. For example, they were able to opt for core features like automated feeder and delivery components. Since the financial year, we have applied these technologies to the series production of our **SPEEDMASTER CX 102**, which we introduced for the first time at IPEX 2010 – in addition to the fully automated Preset Plus feeder and dynamic sheet brake, this model also has high-performance components in the cylinder bearings and the gripper system. We have additionally reinforced the construction of the printing unit in order to ensure the accustomed degree of quiet at the now higher maximum speed as well. With the large number of innovations and the new speed of up to 16,500 sheets per hour, the Speedmaster CX 102 is very well suited for packaging printing, label printing, and for high-quality commercial printing. With its versatility, it has also been well received because it can print equally well on light-weight paper, bending-resistant cardboard, and even various plastic materials. The modular design permits flexible, specially tailored machine configurations: ranging from conventional straight-ahead printing presses all the way to duo configurations with a coating unit before the offset units. Also possible are UV operation, mixed operation with conventional and UV inks, and a dual-coating printing press – in-line finishing opportunities are available right through to cold foil application with FoilStar. These properties make this printing press interesting primarily for small and medium-sized print shops that work with a mixed range of orders that require a high degree of flexibility.

Cost of Manufacturing: an Important Fine-Tuning Instrument for Improving the Profit Situation

The extreme precision with which our mechatronic systems function as well as the wide range of configuration opportunities is decisive for our customers' success – and presents a challenge for our manufacturing and production processes. We continually reduce the cost of manufacturing by systematically seeking out opportunities for optimizing processes. Our comprehensive **HEIDELBERG PRODUCTION SYSTEM (HPS)** made it possible for us to reduce costs by a total of over € 11 million in the production areas during the financial year. HPS rests on five pillars:

- > Zero-error strategy: Only error-free products are delivered to our customers – by “customer” we refer not only to external customers, but to the next step in the production chain as well.



We cover the entire market with our various product platforms and offer each customer a combination of price and performance that is optimal for that customer. We present an overview of our product portfolio on page 28–29.

Despite the past crisis, we succeeded in expanding our offerings with the Speedmaster CX 102. The product launch went very well. This year, we are expanding the sales of this model to newly industrializing countries worldwide as well. We report on the environmental qualities of the Speedmaster CX 102 under “Sustainability” beginning on page 114.



On page 30, we provide some insight into the demands to which our systems are subject. They make clear how important the production process is for the Group. We also present an overview of our manufacturing facilities. We make use of HPS at all our production sites.

- > Synchronous production – in other words, both in continuous assembly as well as in the materials supply via the Kanban process, if possible.
- > Efficient work structures, ranging all the way to the ergonomic design of the individual workplace.
- > The employees are subject to management by objectives. Although performance targets are set, the details of achieving these goals are not stipulated – this is decided by the local teams themselves.
- > Continuous further development, not only of all processes and technologies, but of employee qualifications as well.

Result of the Division Still Heavily Burdened; Marked Improvement over the Previous Year

The more positively the overall economic situation has been assessed, the more companies once again increased their advertising budgets during the financial year. The order backlog of commercial print shops improved, and they again ordered more new printing presses. With the exception of the German and UK markets, however, demand in the industrialized countries picked up slowly. The highly successful IPEX trade show in the UK and the ExpoPrint in Brazil caused **INCOMING ORDERS** to grow by leaps and bounds early in the financial year. At IPEX alone, we were successful in selling 15 Speedmaster CX 102 printing presses, which we described on the previous page, with a total of approximately 100 printing units. We also succeeded in acquiring new customers for our large format product platforms. Industrial folding carton printers are increasingly switching to Heidelberg products because the advantages of our platform in the 145 and 162 formats are convincing in every respect. In the Web-to-Print segment, the Speedmaster XL 145 has been highly successful against competing products because of its future-oriented technology. This model has already attained a market leader position, which we intend to further strengthen with new perfecting presses. Strong growth in some newly industrializing countries generated continually high incoming orders – from China and Brazil, for example. Altogether, we were therefore able to increase the scope of orders from the – very low – previous year's level by 24 percent to € 1,642 million. After adjusting for exchange rate effects, growth of 19 percent was posted.

The **SALES** of this division also rose considerably, increasing by 19 percent to € 1,516 million – after adjusting for exchange rate effects, 14 percent growth was posted. The **ORDER BACKLOG** has meanwhile grown far above the low previous

year's volume. The length of the order backlog was 4.6 months as of March 31, 2011. Although the higher volume results primarily from orders of large format models, other areas also generated gratifying growth. The time between order placement and the delivery of a printing press, which is manufactured and configured in accordance with the customer's requirements, varies according to the demand and the particular product. On average, we expect a period of three to four months.

We succeeded in increasing the **RESULT OF OPERATING ACTIVITIES** excluding special items by € 55 million from the still considerably negative level of € – 98 million. Moreover, we had also moderately increased our expenditures for research and development over the previous year. Favorably impacting the result were the increase in sales and the resulting profit contributions as well as the cost reductions that we generated in connection with the reorganization. We have acquired flexibility for expected growth since adjusting capacities the previous year. Although this will pay off in the future, it burdened our result during the financial year because the manufacturing of some product lines is at less than full capacity. Moreover, raw material prices increased to a much greater extent than had been expected. Income from special items amounted to € 10 million.

Overall, the number of our **EMPLOYEES** in this division decreased during the financial year by 360. This resulted from opposing developments. Although we further reduced the number of job positions in Germany, in China we hired new employees in order to satisfy demand for locally manufactured printing presses.

We systematically expanded our production site in Qingpu. Of the total investments of € 68 million, a substantial share of 22 percent was accounted for by our manufacturing equipment there. We make efficient use of existing installations and could therefore keep **INVESTMENTS** in this division at a low level. We had already built the advanced manufacturing facilities for our new format categories in prior years.

Of the € 104 million that we spent on **RESEARCH AND DEVELOPMENT** during the financial year, a large share was accounted for by projects that we will introduce for the first time at drupa 2012. Furthermore, we have brought to series production the products that were launched at IPEX during the financial year. In this area as well, we benefit considerably from our ability to build on the most advanced product platforms in our industry – a good example of this is the development of the Speedmaster CX 102, which we describe at the beginning.

HEIDELBERG EQUIPMENT

Figures in € millions

	09/10	10/11
Incoming orders	1,319	1,642
Net sales	1,271	1,516
Order backlog	541	583
Result of operating activities ¹⁾	– 153	– 98
Special items	– 11	10
Research and development costs	102	104
Investments	50	68
Employees	10,614	10,254

¹⁾ Excluding special items



As in the past, we continued to invest in projects in association with the Heidelberg Production System (HPS). In addition, we were able to complete projects that are of benefit to environmental protection – for example, we refurbished the Company gas station at our Wiesloch-Walldorf facility, and renovated the ventilation and air-conditioning system at the Amstetten manufacturing facility. Our Amstetten foundry is one of the most advanced facilities of its kind in Europe. We completed the construction of our new hand-molding plant in March 2011.

Heidelberg Services – Increasingly Significant for Print Shops and Our Group

- > Strategy in the Consumables Area Achieves Success
- > Result Grows Substantially
- > Even More Comprehensive Software Solutions for Print Shops:
Acquisition of the Company CERM



Service, consulting services, software solutions, and consumables are playing an increasingly important role in print shops' investment and production security – and in their profit situation. Our Heidelberg Services Division covers the service requirements of our customers along the net value-added process as well as the entire product life cycle – all the way to the remarketing of used printing presses. Prepress is part of this division, including our platesetters.

In the Report on the Regions, we highlight the expansion of our sales of added value services and consumables in all regions and markets. The print media industry's need for all kinds of services and for high-quality consumables continues to grow worldwide – regardless of cyclical trends. Our strategy's key factors for success, which primarily aims to expand our service, software, and consumables business, include our large installed base, our tightly meshed service and sales network – and the confidence of our customers in the quality of our services and products.

The services we offer support customers in securing their profitability – even in view of the structural changes in our industry. Our priorities focus on increasing equipment readiness, on enhancing productivity and process efficiency in all areas of our facilities, and on consulting in environmentally friendly printing.

Consumables Business for Sheetfed Offset Printing: High Market Volume Worldwide

Despite the marked increase, Heidelberg's market share is still single digit in the consumables area and thereby has considerable potential for us. Our goal is to play an outstanding role in the market segment that we address as a seller of consumables: consumables for prepress, printing, and finishing for sheetfed offset print shops worldwide. Excluding expenditures for paper, this segment had a total volume of nearly € 8 billion in calendar year 2010. Heidelberg's market share has meanwhile reached approximately 4 percent. Customers benefit from our Saphira consumables because they thereby achieve optimal results – even at a production speed of 18,000 sheets per hour, which our XL printing presses achieve. Customers can therefore better enhance their differentiation vis-à-vis the competition at a low cost with various specialized applications of Saphira products.

The Division's Range of Offerings Expanded Considerably

In order to support our customers in the best possible manner, we established a service portfolio that goes well beyond guaranteeing absolutely stable production, which we ensure with our technical services and certified consumables. We are in a position to comprehensively optimize customers' production and management processes by means of our educational and advisory offerings as well as the right software. Moreover, we support print shops in their penetration of new areas of business. We thereby help customers improve their overall performance. The services we offer are described on page 29 in the Product Overview.

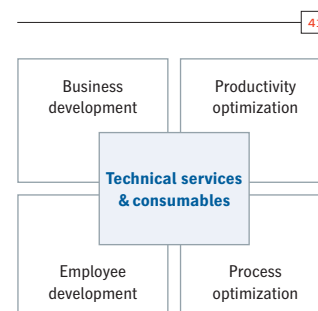
We discuss our medium-term sales targets in the Outlook chapter. We will achieve our goals in this division by

- > further expanding our offerings;
- > growing organically, cooperating even more intensively with other firms, and by additionally making use of external growth potential through corporate acquisitions if they provide favorable value added;
- > more extensively and fully utilizing our broad installed base; and
- > by enhancing the competitiveness of customers through innovative services.

In February 2011, we acquired the Belgian software manufacturer CERM, thereby expanding our offerings in **MANAGEMENT INFORMATION SYSTEMS (MIS)**. A total of 26 employees work for CERM, which specializes in the development, marketing, and implementation of MIS for advertising and label printing. We began marketing this firm's portfolio as early as in March, including a linkup with Prinect Workflow. The worldwide market volume of MIS in the printing industry is estimated at approximately € 200 million.

We introduced our software-supported service solution **PRINECT PERFORMANCE BENCHMARKING** for the first time at IPEX 2010. We were awarded the special prize for this product – IT Innovation Award 2011 from Initiative Mittelstand – from the German State of Baden-Wuerttemberg. A 100-person specialized panel of judges assessed the approximately 2,000 products that were submitted based on the criteria innovative content and suitability for small and medium-sized firms. Prinect Performance Benchmarking makes it possible for print shops to compare their capabilities and efficiency with other print shops worldwide that have a similar business model and configuration of printing presses. An anonymous data pool that is updated day-to-day serves as the basis of comparison.

OFFERINGS OF THE HEIDELBERG SERVICES DIVISION



The expansion of our offerings is based on comprehensive analyses, including a focus on the question of either relying on the Company's own products or on outside suppliers. In the past, in the consumables area, among others, we acquired the firm Hi-Tech Coatings, a manufacturer of specialized coatings, and the printing ink specialist Ulrich Schweizer GmbH/IPS GmbH in Waiblingen.



In most markets, our service contract **SYSTEMSERVICE 36PLUS** is an integral solutions component included with new printing presses. For already installed printing presses – and as a supplement to Systemservice 36plus – we offer additional modules within the framework of our **PARTNER PROGRAM**.

As in the past, our Internet-based **REMOTE SERVICES** are unique in the market. They perceptibly reduce the service costs for our customers and for Heidelberg – among others, by making it possible for our service technicians to correct operating problems externally via a data link – ideally, even during the production process.

HEIDELBERG SERVICES

Figures in € millions

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	09/10	10/11
Incoming orders	1,033	1,099
Net sales	1,016	1,097
Order backlog	55	51
Result of operating activities ¹⁾	12	84
Special items	-17	-8
Research and development costs	19	17
Investments	12	11
Employees	5,827	5,522

¹⁾ Excluding special items

In order to emphasize the quality of Heidelberg's services in every aspect of our work, worldwide guidelines have been established governing corporate behavior. For our dealings with customers, we have adapted the Customer Orientation Module of the Ritz Carlton's Total Quality Management Program. This is also part of the sales team's training program.

Since the year 2005, we have been offering special **MAINTENANCE CONTRACTS** for customers with older models of printing presses. Integrated maintenance and the use of original service parts pays off for print shops – not only with higher production security, but also with a higher resale value of their printing presses.

At the end of March 2011, we launched a new generation of **SAPHIRA CONSUMABLES** in the market that fulfills the highest standards of environmental protection worldwide – and give our customers the ability to rise above the competition with especially high-quality printed products.

Improved Result of This Division Excluding Special Items of € 72 Million

The higher capacity utilization of print shops resulted in greater demand for consumables by print media companies. Additionally, a growing number of print shops is placing their trust in our application experts and Heidelberg's own Saphira brand name. Our purposeful use of cross-selling potential also had a favorable impact on our consumables business. As a matter of principle, we offer complete consumables packages when selling a new printing press. Our Systemservice packages are integral components of new printing press sales. Demand for our other services and products also rose, especially for our Prinect software. Altogether, this division's **INCOMING ORDERS** increased by 6 percent to € 1,099 million.

This division's **SALES** rose by 8 percent to € 1,097 million – after adjusting for exchange rate effects growth was 1 percent. While we grew in the consumables area at a considerably more rapid pace than in the previous year, a lower volume of remarketed equipment sales was realized. Since the time span in this division between order placement and delivery is generally quite short, other than in the Heidelberg Equipment Division, the key performance figure “**ORDER BACKLOG**” is not very meaningful.

This division's **RESULT OF OPERATING ACTIVITIES** excluding special items clearly benefited from cost reductions resulting from the reorganization measures. Together with the changed composition of sales, the result excluding special items improved over the previous year from € 12 million to € 84 million. Expenses for special items amounted to € 8 million in the division.

We were able to further reduce this division's **INVESTMENTS** from the previous year's already low level. In prior years we had expanded our network of Print Media Academies worldwide, thereby creating an infrastructure for the specialized training of our customers as well as our sales and marketing specialists, which is unique in our industry. We also constructed and expanded logistics centers in the

US and Asia. With our four logistics centers worldwide – which have 130,000 various categories of parts in stock – in over 95 percent of the time we are able to immediately supply customers in 170 countries on five continents with service parts – and to some extent with consumables as well. We intend to erect an additional logistics center for the Eastern Europe region and thereafter will largely complete the buildup of our network.

We spent € 17 million for **RESEARCH AND DEVELOPMENT** in this division. This was primarily for the advanced product development of our Prinect software and for series support of our platesetters.

According to plan, the number of our **EMPLOYEES** in the division fell by 305 to 5,522 during the reporting year. We provided extensive training programs for our employees because we want to provide our customers with professional advice. Demand is heavy for our expertise in applications technology, especially in inks and high-quality coatings.

Heidelberg Financial Services – “Captive Finance Provider of the Year”

- > Financing Services Awarded
- > Volumes of Receivables Down Again
- > Past Due Items Fell Further



Even in the new structure, we include our whole range of operations in sales financing in a single division. The opportunities and risks in this area require special expertise and transparency regardless of the other business areas. We still hold on to the proven strategy of this division, which primarily focuses on consulting and the arranging of financing between customers and financing partners.

In the Heidelberg Financial Services Division, we have been intensively working together with financial service providers for a number of years. We primarily mediate financing solutions for our customers. Moreover, we have built up a network of Group-owned print finance companies in various currency zones in order to be in a position to also offer direct financing, if necessary. Our process for managing credit risks has proven to be successful here. The risks associated with funding are made transparent for the decision-making process and are managed on a centralized and global basis. In addition to a uniform industry-specific rating system, which has been continually further developed for a number of years, during the crisis we intensified our receivables management and even more closely monitored refinancing.

With our service, we contribute substantially to the ability of print shops to make investments, which are appropriate from the point of view of business management, in state-of-the-art technologies from Heidelberg – regardless of whether they are located in industrialized countries with fully developed financial markets or are in newly industrializing countries, which often do not have access to sufficient sources of financing for small to medium-sized firms. We again acquired several new financial service providers as cooperating partners during the financial year – for example, in China and Germany.

Award Granted in Milan: “Captive Finance Provider of the Year”

We are pleased to have been named the “Captive Finance Provider of the Year” by the prominent trade press publication Leasing Life in November 2010. In the ceremony for the International Asset Finance Awards in Milan, Italy, the choice of Heidelberg was based among other things on the continuing and consistent strategy of Heidelberg Financial Services and the comprehensive specialized knowledge of the division’s experts.

With the Asset Finance Awards, the leading European trade journal for the leasing and investment goods financing sector pays tribute to the services of the sector’s most successful companies and experts. The award was presented for the



Externalizing financing arrangements to the greatest possible extent serves to preserve the Group’s liquidity. We cooperate with external financing partners worldwide. In addition, we have also been working closely together with Euler Hermes Kreditversicherungs-Aktiengesellschaft for a number of years in order to cover export financing risks.

first time in 2007. Heidelberg's team prevailed against prominent international companies from various industries. With the decision, the panel of judges, made up of independent experts from the leasing and asset finance sectors, honored the strategy that we have pursued for many years.

Result Considerably Improved Due to Low Costs for the Provision for Risks

Thanks to the close cooperation with our financing partners, in recent years we have been able to considerably reduce the volume that we finance directly. The graphic on the right makes clear that again during the reporting year, we succeeded in largely externalizing new financing arrangements – despite the ongoing restrictive financing policy of some banks and leasing companies.

Thus, our **RECEIVABLES FROM SALES FINANCING** further declined during the financial year, falling from € 212 million to € 178 million. Our **ACQUIRED COUNTER-LIABILITIES** also further declined to a considerable extent.

The economic conditions of print shops improved gradually worldwide during the financial year. As a consequence, payment difficulties in our portfolio fell off considerably. Contributing to this were our ongoing intensive receivables management and the improvement of the exchange rates in newly industrializing countries vis-à-vis the euro – among others, in the Brazilian market, where our directly financed portfolio is relatively high. We benefit from our conservative approach to risk assessment, with the costs for risk provision below the level of the preceding years – among others because we were able to release provisions for risks that are no longer required.

This division's **RESULT OF OPERATING ACTIVITIES** excluding special items was accordingly a favorable € 18 million, compared with € 11 million the previous year – primarily due to the modest decline in net interest on the heels of the cutbacks in the portfolio. The number of the **EMPLOYEES** remained nearly unchanged at 52. Our sales financing strategy, which we have pursued for many years, has proven to be extremely robust in economically difficult underlying conditions.

HEIDELBERG FINANCIAL SERVICES

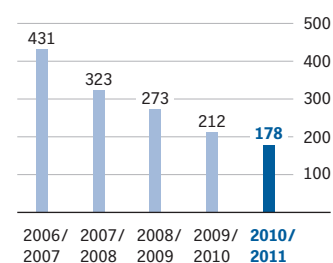
Figures in € million

	09/10	10/11
Net sales	19	16
Result of operating activities ¹⁾	11	18
Employees	55	52

¹⁾ Excluding special items

RECEIVABLES FROM SALES FINANCING

Figures in € million



Regions and Priorities

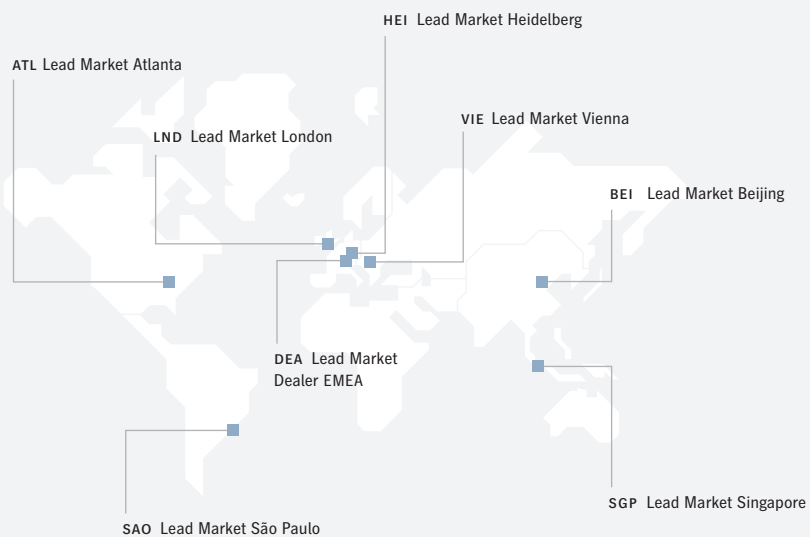
We want to be the preferred partner to the print media industry worldwide and secure competitive advantages for our customers. In order to achieve this goal, among others we have built up the most tightly meshed service and sales network in our industry. Moreover, we produce printing presses locally in China that are precisely tailored to the requirements of the local market.

The feedback of our employees worldwide is an important source of information for us, as it lets us respond to market trends at an early stage. This feedback merges among others with new and advanced product developments – and affects our range of consumables. Preferences for special effects and inks differ considerably from market to market.

We always keep our sales and marketing operations up-to-date – among others, through on-line training programs – and make available all solutions to problems in our platform of experts. Moreover, we utilize our 17 Print Media Academies in 14 countries for advanced training, through which we offer our customers a basic and specialized training program that is unique in our industry.

LEAD MARKETS

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Report on the Regions – Growth in All Regions

- > Structural Changes in the Markets
- > Trade Shows Result in Significant Growth in Incoming Orders during the First Half-Year
- > Industrialized Countries Grow Only Slowly; China Continues on a Strong Growth Trend During the Financial Year

We are present in 170 countries and reach our customers via the densest sales and service network in the print media industry. In the industrialized countries, the structural change of our industry accelerated enormously over the past few years. In the section “Underlying Conditions and Overall Picture”, we discuss causes for the highly differentiated development of the economic situation of the printing industry in various regions as well as the increasing global demand for printing presses manufactured according to customers’ exact requirements. We support our global service and sales team in many ways to ensure that they can provide customers with the best possible advice in view of these changes. Moreover, our new management system makes it possible to implement our strategy of reducing Heidelberg’s dependence on business cycles even more effectively in the markets.

The Trend: Markets Are Gradually Becoming More Similar; Increasing Significance of Large Print Shops; Customers Becoming More Specialized

As the growth of the printing industry has a long history, even neighboring markets often differ considerably in terms of the structure and focus of our customers. For example, the letterpress segment is a traditional strength of Italian print shops, whereas traditional commercial printing with short print runs prevails in Germany, and many high-quality packagings are printed in France. Nevertheless, these evolved differences in the industrialized countries are becoming less and less important. The trend to fewer but, for that, larger printing companies that produce a multitude of print jobs is becoming increasingly strong. Small and medium-sized firms are becoming more specialized and offer additional value-added services. The number of small and medium-sized print shops in the newly industrializing countries requiring high-quality standard printing presses is growing. Moreover, demand for high-tech solutions is increasing rapidly in these countries as well – and this not only from export-oriented print shops.



Especially in view of the diversity of customers’ requirements, it is clear how important it is for us to provide customers with on-the-spot access to highly trained sales and service employees.

The service expertise of our sales and marketing companies is a principal reason that we hold the position of the leading machinery and equipment supplier to the print media industry in all markets. We are expanding our team of specialists, who can optimally advise print shops on questions concerning consumables, application, and certification in accordance with ecological standards.

Eight Lead Markets Worldwide; Global Sales Support

Our service and sales team focuses not only on satisfying the requirements of small and medium-sized print shops, which worldwide account for approximately 80 percent of our customers, and on helping them implement successful business ideas – but also on advising and supporting internationally active print groups.

We reorganized our sales and marketing structure in the autumn of 2009. Our market organization is organized into eight lead markets. We discuss in more detail on pages 36–39 how “Business Drivers” implement our current business plan in close cooperation with the management of the lead markets. We intend to purposefully use synergic effects that arise from the convergence of markets. We therefore expanded our global sales support. Moreover, we began to further standardize and intensify our customer relationship management worldwide during the financial year. We are convinced that after we have analyzed all the data, we will detect additional opportunities for optimization. Among other things, we intend

- > to enhance the transparency of customers and sales processes in order to recognize and be in a position to make use of market trends at an even earlier stage;
- > to examine how locally successful strategies can be transferred to other markets; and
- > to fully utilize cross-selling potential among the divisions.

Marketing Activities Focus on Strengthening Brand Name Values Worldwide

We are determined that in all their contacts with Heidelberg, customers and business contacts experience the brand name values “Proximity, Strength, Confidence”. Customer orientation is a key pillar of our corporate behavior. Over the last ten years, we have tailored our product portfolio to changing customer requirements – and building on this, changed our communications and the corporate design.

Our integrated marketing mix demonstrates to all target groups the benefits of our offerings. Our product portfolio perceptibly helps print shops achieve success in difficult market environments. During the financial year, the course of trade shows and in-house presentations proved that we could make this accessible to customers. Our in-house presentations, which were held specifically for advertising and packaging printers, aroused considerable interest. At our demonstration print shops (Print Media Center) in Heidelberg and Wiesloch-Walldorf, in addition to numerous presentations for customers, we also implemented over 1,500 individual target-group-oriented demonstration print applications during the financial year. We increasingly address not only our traditional target group, but marketing decisionmakers as well – for example, our PMA seminars during the financial year on such subjects as “Sustainability and Marketing” were fully booked up.



When we sell a printing press, as a matter of principle we offer complete consumables packages. Our customers appreciate the fact that these so-called “Starter Kits” can help to easily satisfy ISO 12647-2 printing press certification requirements as well as the PSO standard.

We have standardized our marketing processes and activities. All markets work together on a finely tuned basis, using the same marketing instruments worldwide, which they may adapt to regional requirements. In this way we have enhanced our brand name recognition and loyalty.

INCOMING ORDERS AND SALES BY REGION

Figures in € million

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	2009/2010	2010/2011
Europe, Middle East and Africa		
Incoming orders	933	1,049
Sales volume	952	1,011
Eastern Europe		
Incoming orders	273	308
Sales volume	272	299
North America		
Incoming orders	272	331
Sales volume	300	301
South America		
Incoming orders	123	172
Sales volume	113	162
Asia/Pacific		
Incoming orders	770	897
Sales volume	669	856

During the financial year, we adjusted the classification of the markets in the regions in order to match our internal lead market marketing structure. Thus, the Baltic markets and Finland were transferred from the "Europe, Middle East and Africa" region to the "Eastern Europe" region, and Mexico from "South America" to "North America". The previous year's figures have been adjusted accordingly.

Europe, Middle East and Africa – Highly Differentiated Market; Incoming Orders Up by 12 percent

Compared with the previous year's figure, incoming orders and sales of the Europe, Middle East and Africa (EMEA) region rose, respectively, by 12 percent and 6 percent – or, adjusted for exchange rate effects, by 10 percent and 4 percent, respectively. Market developments remained very uneven in this region throughout the financial year.

Incoming orders and sales grew favorably in Germany, having already reached a solid level in the preceding year. At the IPEX trade show in the UK, we introduced several new products that precisely meet the requirements of our customers for more profitability and environmental friendliness. Print shops honored our solutions, which precisely meet their requirements for process streamlining and optimization.



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We are pleased that the official program for the royal wedding was printed on a Heidelberg printing press, and we wish the couple all the best!

In the other industrialized countries of this region, the printing industry recovered modestly at first. As expected, growth was usually very moderate in countries that were affected by the debt crisis. First quarter incoming orders still were quite high in Italy because the Tremonti law, which was set to subsequently expire, had granted special depreciation opportunities. Overall incoming orders of the region during the first half of the financial year thereby exceeded the figure for the second half-year.

In the reports covering the two divisions Heidelberg Equipment and Heidelberg Services, we discuss how non-polluting printing has become an important trend, especially in the industrialized countries. In the EMEA region, many customers arranged for certification and reduced their CO₂ discharges – among others, as a marketing aid. We expect a further upswing in our industry during the current financial year, with growth primarily in the equipment area. We view the developments in the Middle East, at least in the longer term, as an opportunity for Heidelberg.

Eastern Europe: Uneven Developments As Well

In the markets of Eastern Europe, the customer structures and the priorities of the printing industry are highly varied. Despite very difficult underlying conditions, some markets had recovered relatively quickly in the preceding year. Overall incoming orders increased by 13 percent, adjusted for exchange rate effects by 12 percent. By contrast, the propensity to invest of print shops in Austria was extremely weak through the end of the financial year. We again generated enormous growth in Poland, where we sold primarily large format printing presses – among others, to export-oriented customers.

Turkey, where services and consumables on average account for a nearly 50 percent share of the volume of orders in that market, had focused on the consumables area early on and also recorded a gratifying volume of incoming orders. During the reporting year, sales rose further by 75 percent in Turkey over the solid previous year's level.

We intend to expand our service business through this region. We will further improve the quality of service for our customers and will be in a position to deliver consumables even more efficiently from a new logistics center. In this region, our financing services continue to represent an additional and often also a crucial competitive advantage for Heidelberg.

North America: Capacity Utilization Continues to Rise Slowly

We had expected the economic recovery in the US to spread to the printing industry at the earliest towards the end of calendar year 2010. The industry temporarily picked up slightly only during the third quarter. We were successful in generating an increase of 22 percent – adjusted for exchange rate effects, of 12 percent – in incoming orders compared with the very weak preceding year. Adjusted for exchange rate effects, sales fell considerably short of the preceding year's volume.

As the capacity utilization of commercial print shops in the US and Canada was still very low throughout the year, demand from our customers for consumables was comparatively weak. Canadian print shops, which are largely export-oriented, suffered additionally from the still slack demand from the US under difficult exchange rate conditions. We therefore benefited only negligibly from our high market share in the consumables area in Canada of over 35 percent.

Especially because we have a particularly broad, flexible, and in every respect customer-driven product portfolio, we expect to realize substantial gains in sales and market share as soon as the investment backlog, which arose in Canada and the US, is worked through. We expect this because commercial printers in the highly-industrialized and extremely competitive North American market seek out new opportunities to differentiate themselves from the competition. Environmental aspects are also becoming an ever more important issue. Under the terms of a cooperative marketing agreement we are offering large format VUTEk digital printing presses in the US, which we will integrate into our workflow. This approach makes it possible for us to guarantee to our customers, among other things, that offset and digital printing presses print the exact same hue.



Mexico has been classified in this region since the beginning of the reporting year. This market developed gratifyingly during the reporting year, and the future outlook is promising – although there are some country risks as well. The previous year's figures have been adjusted accordingly.

South America: 40 Percent Growth in Incoming Orders Powered by Brazil

We presented solutions to the most varied customer groups at Brazil's ExpoPrint trade show in June 2010. We were successful in gaining considerable additional market shares in all formats, primarily in the 70×100 format – our Japanese competitors were disadvantaged due to exchange rate structures. Our local presence, our financing services, and our close cooperation with external financing service providers are important competitive advantages throughout this entire region. Moreover, especially print shops located in markets with very long travel distances appreciate the high degree of reliability that our solutions ensure. Print shops in this region increasingly favor our remote services, which enable maintenance and repairs via data link and thereby offer competitive and cost advantages.

In addition to the ExpoPrint and the solid business developments, tax advantages increased the propensity to invest of our customers in Brazil. Business developments were also gratifying in some of the smaller markets. For example, we were able to sell the first double-coating printing press, among other things, in South America in Paraguay, where we have a very high market share. Even though this region had only declined relatively modestly in the previous year, we generated extraordinarily high growth in incoming orders and sales – up, respectively, by 40 percent and 43 percent, and after adjusting for exchange rate effects, by 36 percent and 39 percent.

We will benefit to an above-average extent vis-à-vis our competitors from the future growth of this region's economies. We are vigorously expanding our consumables and service business, which until now had only played a subordinate role in the region. The installed base is meanwhile sufficiently large for customers in this region, for whom high-quality inks and coatings are becoming increasingly interesting and important.



We reorganized our sales and service organization in Australia and Japan during the financial year, thereby realizing considerable cost reductions.

Asia/Pacific: Strong Boost Again in Incoming Orders and Sales

During the financial year, incoming orders and sales of this region surpassed both the already high previous year's figure as well as our own forecast. Growth only slowed somewhat towards the end of the reporting year. Overall, we generated growth in incoming orders and sales in this region, respectively, of 16 percent and 28 percent – after adjusting for exchange rate effects, respectively 6 percent and 16 percent.

The earthquake in Japan and its dramatic consequences unfortunately also affected some of our customers. Fortunately, none of our employees were injured. Some print shops were destroyed completely. Our employees repaired numerous damaged printing presses within a few weeks and generally supported print shops in any way they could.

Compared with our European competitors, we are still clearly at an advantage, especially in China because in contrast to our competitors, we have a local production site. On the following pages, we discuss developments in China and our Chinese manufacturing facility.

One strategic priority during the financial year was to increasingly offer the coatings of our subsidiary Hi-Tech Coatings in the Asia/Pacific region, and thereby further expand our consumables business. We expect to again generate comparably high growth rates in this region in the consumables segment during the current financial year, as during the reporting year.

Focus on China – Taking Advantage of Growth and Counteracting Risks

- > Still the Only European Printing Press Manufacturer with Local Production Facilities
- > Strong Solution Offerings at the Print China Trade Show in April
- > Heavy Demand Expected in the Coming Years As Well

We had already recognized years before the enormous potential of the Chinese market – the standard of living and disposable incomes of that large population are growing very rapidly. As a consequence, we were the first – and we are still the only – European printing press manufacturer to establish a manufacturing facility in China in order to be in a position to cover the need for standardized and reliable printing presses with a low degree of automation. When we laid the cornerstone for this plant in 2005, our primary consideration was on a strategic penetration of the Chinese market – as well as the desire to reduce the risk that high import duties could considerably hamper our business development. Initially, we focused on building up a pool of employees and a supplier base with the necessary expertise and ensuring appropriate qualifications. The previous year, in addition to folders as well as small and medium format printing presses, we also began assembling a 70×100 format printing press in China.

Because demand for our printing presses assembled in Qingpu continues to grow, we expanded our capacities and will be further expanding that facility in the future. The photos on page 105 illustrate the order of magnitude. We can meanwhile cover approximately one-third of the Chinese demand for printing presses out of Qingpu.

High Standards and Highest Quality in China As Well

The great popularity of printing presses assembled in Qingpu is the result, among others, of our refusal to deviate from our high quality standards. This is one of the reasons why until now, we have extended the local share of supplied parts to only approximately 30 to 40 percent. We are still working on ensuring supplier qualifications in order to cover 60 percent of purchases locally in the future.

EXPECTED GROSS DOMESTIC PRODUCT FOR CHINA ¹⁾

Change from previous year in percent

	2009	2010	2011
World	-2.1	3.9	3.3
Asia ²⁾	4.8	8.3	6.9
China	9.2	10.3	9.3

¹⁾ Source: Global Insight; WMM; April 2011

²⁾ Excluding Japan



With the increasing importance of the Chinese market, the impact on our business development of possible country risks would be greater – for example, if inflationary trends would further accelerate. We reduce the risks to Heidelberg by establishing structures in order to be deliver printing presses from Qingpu to neighboring markets as well.

As at all our production sites throughout the world, binding guidelines are required in China, which govern not only quality, but standards of social responsibility and environmental protection as well. Suppliers must pledge to observe comparatively high standards.

We intensively trained employees from China. They are meanwhile training themselves – with success. For example, the so-called reprint time – the length of time a mounted printing press must be reworked to produce perfect results – has been further reduced. Although we considerably expanded capacities and increased output, happily, again no on-the-job accidents occurred during the reporting year.

Demand Somewhat Subdued in the Run-Up to the Print China Trade Show



Our focus at trade shows was on such market trends as efficient packaging production, differentiation through creative print applications, short run color printing, and environmentally friendly printing. We officially presented the Speedmaster CX 102 in China for the first time and launched the sales of this new model series in the 70 × 100 format.

The most important trade show in our industry in this region, Print China, was held in April 2011 and attracted a total of 150,000 visitors – mainly from China but also from Singapore, South Korea, India and Taiwan. At our comprehensive 2,500-square-meter trade show booth, we showed how print shops can implement profitable and environmentally friendly print production with the most advanced technologies and services. There was a somewhat restrained level of spending by print shops in the run-up to the trade show. In connection with the liquidity cut-backs by the Chinese central bank, growth in China consequently weakened somewhat towards the end of the reporting year. For the current financial year, however, we assume that incoming orders will remain at the high level posted during the financial year – at the trade show alone we were successful in generating 4,500 requests by customers.

DEVELOPMENT IN CHINA

	2008/2009	2009/2010	2010/2011
Gross domestic product in absolute terms ¹⁾	22,289	24,342	26,856
Change in GDP against previous year in percent ²⁾	9.6	9.2	10.3
Sales volume	228	322	419
Sales volume as percentage of total sales volume	7.6	14.0	15.9

¹⁾ In RMB billion (calendar year); source WMM

²⁾ Change in calendar year; source WMM

In mid-2011, we are opening the doors to the third construction phase, which expands the overall manufacturing space. Not visible on the images: Numerous supply companies have settled in the neighborhood of our local production site.

DEVELOPMENT OF THE QINGPU PRODUCTION SITE

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2006	2007	2011	CONSTRUCTION
> 15,000 sqm	> 33,000 sqm	> 100,000 sqm	FLOOR SPACE
> 6,600 sqm	> 20,500 sqm	> 66,000 sqm	BUILDING SPACE
> 3,750 sqm	> 13,500 sqm	> 44,000 sqm	PRODUCTION SPACE
> Standardized printing machines for the 35 × 50, 50 × 70, and 70 × 100 formats > Standardized folding machines			PRODUCTION
> Approximately 350 during the reporting year			EMPLOYEES

Research and Development – Spotlight on Innovations Presented at drupa

- > Leading Technological Position to Be Expanded Further
- > Projects Completed to Improve Processes
- > Digital Printing Technologies Become More Important

The leading technological position of Heidelberg products is acknowledged in the print media industry. Over the past ten years, Heidelberg invested heavily in the development of various new product lines and their further development as well as Prinect software. Today, Heidelberg can offer print shops the most advanced comprehensive solutions.

We invested an amount equivalent to approximately 5 percent of sales in research and development during the reporting year. We focused on projects that were most important in the implementation of our strategy. We made use of opportunities to boost efficiency in the course of these organizational and process changes. For example, on the one hand, we were able to promote development projects, and on the other hand, we were successful in achieving major progress in technological developments. In addition, we reached a planned milestone in research programs, which Germany's Federal Ministry for Education and Research had called for. As in the past, cooperation agreements with suppliers, universities and other firms are an integral part of our R&D operations.



PAGES 117 – 119

We describe our close cooperation with other companies and universities – for example, in organic electronics – in the section “Cooperation Agreements”.

FIVE-YEAR OVERVIEW – RESEARCH AND DEVELOPMENT

	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011
Research and development costs in € millions	237	222	186	121	121
– in percent of sales	6.2	6.0	6.2	5.2	4.6
R&D employees	1,577	1,582	1,511	1,265	1,135
Patent applications	153	158	148	80	92

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R&D Rate Remains at Approximately 5 Percent, Even with Increasing Sales; Buildup of Expertise in Potential Key Technologies

We invested € 121 million in research and development during the reporting year, of which 4 percent was allocated to basic research. In order to build up expertise in technologies that offer considerable opportunities for future business development, we entered into new strategic partnerships in addition to existing cooperation agreements. During the current financial year, part of our agreement with Ricoh calls for our further development of their latest digital printing press and its integration by means of Prinect into the Heidelberg workflow – in order to then be in a position to sell it as an OEM product.

We supplement our offerings in inkjet and digital technologies so that our customers can expand their business models in a meaningful manner. Together with our development partners, we are further expanding our fund of knowledge about various digital printing technologies and establishing concepts for future integrated product solutions for our customers.

Restructuring the R&D Organization; Clear Processes Provide for Purposeful Innovations, with Environmental Protection Firmly Integrated

With our program BiRD (Best in Research and Development), since 2008 we have been upgrading all our research and development procedures. Our platform strategy is a result of this program. Thanks to this program, we are able to quickly transfer 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 system partners in projects at an early stage and work together with concept customers on product development. In this manner, we enhance the customer benefits of our new products – and concentrate on developments that will be of significant benefit to our customers. Among others, we work with the so-called Quality Gate Process in order to optimize product life cycles – which explicitly integrates all the participating areas in the product development process. We explain this in more detail in the Glossary.

Approximately 7 percent of our staff are active in R&D. Of the total of 1,135 R&D EMPLOYEES, 966 are currently active in the Heidelberg Equipment Division and 169 in the Heidelberg Services Division. Due to the staff reductions and short-time work, we have adjusted the timetables of some aspects of technological development projects. We thereby quickly brought the most important innovations to market. Our employees are highly qualified, as the graphic on the right shows. It was inevitable that the job cutback resulted in a loss of know-how. In order to counteract this development, we made intensive use of qualifying opportunities during



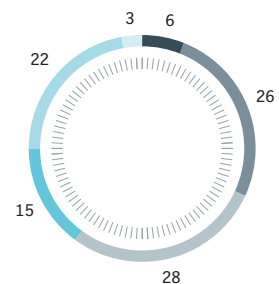
Environmental aspects have been, and still are, an important criterion in product development. In cooperation with the German Engineering Federation (VDMA) and other companies, during the reporting year a norm was proposed that would determine energy consumption during the printing process.



We were able to announce 92 new patents during the financial year. Heidelberg now holds nearly 5,000 registered and granted patents worldwide.

QUALIFICATIONS OF R&D EMPLOYEES

Figures in percent



■ Graduate	6
■ University/TH/TU	26
■ BA/technical college	28
■ Technicians/master craftsman	15
■ Technical vocational training	22
■ Other training	3



The project week "Introduction to Mechanical Engineering", held by the Darmstadt Technical University, transmits expertise that is important in the practice of the engineering profession. The 460 first-semester students spent a week working in 42 teams on a complex construction task – supported by Heidelberg.

short-time work phases. Our lecture series were also quite popular. In order to have access to better opportunities for a favorable mix of experienced personnel and junior researchers in the future, for the first time in the past two years, during the reporting year we again participated in presentations for first-semester students in order to kindle their interest in our Company. In addition, we develop approaches with which we can guide students in our new bachelor's and master's degree courses towards the development of technologically demanding products at an early stage.

Even before the Group's restructuring process, the research and development area had been organized in a **MATRIX**. Cross-platform functions such as management, software development, product safety, and product environment are included. Product-specific developments are bundled in the product areas. In this way, we achieve a harmonious balance between the utilization of synergic effects on the one hand, and unambiguous decision-making responsibility for the overall product on the other hand. Subsequent to the Group's reorganization, sheet punching equipment has been developed at Heidelberg. The development of Prinect products was organizationally integrated within the Heidelberg Services Division.

Goals, Priorities, and the Results of Research and Development

Despite all the difficulties and financial bottlenecks experienced during the crisis, we achieved our goal of expanding our leading technological position – and our new solutions will also be successful at drupa 2012. We will show our innovations primarily in the strategically important packaging and commercial printing segments, as well as in the Prinect and consumables areas. Environmental issues will play a role in all new product launches.

We offer the best integrated and networked solution for each of our target groups that is competitively available. Especially in view of the structural changes the printing industry is undergoing, which has resulted in a strong upward pressure on costs, the competitive advantages of our solutions in all format categories are even more important – after all, the income statements of print shops has been an important starting point of our work for a number of years. We illustrate this on page 25 and show where we focus on which product groups. We discuss new products and modules and their market potential in more detail in the reports of the divisions.

During the current financial year, we will initiate the planning process for our medium-term project portfolio. Our principal criteria will include: a significant increase in customer benefits, environmental issues, attractive new print applications, new areas of business, and efficient development and production.



In the course of our strategic realignment, we heavily oriented our research and development on new products. We transfer innovations to other product lines as well. During the current financial year, we are concentrating on innovations to be introduced in May 2012 in Duesseldorf at our industry's biggest trade show, which is held every four years: drupa.

Employees – Qualifications for New Responsibilities

- > Number of Employees Down by an Additional 668 from the Previous Year
- > Comprehensive Advanced Training during Periods of Short-Time Work
- > Addressing the Impact of Demographics

We believe that the fluctuations in the global economy – and with them, fluctuations in demand for our products – will remain very strong. While we were reducing our capacities, it was therefore especially important for us to maintain our flexibility. We need highly trained and experienced technical specialists in order to cope with the expected increase in business volume. In view of the foreseeable shortage of skilled workers in Germany, we have endeavored to retain our highly qualified employees to the greatest possible and necessary extent, and during the financial year invested further in the training of aspiring young employees.

The overviews on the right show that we have reduced job positions primarily in the regions of Europe, Middle East and Africa as well as in North America. The overall number of our employees fell by 668 during the reporting year. During the year, we absorbed overcapacities through short-time work. Meanwhile, approximately 70 new positions could be created at our Qingpu production site in China, where during the financial year we increased the number of printing presses assembled there by over 50 percent.

Process of Job Cutbacks Completed; Increased Flexibility; Promoting a New Self-Image

Again during the reporting year, we designed the process of job cutbacks to be as socially compatible 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. During the previous year and the reporting year, a total of 1,139 employees switched to transfer companies, which we had set up in close cooperation with Germany's Federal Employment Agency. New jobs could be arranged in a 12-month period for over 70 percent of the 1,054 affected employees the previous year. A further 10 percent turned to other prospects – for example, beginning university studies.

EMPLOYEES BY REGION

Number of employees		52
	31.3.10	31.3.11
EMEA	11,659	11,156
Eastern Europe	687	631
North America	1,086	1,000
South America	247	250
Asia/Pacific	2,117	2,160
	15,796	15,197
Trainees	700	631
Heidelberg Group	16,496	15,828

EMPLOYEES BY DIVISION

Number of employees		53
	2009/10	2010/11
Heidelberg Equipment	10,614	10,254
Heidelberg Services	5,827	5,522
Heidelberg Financial Services	55	52
Heidelberg Group	16,496	15,828

We absorbed 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 be in a position to react to capacity fluctuations during the course of the year. The employees have additionally agreed to the provision of a working hour allotment gratis.

The deep crisis of recent years, the massive job cutbacks in the course of the restructuring and capacity adjustments, and long phases of short-time work were drastic measures for our employees. The impact has been varied. Many employees moved to new areas of responsibility and the composition of highly trained teams has changed. The average age of the employees of Heidelberger Druckmaschinen AG increased only slightly despite the job cutbacks. The 1.9 percent rate of self-resignations compared with 2.2 percent the previous year.

The goal of the human resources and divisional areas is to enhance worldwide the remaining employees' professional qualifications – in some cases, new qualifications – and to motivate them as well as to establish a bond between high performers and the Company. We also counteract risks from demographic developments – which is why we undertook several new measures and revised existing programs. In the section “Management System”, we describe how in addition since the reporting year we have been implementing step by step a new, global management system and introducing a new remuneration system for our senior executives.



We reorganized the Group's top management level and adapted it to the new corporate structure. In addition to the management career path, we also introduced a comparable specialist's career path in order to systematically motivate specialists and promote their bonding with Heidelberg.



A full 85 percent of training programs were implemented by internal experts, who would not have had the time to pass on their know-how during their normal working hours. We were thereby able to reduce the cost of specialized training with the assistance of subsidies from the European Social Fund while simultaneously closely associating training programs and the workplace.

Comprehensive Measures for Enhancing Professional Qualifications during Short-Time Work Phases

We developed comprehensive special advanced training offerings that are implemented during short-time work periods. Most employees took advantage of training opportunities voluntarily within the framework of approximately 2,800 offerings spread out over approximately 42,000 participant days. The most important block of offerings were training programs to strengthen professional skills, with some 15,000 participant days allotted to such direct specialized areas as assembly technologies, manufacturing equipment control, printing technology, surface technology, logistics, legal issues, and statistics. The second priority, which accounted for 13,000 participant days, focused on EDP training programs that ranged all the way to highly specialized applications, with a further, approximately 10,000 training program days covering such topics as project management, systematic problem-solving, conflict management, and “Train the Trainers” seminars. A total of 2,000

days were requested for management training programs such as logistics and process management. All the seminars and training programs – ranging from measuring technologies and analytical methods all the way to risk management and the certification of quality managers – focused on quality improvements to further strengthen our zero-error strategy.

Company Advanced Training Programs Focused on Strategic Areas; Intensive Training Program for Chinese Employees at the Qingpu Production Site

As in the previous year, on-the-job training focused largely on the most important areas. One of our priorities: further improvement in the training of sales and marketing specialists for packaging printing, consumables, and application technology. Because we significantly increased the capacities of our manufacturing facility in China, we were also able to considerably expand our local measures for enhancing professional qualifications. Some Chinese employees, for whom we provided advanced training in Europe, are meanwhile even successfully training themselves. Before the sales launch of the Ricoh Pro™ C901 Graphic Arts Edition in April, together with our strategic partner Ricoh we provided intensive training for 100 customer advisors, digital sales specialists, and application technicians.

Enhancing the Compatibility of One's Family Life and Profession: Implementation of Various Measures

The compatibility of one's family and profession is becoming increasingly important in motivating employees and strengthening their bonds with Heidelberg. We view this as an important factor in the future competition for highly qualified and committed employees. We are therefore striving to further enhance this factor – for example, the Amstetten site was granted “Audit Profession and Family” (“audit berufundfamilie”) certification from the nonprofit Hertie Foundation. We have already completed 60 of the approximately 80 measures that are to be implemented through 2012. We have more heavily publicized opportunities for enhancing the compatibility of one's family life and profession and sensitized senior executives to this issue. In addition, working times were made more flexible, child care services during school vacations were improved, and employees caring for family members better supported. The measures at Amstetten are part of a pilot project for the personnel policies of the entire German Heidelberg Group.



PAGES 103 – 105

We attribute the excellent results in on-the-job safety and accident statistics at our manufacturing facility in Qingpu – as well as at our other production sites – to the highly qualified training of our employees.



The part-time quota of our staff in Germany increased considerably, growing from 3.8 percent the previous year to 5.6 percent – including partial retirement, to 8.4 percent.

Share of Female Trainees Rises

Heidelberg is rooted in engineering, as a result of which the share of female employees is traditionally considerably lower than in other industries. Women continue to be strongly underrepresented in technical and scientifically oriented professions. We intend to increase the proportion accounted for by women in the medium term.

For many years, we have held presentations on the so-called Girls' Day. We were pleased that in April 2011 a total of 130 schoolgirls came to us – more than during the reporting year. We show the extent to which technical professions can be highly varied, for we would like more women to apply to work at Heidelberg. At present, only some 13 percent of trainees are women – although on the other hand, this is considerably more than in the metals industry overall, where on average only 7 percent of trainees are female.

Stable Training Quota: 13 Apprenticeship-Based Trades and Nine Courses of Study

As in past years, we maintained a solid training quota in Germany of 6 percent. On September 1, 2010, a total of 153 graduates began their training or their studies at Heidelberger Druckmaschinen Aktiengesellschaft. The 13 apprenticeship-based trades focus on electronics and mechanics.

More than 3,000 applications were made altogether. The dropout rate has held to below 1 percent for a number of years – this also speaks for the quality of our training, for the dropout rate among all companies throughout Germany amounts to approximately 25 percent on average. We were able to sign educational cooperation agreements with other companies during the reporting year for good reason – we discuss this at the end of this chapter.

Heidelberg's Trainees among the Best in Germany

Heidelberg's leading technological position as the world market leader in offset printing is based on the expertise and the motivation of our employees. Our quality standards are correspondingly high. Heidelberg's trainees are regularly found among the best at various competitions – for example, as the winners of the Sternberg Prize, which is awarded by the German Association of Printing and Paper Technology. During the financial year, Patrick Thome, a "Heidelberger", was honored together with other trainees by more than 1,000 guests within the framework of the German Chamber of Industry and Commerce in Berlin. He was the winner in the category "Printer".



Our 11th Career Information Day ("Berufsinfotag") was held at our Wiesloch-Walldorf training center in July 2010. Our slogan: "Design Your Future"

Utilizing the Potential of Experienced Manpower

A shortcoming of specialists can be expected in Germany – one of the causes for our committed engagement in the educational area. Moreover, through various measures we also ensure that our employees remain productive and committed for the long term at all jobs and we can benefit from their experience and expertise. Ongoing staff training for our employees is self-evident for us – one example of this are the approximately 2,200 employees working on the assembly line – the skills and knowledge that are relevant for each individual job are updated and training is offered in rotation every two years.



For years, we have designed Heidelberg's workplaces from an ergonomic point of view and thereby promoted the health of our employees. Once a year, we hold a Health Week at all Heidelberg production sites worldwide. During the financial year, we introduced a special "Light Line" in the Company dining facilities as a lunchtime offering. Depending on the production site, regular offerings are held to promote physical exercise and acquiring stress management techniques.

Idea Management: Number of Ideas Submitted More than Doubles

Our employees' know-how and experience entail considerable opportunities to come up with ideas for improvement. We systematically make use of these opportunities through our well-established Idea Management. Approximately 5,000 ideas were submitted during the financial year, compared with 2,300 ideas the previous year. The implementation quota of 47 percent equaled the very high previous year's quota. Thanks to our employees, we were able to realize cost-reduction measures totaling € 3.8 million, compared with a record level of € 4.5 million the previous year.

Cooperation Agreements and Sponsoring in Education and Training

The companies of the Heidelberg Group support a wide range of socially engaged projects worldwide. The Group's priorities are on educational facilities and cooperative agreements for environmental protection. Among others, we support universities and work together with schools in order to systematically raise professional capabilities and the proficiency levels of students.

Recently, moreover, we have begun to offer other companies an opportunity to benefit from our well-known vocational training. This ensures that our capacities are used more fully, while simultaneously preventing a future shortage of specialists in our region. We also make use of the specialized knowledge of other companies in our training programs. Beginning with the new training year in September 2011, trainees from the engineering specialist Lincoln GmbH will complete some of their professional training at Heidelberg. In individual special areas, we also exchange trainees with the firm Karl Marbach GmbH & Co. KG. We intend to considerably increase the number of training cooperation agreements in the future.

Environmental Protection – Part of Heidelberg’s Corporate Culture

- > Environmental Goals a Component of the Group’s Strategic Agenda
- > Competitive Advantage of Environmentally Friendly Printing
- > Emissions and Electric Power Consumption Increases with Higher Capacity Utilization



At www.heidelberg.com/eco, you can find information concerning environmental protection issues as well as information on Heidelberg’s ECO Printing Award – an environmental prize that we tender internationally in order to promote environmentally friendly printing.

The QR Code combined with your smart phone takes you directly to the right page.



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 over the entire life cycle of our products – from manufacturing all the way to final disposal. Our solutions make resource-conserving printing processes possible – a feature that is becoming an increasingly important competitive advantage for us worldwide. More information on this topic can be found in the Report on the Regions and under “Expected Underlying Conditions” beginning on page 121.

Environmentally Friendly Printing: Determined Goal for All Product Lines

Environmental issues and product safety are integral components of our systematic product development process, which includes seven required and defined “Quality Gates”. For that reason, rather than offer a separate “Eco” product line of printing presses, we apply innovations that improve the environmental credentials of the printing process to all product lines if appropriate. For example, Heidelberg is the only manufacturer of printing presses to offer synchronous motors – competitors utilize DC engines, which are less efficient. We have been installing synchronous main drives in all Speedmaster models since as early as 1998.

Increased energy efficiency, a long useful life, low consumption of production resources and auxiliaries and reduced emissions – from the very beginning, these goals were part of the development of the Speedmaster CX 102, which we launched during the financial year and describe in more detail beginning on page 86. Among others, this model is ideally suited for alcohol-reduced and alcohol-free printing. Peripheral equipment such as AirStar or CombiStar makes a decisive contribution to increasing the energy efficiency of printing presses. Inline color measuring systems such as Prinect Inpress Control reduce spoilage on average by 100 to 150 sheets per print job – and thereby lower the CO₂ footprint of the individual job. We also offer our customers the possibility of ordering our printing presses on a climate-neutral basis.



PAGES 117 – 119

Up until now, there has not been any industry-wide guideline for measuring electric power consumption during the printing process. During the financial year, we worked with our German competitors on making information concerning energy consumption comparable.

Since March 2011, we have been marketing our “Saphira Eco” line worldwide. This product line is subject to the strictest environmental criteria for consumables in the print media industry. Print shops can thereby satisfy the requirements of international and regional environmental certification programs – for example, Nordic Swan, the European Ecolabel, or the Austrian environmental label. As a first step, platesetter printing plates, inks, coatings, and adhesives, among others, as well as washing and dampening solutions will be available under the “Saphira Eco” label. We will be continually expanding our offerings, which customers can purchase via Heidelberg branch offices or at the online shops operated by the respective country organizations.



Saphira Eco line products conserve resources, ensure stable production, and generate fewer emissions – for example, volatile organic compounds or ammonia. We have committed to observing a catalog of criteria that is continually being monitored and further developed. More information on this is available in the Internet at www.heidelberg.com/saphira-eco.

Observance of Environmental Standards and Standards of Social Responsibility Are Compulsory throughout the Group – Including Suppliers

We make use of the best available technologies in our product development – not only in occupational safety and environmental protection, but in the investments of our production sites as well. Our goal is to protect our employees from health hazards as well as to safeguard the production sites and their environment from damage. By taking active precautions, we avoid accidents and disturbances of operations at all our production sites. We apply resources sparingly and take advantage of every possibility to minimize waste. Suppliers and contracting parties are also covered by the objectives of all the production sites. They must observe environmental standards and responsibilities that are similar to those of Heidelberg, and support our Company in the implementation of our environmental policy. Our binding guidelines ensure that standards are observed worldwide.

Environmental Protection – an Integral Part of the Management System

It is a declared goal of the Group’s strategic agenda to further promote environmental protection. As in the case of other strategic goals, here as well we focus on close cooperation that transcends regions and divisions. An international team is responsible for ensuring that concrete measures are decided upon and implemented.

Environmental protection and occupational safety are also components of the balanced scorecard (BSC) and the annual appraisal interview. This makes it possible to define and investigate the potential for improvement at all levels. All areas – even those having little to do with production – are included in this process.



PAGES 36 – 39

How the goals of our strategic agenda are applied throughout the Group worldwide is described under “Management System”.

For example, during the reporting year we adapted the values of our bonus-malus system for company cars, which are based on CO₂ output. Since the last determination in 2009, technical developments for low-consumption engines have made further progress.

In the table, we show the developments of some key environmental performance data. Emissions and energy consumption have increased in line with the growth in our capacity utilization.

FIVE-YEAR OVERVIEW – KEY DATA ECOLOGY

	2006	2007	2008	2009	2010
Output emissions in thousands of metric tons of CO ₂ ¹⁾	203.0	141.0	127.6	87.7	117.9
CO ₂ (in metric tons) per produced ton of output ^{2) 3)}	–	–	–	2.0	2.1
SO ₂ ¹⁾	0.1	0.1	0.1	0.1	0.1
No _x ¹⁾	0.2	0.1	0.1	0.1	0.2
Output emissions in metric tons of VOCs	161.0	173.0	135.9	66.5	76.6
Output emissions in metric tons of dust ⁴⁾	10.3	10.3	7.2	3.6	9.7
Input energy in GWh/a	427.1	431.4	408.1	286.2	365.0
Energy consumption (MWh/a) per produced metric ton of output ³⁾	4.7	4.7	5.9	6.8	6.2



www.heidelberg.com/eco

For detailed information on our sites please refer to > Environmental Management > Site Data.

¹⁾ Since 2007, CO₂ emissions resulting from energy consumption have been based on information from the respective electric utility at the particular production site; other emissions are based on GEMIS.

²⁾ Excluding the production sites in St. Gallen, Langgoens, and Weiden, whose output is not recorded in metric tons, as well as the local units of Hi-Tech Coatings

³⁾ Data cannot be meaningfully calculated for the period 2006–2008

⁴⁾ The figures relate to dust emissions at the Amstetten foundry (particularly relevant here)

Cooperation Agreements – Important New Strategic Partners

- > Collaboration along the Entire Added-Value Chain
- > Cooperation Agreements in Important Future-Oriented Technologies
- > Both Local Partnerships and Worldwide Cooperation Agreements

Cooperation agreements along our added-value chain are becoming an ever more important factor for success. We have been successfully working together with selected companies and institutes for a number of years. We also acquired new cooperating partners during the reporting year – for example in the consumables segment and in key technologies. With our experience, our expertise, and our global marketing structures, Heidelberg is a sought-after partner.

Strategic Partnership with Ricoh

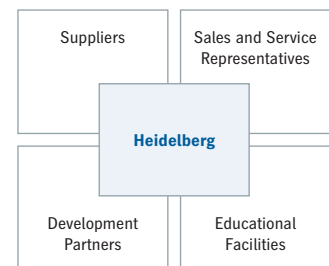
Because this technology offers opportunities primarily in very short print runs and for individualized printed matter, the previous year we announced the establishment of a strategic partnership in order to strengthen Heidelberg in the digital area. Ricoh is a reliable and innovative partner, and we thereby attained our goal of expanding our offerings in the segment for short print runs and the printing of variable data based on a digital solution. We introduced our combined digital and offset solution for the print media industry at the digi:media trade show with great success. Our solution includes not only the most advanced digital printing press of its type, the new Ricoh Pro™ C901 Graphic Arts Edition, but services and the requisite consumables as well. Our offering initially addresses customers in the German and British market as well as in selected Asian markets. We will gradually extend our sales to all our markets in the runup to drupa 2012.

Partnerships in Research and Development

In the area of research and development, we undertake an exchange of expertise with a number of partners. Working together, this enables us to make more rapid progress with new developments. Partnerships with universities and institutes supplement our in-house basic research. We test new developments before market introduction in cooperation with our concept customers.

HEIDELBERG COOPERATION AGREEMENTS

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For competitive reasons, our partners and Heidelberg have in general agreed not to disclose details concerning the current status and exact contents of joint projects.



Research projects in the future-oriented technology of organic electronics are being supported in the total amount of €40 million. A total of 27 companies, universities, and research centers are working together in this area.

The core of the research platform is a 650-square-meter clean-room lab, which was built in just two years based on the most advanced technological standards. On the premises, over 50 researchers from the partners of the top cluster work together under the direction of well-known German and foreign experts.

Germany's Federal Ministry of Education and Research also committed to the second funding phase during the reporting year.

Since we work together with our **SYSTEMS SUPPLIERS** on a long-term basis and include them in the development process at an early stage, we benefit from their experience and development activity – innovative power is an important criterion in the selection of our suppliers.

Since 2009, we have been a member of the top cluster **FORUM ORGANIC ELECTRONICS**, which is supported by the Federal Ministry for Education and Research (BMBF). Together with companies such as BASF SE, or Merck KGaA, and the Universities of Karlsruhe and Darmstadt, we have been working on the development of future-oriented products in organic electronics. Organic electronics is based on conductive polymers or smaller organic chemical molecules, and is regarded as an important future-oriented technology. We are looking for intelligent production methods for numerous applications. Although simple circuits can already be printed today, flexible electronics poses the greatest challenge. This latter requires printing on either flexible plastic or paper backing of conductive organic molecules in very homogeneous, nanometer-thick overlying layers that are free of defects. The long-term goal is to develop printing presses for such electronics printing. We achieved initial successes in the manufacture of organic electronics during the reporting year.

In November 2007, we began a research project with the **DARMSTADT POLYTECHNIC UNIVERSITY** on the printing of functional materials in order to develop opportunities to further increase the value of print media – for both packaging printers as well as commercial printers. These include not only new decorative and visual features, but electric or electronic characteristics as well. The project, which was planned for three years, has been completed and resulted in the predevelopment of decorative elements and simple display elements – so-called demonstrators – which are based on electroluminescence or thermochrome inks, for example. Moreover, new effects were discovered in the 3D segment based on structural coating and special optical effects. Print shops will be able to rise above the competition with these new coating technologies. During the reporting year, we decided to extend this cooperation for another two years. Special effects on packaging are an area of application, for example – so-called smart packaging provides final consumers with information about whether the cold chain has been interrupted or concerning the genuineness of a product.

Cooperation in Sales and Marketing: Increasingly Important Worldwide

We will further expand our numerous supply and OEM relationships, primarily in the consumables segment. In order to rapidly increase our sales, we work closely with dealers and manufacturers – this is frequently limited to particular markets. We also have regional partners in the area of printing presses. Beginning in the reporting year, we have been selling and marketing large-format digital printing presses in the US via a cooperation partner. Please turn to the Regional Report on page 101 to learn why we favor an even broader product portfolio in the US.

Our cooperative marketing agreement with POLAR, the leading manufacturer of cutting installations, dates back over several decades. At the Hunkeler innovation-days 2011, held during February 14–17, 2011 in Switzerland, Heidelberg, together with POLAR, Kama, and ATS Tanner Banding Systems, presented the individual steps leading to high-quality brochures with PUR adhesive bindings.

Over a period of decades, we have also been acquiring strong partners in various regions where we do not maintain our own branch offices – for example, in the Benelux countries and southwestern Europe.

Environmental Cooperation Agreements

Uniform standards for measuring energy consumption are required, among others, to draw up an environmental balance sheet and calculate operating costs. The Printing and Paper Technology Association, which is part of the German Engineering Federation (VDMA) – and Heidelberg as well – regards energy efficiency as a decision-relevant parameter for print shops when undertaking a new investment – from both the business management and environmental points of view. Together with VDMA and our major competitors – Koenig & Bauer and manroland – we developed a guideline that establishes uniform basic conditions for the measurement of the inputs for sheetfed offset printing presses. This guideline describes among other things the measuring parameters, the measuring cycle, measurement execution, and documentation of the measuring results. Climate balance sheets for printed products thereby become more objective and easier to compile.

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



PAGES 94 AND 95

For a number of years, the strategy of the **FINANCIAL SERVICES DIVISION** has focused on close cooperation with external financial service providers and Euler Hermes Kreditversicherungs Aktiengesellschaft to cover export financing risks.



Heidelberg supports the Forest Stewardship Council (FSC) as well as the Climate Initiative of Germany's Printing and Media Industries Federation (BVDM).



PAGES 109 – 113

We report on our commitment to socially engaged projects as well as our **COOPERATION AGREEMENTS IN THE EDUCATIONAL AND TRAINING AREAS** in the "Employees" section.

Outlook

After a four-year break, the print media industry's most important trade show will be held again in May 2012. From our point of view, drupa in Duesseldorf will demonstrate that a combination of digital with offset printing offers greater flexibility for both print shops and the purchasers of printed matter. We expect another focus of this trade show to be on business models that provide an even more efficient link between electronic media and print media – which will perceptibly enhance the effectiveness of marketing measures. drupa will provide its visitors with a general orientation on how successful business models can be implemented with print products in changing markets. Environmental issues will play a major role in discussions. The issue of set-up times will continue to be important, especially against the background of shrinking print runs.



Trade show visitors can rest assured that Heidelberg will present appropriate solutions for the entire range of the above-mentioned issues at drupa!

one world – one drupa

May 3–16, 2012

Expected Underlying Conditions – Printing Industry to Continue Its Upswing

- > Continuing High Demand from the Newly Industrializing Countries;
Strengthening Demand in the Industrialized Countries
- > Changed Behavior in Media Use
- > Competitive Structure in Consumables Segment Favors Increase in
Heidelberg's Market Share
- > Structural Changes Strengthen Market Position in the Machinery and
Service Segments

Heidelberg's Management Board assesses the economic situation as being modestly favorable for the next two years. Our industry has so far not yet fully recovered, and there is a risk that the global economic growth will be considerably weaker than expected. We expect a strong impetus to result from the drupa trade show in May 2012, leading to higher demand for the printing industry – from which Heidelberg as the market leader should benefit in particular.

Risks Threaten Future Overall Economic Developments

Various factors could put a brake on the previous year's strong overall economic performance. It is still unclear how the debt crisis in some European countries will develop and have an impact on the economic situation in the euro zone. The high national debt in the US could also be a burden. Additional savings efforts by the US government could hamper economic growth, and for the first time Standard & Poor's has held out the prospect of downgrading the credit rating of the US. Moreover, the development of the real estate sector, and possible inflationary trends in China, are also worrying. Altogether, the risk of inflation has grown due to rising prices of raw materials and energy. The impact of the catastrophe in Japan on the economy of that country and on the world economy is at present very difficult to predict. The political changes in the Arab countries are also causing uncertainties. Moreover, the world economy could be burdened by the volatilities and shifts in exchange rate parities.



In the past, drupa generally caused special effects in our business development. More information on this topic can be found in the chapter "Future Prospects".

EXPECTED GROSS DOMESTIC PRODUCT ¹⁾

Change from previous year in percent

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	2009	2010	2011
World	-2.1	3.9	3.3
US	-2.6	2.9	2.8
EU	-4.2	1.8	1.8
Germany	-4.7	3.5	3.0
UK	-4.9	1.3	1.5
Eastern Europe	-3.5	4.1	3.5
Russia	-7.8	3.6	4.4
Asia ²⁾	4.8	8.3	6.9
China	9.2	10.3	9.3
India	6.8	8.5	8.3
Japan	-6.3	4.0	0.1
Latin America	-0.5	6.2	4.8
Brazil	-0.6	7.5	4.4

¹⁾ Source: Global Insight: WMM; April 2011

²⁾ Excluding Japan

Beginning on page 68, we discuss in more detail the extent to which the GDP increase influences the demand behavior of commercial print shops.

In the Report on the Regions beginning on page 97, we describe distinctive features of individual markets and expected further developments there.

Despite Uncertainties, Continued Expectations by Leading Economic Research Institutes for Stable Developments; VDMA Anticipates a Further Upswing in the Printing Industry

Despite the above-mentioned uncertainties, most **ECONOMIC RESEARCH INSTITUTES** expect the global economy to lose steam during the financial year but otherwise continue to be stable. According to the **PRINTING AND PAPER TECHNOLOGY ASSOCIATION** in the German Engineering Federation (VDMA), the printing and paper technology sector is now only at the beginning of an upswing. If overall developments remain stable, the investment backlog of the printing industry, which has formed in the industrialized countries, should continue to be worked through even with modest overall economic growth. We therefore expect sales of printing presses to increase over the next few years in the industrialized countries as well as the newly industrializing countries. On the left we show the expected growth rates of GDP in the various regions and our key markets in calendar year 2011.

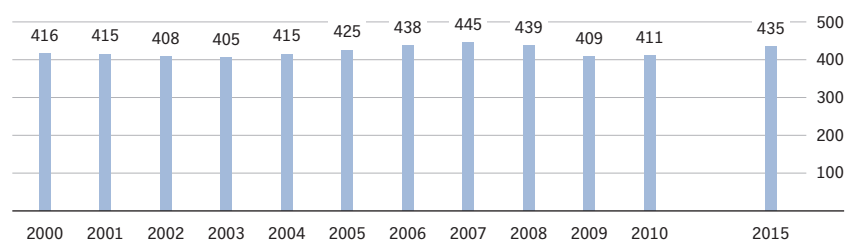
The Total Volume of Print Production Will Increase Further in the Foreseeable Future

At present, all signs point to a further recovery and investment by commercial print shops in the industrialized countries and to continued growth in the global packaging printing market as well as to a further rise in the production level of printed products in the newly industrializing countries. Demand for consumables will also strengthen accordingly. The graphic below makes clear that despite the economic crisis and the boom in mobile media, the market for printed products has remained notably stable in recent years. Nevertheless, the breakdown varied considerably depending on the region and the particular market segment. As a result of our analysis of comprehensive data from various sources – among others, from the Printing Industry Research Association (PIRA) and Global Insight – we expect the overall printing volume to increase to approximately € 435 billion worldwide by 2015.

GLOBAL VOLUME OF PRINTED PRODUCTS OVER THE PERIOD FROM 2000 – 2010 AND EXPECTATIONS FOR 2015

Figures in € billion

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Source: Heidelberg forecast – April 2011, industry statistics, PIRA, Jakkoo Pöry, Primir (GAMIS), Global Insight; base year: 2009

Advertising and packaging printing – in other words, the business segments on which Heidelberg focuses – comprise more than half of the overall volume of printed products. In particular the newly industrializing countries, where market saturation with printed products is still very low, are contributing to annual growth in the volume of printed products. Whether in the long term a “per capita” printing volume will be reached that is similar to that of the industrialized countries, or whether electronic media in the newly industrializing countries will replace print media to a greater extent, is uncertain at the present time. Nevertheless, the high population and increasing per-capita income in the newly industrializing countries will ensure further growth in the future.

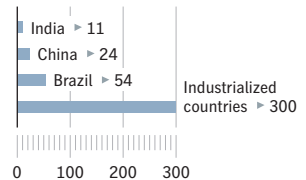
Changes in Media Use and Consumer Behavior: Digital and Offset Printing Increase in Importance – Gravure and Web Offset Printing Decline

In the view of PIRA, changes in the use of media and consumers’ behavior will result in a further shift in the significance of individual printing processes. We show the current breakdown in the “Strategy” section on page 23. Some products, which have only been available for the last few years, are resulting more and more in very small print runs. For example, digital printing processes are becoming increasingly significant due to the rise of personal photobooks. Many of the very small print runs are produced with the help of Web-to-Print applications in offset printing or in combination with offset printing.

It is foreseeable that in the newspaper and book publishing industries, which currently use primarily web offset printing, the significance of paper as a provider of information will decline further. Some developments speak for themselves: in 2010, approximately 300 million Internet-capable mobile phones were sold; this compares with 172 million units sold in the preceding year. The increasing use of the Internet as a shopping platform nevertheless increases the volume of printed matter in the form of vouchers and catalogs that are enclosed with each order. Primarily, offset printing is used for this. It is certain that offset printing will continue to be the most important printing process – despite electronic media and changes in media use.

VOLUME OF PRINTED PRODUCTS PER CAPITA (STATUS 2010)

Figures in €



Sources: Industry statistics, PIRA, Jakkoo Pöyry, Primir (GAMIS), Global Insight

Global Demand for Printing Presses Expected to Further Accelerate in the Next Few Years

A further upswing in the print media industry in the industrialized countries would result in a working through of the investment backlog that has formed in recent years – primarily among **COMMERCIAL PRINT SHOPS**. Demand remains high in the newly industrializing countries and is expected to grow further. It is difficult to predict the exact pace of growth and determine the exact time when corporate investment in the industrialized countries will take off – for example in the US, Canada, Japan, and Australia. The trend towards consolidation of the print media industry, the higher productivity of machinery and equipment for print shops, and the increasingly heavy use of communications and advertising platforms in the Internet make forecasts difficult. As we indicated, there are a number of uncertainties about global economic trends.

Due to the favorable economic environment overall, private consumer spending will further increase worldwide – which will provide additional incentives to invest in the **PACKAGING PRINTING AREA**. In the newly industrializing countries, this trend entails great growth potential for the medium term, with urbanization and changed consumer behavior increasing demand for packaging. Moreover, cardboard packaging is being increasingly used as a high-quality advertising medium worldwide. According to advertising researchers, when deciding which product consumers wish to buy, approximately 70 percent of purchases are only decided directly at the so-called point of sale – for example, directly in front of a supermarket shelf. According to the Munich market researcher facit, packaging has more influence over a purchasing decision than advertising in TV, on posters, or in newspapers and magazines. Packaging therefore plays an increasingly important role for sales strategists. Since we cover the exact requirements of packaging print shops, we will enjoy considerable benefits from these developments. Our Linoprint module additionally provides the right solution for the increasing demand by the packaging and label industry for variable printing options of diverse substrates. Various legal requirements can be easily fulfilled by our inkjet applications – for example, in the labeling of pill blister packs.

Demand for Consumables and Services in Our Industry Continually Increasing

The consumables business represents a strategic priority of the Heidelberg Services Division, with the volume of printed material increasing worldwide by approximately 1 percent annually. Since the quality requirement for printed products continues to increase worldwide, even in the recent past, when the volume of production declined worldwide, the demand for inks and coatings increased. More and more ink and printing plates are required on average for each metric ton of paper output. At the same time, printed matter must increasingly be produced on a cost-effective basis and in as environmentally friendly a manner as possible. During calendar year 2009, this segment had a volume of nearly € 8 billion excluding expenditures for paper – and Heidelberg’s market share is still approximately 4 percent. We discuss how we will make use of this considerable potential on pages 90–92 in the Report of the Divisions, where we also spotlight the competitive advantages of our consumables offerings.

Services are playing an increasingly important role for print shops’ success in the market. Production and investment security must be guaranteed and comprehensive support is needed in order to penetrate new areas of business in intensely competitive markets. Against the background of structural changes, our workflow software Prinect and consulting services are becoming increasingly important for print shops.

Heidelberg’s Competitive Position in the Various Divisions: Outstanding Foundation for Growth

In the section “Management System”, we show how we maintained our competitive advantages even during the crisis. This is decisive for our goal of expanding market share for the Heidelberg Equipment and the Heidelberg Services divisions. We will be in a better position than our competitors to utilize the full potential offered by the market worldwide:

- > Since our solutions secure print shops a measurable edge in terms of cost and productivity, we will achieve success with print shops, especially against the background of the structural changes.
- > Our market position is also strong in the promising markets of the newly industrializing countries. We provide support to print shops in these countries with an appropriate product portfolio – and with the most tightly meshed service and sales network in our industry.



The market volume of the segment that is significant for us – consumables – amounted to nearly € 8 billion in calendar year 2009. This figure comprises the following market segments: sheetfed offset plates, coatings, chemicals, offset blankets, and inks. The assessment of the market volumes of these segments is based on analyses from various sources – among others, PIRA and Vantage Strategic Marketing (VSM).



On page 71 we discuss the situation in the SHEETFED OFFSET PRINTING segment and that of our competitors. We describe the competitive advantages of our solutions in detail on pages 25–29.

- > As a consequence of the structural changes, print shops need to optimize their organization and become more efficient. Moreover, they must specialize and be in a position to offer comprehensive services that go well beyond just printing. We offer comprehensive solutions for all the important market trends, including services and consumables – whether in the Web-to-Print, Lean Manufacturing, or Green Printing segments. We present an overview of these solutions on pages 28 – 29.
- > In China, we are the only firm to address the high quality printing segment with locally assembled standard printing presses. The barriers to market entry in this area remain very high. The position of Chinese suppliers in the low quality printing press segment, which is not a significant market for us, will expand over the next few years. We will benefit from the trend in other newly industrializing countries towards higher-quality printed products.

Of considerable significance for our success in the **HEIDELBERG SERVICES** Division is our very large installed base as well as our worldwide tightly meshed sales, marketing, and logistics network, with which we can readily reach customers. In addition, our employees have comprehensive knowledge concerning printing and applications technology. We make it possible for our customers to achieve the best possible color results, even at the highest printing speeds. Moreover, with our new Saphira Eco label, we fulfill the highest in environmental standards worldwide. More details on this subject can be found on page 115.

In contrast to the sheetfed offset area, the competitive structure in the consumables and service sector is highly differentiated. We view the lack of any other globally active dealer, as well as the general lack of market domination by individual suppliers in regional markets, as a considerable opportunity for Heidelberg. For example, some manufacturers even sell their own products. In addition, our typical competitors are smaller entrepreneurs who are active in their own local market. A significant advantage Heidelberg can offer is a broad portfolio of tested consumables that function optimally with our printing presses – and open the door to special applications as well.



Heidelberg has a very large installed base of approximately 400,000 printing presses worldwide. This is a solid foundation for expanding our still small market share in consumables and increasing the number of customers whose service requirements are met directly by Heidelberg.

Risk and Opportunity Report – Overall Risk Falls Substantially

- > Greatest Risk: Print Media Industry’s Upswing Could Be Delayed – and Sales Targets Missed
- > Both Risks and Opportunities Greater in the Chinese Market
- > Exchange Rate Volatility and Changes in Exchange Rate Parities Could Burden Growth and Competitive Conditions
- > Opportunity: Investment Backlog Could Be Worked through More Quickly than Expected

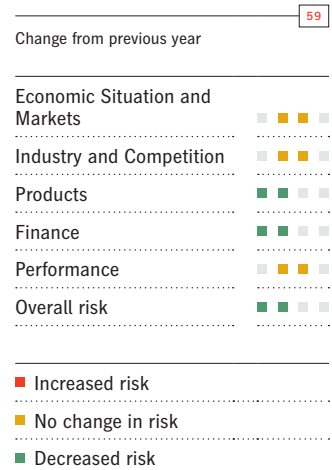
We describe in detail how we identify and manage risks in the chapters “Management System” and “Risk and Opportunity Management System”, on pages 43–45, where we also report on our risk management for financial instruments. Details on how we address risks arising from interest rates, exchange rates, and liquidity can be found under note 32 in the Financial Section. Risks with a probability of occurrence of over 50 percent are integrated within our planning process and are therefore not discussed in the Risk Report. Opportunities are not offset against risks. Because non-quantifiable risks could increase due to our focus on financial targets, we closely observe such so-called qualitative risks.

General Statement of the Management Board on Risks and Opportunities

No risks that could threaten the existence of the Heidelberg Group are evident, either at the present time or in the foreseeable future. This applies to both the results of our already implemented economic activity as well as to operations that we plan or have already introduced.

In order to determine our **OVERALL RISK**, we focus on individual risks that belong together substantively. In doing to, we do not offset potential opportunities 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 Heidelberg Group again changed for the better after improving considerably already 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,

DEVELOPMENT OF RISK GROUPS





Procurement risks in particular have become increasingly significant compared with the previous year. The replacement times for parts could lengthen considerably because of the growth in global demand. Nevertheless, the overall risk of suppliers' failure to deliver declined from the previous year due to our procurement policy.



Our strategy also includes acquisitions of companies in the future in order to take advantage of possibilities for external growth. In doing so, we carefully weigh risks and opportunities.

but in many industrialized countries as well. Moreover, we have considerably and sustainably reduced the Group's operating break-even point, and we continue to scale back the Group's dependence on cyclical fluctuations. A failure of the expected further recovery 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 of 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 in the short term not be feasible. In addition, sales of the Heidelberg Services Division could 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 Group's risks. We are vigorously further pursuing our goal of reducing our dependence on cyclical fluctuations. Our decision to focus on advertising and commercial printing as well as packaging printing in our core business area of sheetfed offset printing has proven to be the right decision in view of changed communications and information behavior. There is nevertheless also a risk that companies may reduce their use of print advertising in their marketing efforts in the future. We counteract this risk by also including the target group of so-called print buyers in our marketing activities and giving them better access to 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 their high degree of flexibility at high speeds, our printing presses are superior to digital print – except at very small print runs – even in terms of cost, in particular because of our zoneless Anicolor 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 largest format category that are considerably superior to digital printing with short print runs. In our view, our new business area for job manufacturing does

not face any significant risks. The expansion of our Qingpu assembly plant increases our dependency on China. Country risk in China has moreover increased – among others, due to the risk of a cyclical bubble and inflationary pressures.

Nevertheless, the expansion of our Chinese production site provides us with considerable **OPPORTUNITIES**. Overall, the opportunities available to Heidelberg developed favorably during the financial year, which we discuss in detail in our description of 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 of risks arising from the world economic situation – including, among others: the debt crisis in Europe, the high national debt of the US, China's possible failure as an engine for economic growth, and the greater inflationary pressure. 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 services, consumables, packaging printing, and job manufacturing makes the Group'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 would 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 produce locally in China. These two factors secure us important competitive advantages in one of our strategically important markets. Moreover, with the continued expansion of our production capacities in China we further reduce 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 through the establishment of structures that put us in a position to deliver printing presses



To better implement our strategy, we restructured our organization at the beginning of the previous year and adapted our management and control system. The Management Board and the Supervisory Board address the **RISKS ARISING FROM ORGANIZATION AND MANAGEMENT**. We discuss this issue in the Corporate Governance Report on page 46.



PAGES 103 – 105

We describe the background to the expansion of our production site in China as well as associated opportunities and risks under "Focus on China".



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.

from Qingpu to neighboring markets as well. Following the catastrophe in Japan, business in that market initially came nearly completely to a 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.

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 passage “General Statement 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 Heidelberg Services divisions should the printing industry experience an economic downturn. The risk of a greater decline in price would contrast with the opportunity that a consolidation could occur among manufacturers, or that they may focus more sharply on particular products, as a result of which our competitive position could considerably improve again.

Exchange rate structures were again more favorable for European manufacturers during the past two years. A shift in the exchange rate structures in favor of Japanese manufacturers 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 printing presses in the 70×100 format in China.

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

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 customer benefits. 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 the direction of further product development. Among other things, the panel members make decisions based on market analyses as well as economic viability considerations from the Group's point of view. They are also based on our technology roadmap, which we apply in order to describe the long-term development goals that we need to attain in order to satisfy future customer requirements. We secure the results of our research and development activity with the Group's own proprietary rights.

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 Fall

The Group's funding and thereby its liquidity are secured for the medium term. There are currently hardly any more interest rate risks. We describe the new financing structure in more detail in the "Financial Position" beginning on page 82 – where we also describe how our financing is tied to financial covenants that are customary in the market, 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 Group.

As in the past, there is a risk in the area of **SALES FINANCING** that losses could occur due to industry, customer, residual value, and country risks. We discuss the risk management process of the Heidelberg Financial Services Division in more detail on page 45. Our policy for forming provisions for risks from sales financing



Demand for very-high-quality printed products is further increasing worldwide. The significance of environmentally-friendly manufacturing is simultaneously rising rapidly. An unexpectedly rapid change in the behavior of final consumers offers the opportunity that the competitive advantages of our solutions may become even more important.

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. Exchange rate developments are currently making it easier for our customers to repay installments either in US dollars or in euros. Depending on developments, a risk could arise in this area should exchange rate structures shift. We systematically monitor exchange rate 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 setting out responsibilities.

We strive to reduce the Heidelberg Group'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 US dollar. Nevertheless, although risks exist in this area, we would also have opportunities should the exchange rate situation improve. As opposed to Japanese producers, European manufacturers could benefit from an ongoing stable Japanese yen. The graphic on page 69 shows the exchange rate structures over the past seven years.

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 adherence to our comprehensive guidelines in all areas. More information on this topic can be found beginning on page 40. 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. We report on the additional payment that we must make in the chapter "Net Assets".

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

Compared with the previous year, the Group's 15 most important risks now also include risks from **PROCUREMENT**, as discussed on page 128. 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 failures 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 overall Group. It also increases risks in the **HUMAN RESOURCES AREA**. Highly experienced teams have been changed, and processes and procedures reshaped. An additional factor is the risk of a loss of motivation. It takes time to establish a new structure. Our Idea Management makes use of opportunities that arise from our employees' high level of qualifications and motivation.

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 due to the enhancement of processes under our Heidelberg Production System.

We make efficient use of our existing installations and can thereby keep **INVESTMENTS** low. We also implemented strategically 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 financial years. We discuss individual projects in more detail in the chapter "Future Prospects". We make investment decisions with the aid of our worldwide uniform planning system, which accumulates all the relevant information. Prior to making an investment decision in our production, we implement a make-or-buy analysis, which is checked by a team of engineers and financial specialists.



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 a supplier's 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 minimize environmental risks – both in the area of product design and in the manufacturing process – by means of an efficient environmental management system which we describe extensively on page 115. We therefore do not envision any significant environmental risks.

As we indicate on pages 109–113, voluntary resignations remained at a very low level. We are enhancing the attractiveness of Heidelberg as an employer through various measures and improving the development potential of high performers. We also report in the above-mentioned pages on the new structures of our management systems as well as our comprehensive specialized training courses and programs, with which we ensure that we will be in a position to select qualified young employees in the future as well.

Future Prospects – More than € 3 Billion in Sales and a Return on Sales of Over 5 Percent in the Medium Term

- > Goal: Further Reducing Dependence on Business Cycles
- > Gradual Approach to Medium-Term Sales Target; Striving for Higher Sales Growth in drupa Year
- > Focus on Financial Stability

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 Heidelberg Group.

Overall Picture from the Management Board Regarding Prospects

Our planning assumes that the world economy will generally develop solidly despite the existing uncertainties. In the section “Expected Underlying Conditions” we explain how this 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 economic recovery. Nevertheless, it is still difficult to estimate when print shops will again begin investing to a considerably greater extent – for example in the US, Canada, Australia, and Japan.
- > Moreover, we can only predict with reservations whether, and to what degree, the run-up to drupa 2012 will cause a certain restrained level of spending by print shops, as well as the extent to which drupa will contribute to overcoming 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 generally attracted some 400,000 visitors.

Our annual sales target in the medium term, which we intend to achieve within the next two or three years, has been set at over € 3 billion. Assuming that the economic environment will continue to be generally stable, we expect to gradually approach this target during the current and next financial year. Due to drupa



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

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 presumably be greater than in the less cyclically sensitive Heidelberg Services Division. We intend to keep our directly financed portfolio in the Heidelberg Financial Services Division as low as possible.

Higher **PROCUREMENT PRICES**, resulting primarily from the rise in the cost of raw materials and energy, may burden the result. Demand for purchased parts worldwide increased considerably already during the reporting year. This resulted in an overall boost in the prices for raw materials as well as for pig iron and scrap steel. Furthermore, delivery and replacement times lengthened. From today's perspective, this development will continue during the current financial year, and we also expect the cost of energy to increase. This will have an impact primarily on the manufacturing of printing presses. We plan to keep our **STAFF COSTS** relatively unchanged in relationship to the total operating performance. We came to an agreement with the Works Council on flexible working time instruments in order to be in a position to react to fluctuations in capacity. Moreover, our capacities will be more fully utilized due to the increasing demand. Assuming that the industrialized countries will be subject to a further economic upswing, we will benefit from a further improvement in the mix of sales and profit margins. In addition, the full impact of our cost reduction measures will become evident beginning in the current financial year. We sustainably reduced annual **FIXED COSTS** during the reporting year by € 460 million compared with the base year 2008. We expect further sustained savings of € 20 million during the current financial year enabling us to lower our annual fixed costs by a total of € 480 million.

We were successful in drastically reducing our operating **BREAK-EVEN POINT** in recent years, and thereby in generating an operational break-even **RESULT OF OPERATING ACTIVITIES** excluding special items during the reporting year. Assuming that the volume of business will increase, we therefore expect the operating result to improve during the current and the next financial year. In the medium term, we are striving for a return on sales of over 5 percent with sales exceeding € 3 billion. Thanks to the large reduction in debt, the **FINANCIAL RESULT** will have a substantially less dampening effect than during the reporting year.

Assuming a stable development of overall economic conditions and of our industry, we are striving for a balanced pre-tax result during the current financial year on the basis of a higher operating result and lower financing expenses. If favorable trends continue into the year of the drupa trade show, we expect our **AFTER-TAX RESULT** to be in the black in financial year 2012/2013.



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We minimize risks in the procurement area by means of a supplier policy construed on a long-term basis.

Continued Active Optimization of the Commitment of Funds

We will continue to focus on asset management and on the management of net working capital in the next few years, and thereby substantially restrict the outflow of funds. Although absolute values will rise due to the growing sales, we will nevertheless strive for a further reduction in proportion to sales. Our **INVESTMENTS** will continue to amount to approximately 2 percent of sales. Our priority in the current year will continue to be the expansion of our Chinese production site in Qingpu, which we will complete during the current reporting year. We are planning to primarily undertake replacement capital investments during the next financial year. We will continue to actively manage our **FREE CASH FLOW** and thereby ensure that our capital structure remains sound and that our already achieved financial stability is maintained. For the medium term, our funding is secure, due to the fact that we reorganized our **FINANCING STRUCTURE** at the beginning of April 2011. The line of credit from a bank underwriting syndicate has a period of validity that runs through the end of 2014. Our high yield bond has a term to maturity of seven years, in other words, to 2018.

Short-term Developments in the Divisions: Heidelberg Equipment Especially Benefiting from the Economic Upswing

In the **HEIDELBERG EQUIPMENT DIVISION**, we expect above-average growth in sales because print shops will work through their investment backlog. During the current financial year, we will gradually further expand our marketing of the digital printing press from our partner Ricoh – our customers can count on benefiting from our cooperation with Ricoh worldwide up to drupa 2012. In preparation for the most important trade show for our industry, we will invest in demonstration printing presses in the current and the next financial year. We will also invest in expanding our Qingpu production site in order to continue to extensively benefit from the growth of the Chinese market. Thanks to the attained cost reduction effects, the expected favorable sales mix, and higher capacity utilization, we are confident that our result will further improve and this division will exceed the break-even point in the year of the drupa trade show.

We assume that the sales of the **HEIDELBERG SERVICES** Division will continue to show solid growth – primarily in consumables. During the current reporting year, we plan to invest in a manufacturing facility in the US for the production of our own coatings. Growth in sales and cost reduction effects will cause an improved result of operating activities before special items also in this division.

In the **HEIDELBERG FINANCIAL SERVICES** Division, we will continue to follow our policy of focusing primarily on the mediation of financing arrangements with external service providers. This division will continue to make a favorable contribution to the result of operating activities.

Conditions Exist in the Divisions for Successfully Implementing Strategy

We have set demanding medium-term growth targets for both the Heidelberg Equipment Division and the Heidelberg Services Division. We will **INVEST** in both divisions in order to achieve these goals. Through research and development, we will further expand our **LEADING TECHNOLOGICAL POSITION**, for which we receive a price premium – this is particularly essential in the industrialized countries in order to achieve the planned increase in sales in the Heidelberg Equipment Division. Moreover, this division can make use of opportunities in China through its local manufacturing facility. In the Heidelberg Services Division, we will, on the one hand, achieve organic growth and support this trend by our research and development activities. On the other hand, we will systematically promote growth in this division's sales by means of **CORPORATE ACQUISITIONS** if doing so will result in an increase in value, and cooperate with dealers and manufacturers.

Our tightly meshed **SERVICE AND SALES NETWORK**, which encompasses the entire globe, secures considerable advantages over our competitors, especially in the newly industrializing countries. We are thereby in a position to ensure a customer-oriented approach.

In recent years, we have laid the groundwork for the efficient **MANUFACTURING** of our latest product platforms – in some cases, through considerable investments. Today, we enjoy the advantages of the most advanced manufacturing network in our industry. In addition, we are the only European printing press manufacturer with a local production site in China. We will slightly boost investments during the current financial year. In the Risk and Opportunity Report, we discuss how we direct investments throughout the Group in order to achieve greater efficiency in manufacturing and thereby significant competitive advantages. Moreover, we will continue to invest in our comprehensive Heidelberg Production System, whose design and impact we describe in more detail on pages 87–88. Due to the outstanding experience we have had with HPS, we will also expand it in slightly revised form to function in the area of **ADMINISTRATION** during the current financial year. We expect this to result in further improvements in procedures and processes.



We describe our priorities and goals in the **R&D AREA** on pages 106–108. The **R&D RATE** will amount to approximately 5 percent of sales in the current and in the following financial year.



In the Regions Report, we shed light on how we assess the additional development of various markets and discuss measures and innovations – among others, through our marketing measures – by the means of which we will further strengthen customer loyalty in various markets.

Our **EMPLOYEES** in service and sales as well as in manufacturing and administration are highly qualified. As we mentioned, we expect an increase in demand for our products and services and thereby also greater utilization of our capacities. We therefore currently have no plans for any further job cutbacks. In future as well, we will ensure that our employees are always up to date professionally. During the current financial year, for example, we will provide training for service and sales specialists together with our strategic partner Ricoh.

By standardizing our marketing activities and expanding them to cover so-called print buyers, we will even better anchor Heidelberg's **BRAND VALUES** worldwide. We are confident that with our innovations, our solutions, our consulting expertise, and our products' environmental qualities, we will again be clearly ahead of the competition.

The Goal: Forcefully Reducing Dependence on Cyclical Fluctuations

The sale of printing presses will continue to be cyclical. Moreover, the process of consolidation in the printing industry will continue. Accordingly, the number of potential customers will fall – at least in the industrialized countries.

The increased share of sales accounted for by the **HEIDELBERG SERVICES** Division, with its strategic focus on services and consumables, reduces the Group's dependence on cyclical fluctuations. Despite increasing sales in the equipment area this division is expected to account for more than 30 percent of overall sales. As we have shown, we have already succeeded in expanding our market shares in the moderately but steadily growing consumables area. We will improve our solution offerings through corporate acquisitions as long as we thereby gain favorable value contributions.

In various sections of this Annual Report, we discuss how we laid the groundwork for the **HEIDELBERG EQUIPMENT** Division to become less cyclically sensitive. We will continually further expand our global position in the relatively non-cyclical area of **PACKAGING PRINTING**, which additionally has greater growth potential than traditional advertising and commercial printing. With Linoprint, we offer a niche product for packaging companies. With our strategic **COOPERATION WITH RICOH**, we secure diverse opportunities for Heidelberg in the digital printing area in order to satisfy the increasing requirements of our customers for economic and



In the Corporate Governance Report on page 49, we indicate that we will propose a change in the Articles of Association to the Annual General Meeting, because Heidelberg intends to expand its corporate objective to a limited extent in order to be in a position to take advantage of business opportunities beyond the Company's core business – also beyond the print media industry. We additionally intend to systematically make use of external growth opportunities – for example, through corporate acquisitions. No changes in the corporate legal structure are currently planned.

flexible production at very small print runs. We intend to systematically expand our business by acquiring **ORDERS FROM COMPANIES OUTSIDE OUR INDUSTRY**. We are holding firm to our goal of increasing sales in this area to € 100 million by 2014. The new hand-forming plant in Amstetten, whose construction was completed during the reporting year, was designed so that outside companies are able to benefit from Heidelberg's expertise in the production of high quality castings – for example, companies specializing in engineering, car manufacturing, or wind energy technology. If and when required, we hold presentations for buyers of castings, mechanical or processing parts, and complex modules. The first in-house exhibition was already held on April 12 in Amstetten. A date has also been set for an event at Wiesloch-Walldorf on June 28, and Brandenburg will introduce itself to our outside business prospects on September 27. We also presented out self-developed laser technology at the LASER World of Photonics trade show in Munich during May 23 – 26, 2011. In principle, the modules that we use in our printing plate image-setters are suitable for all industrial applications that require individually driven and scalable laser systems.

Medium-Term Goals: Return on Sales of over 5 Percent with a Business Volume Exceeding € 3 Billion; Focus on Financial Stability

Although we do not yet have specific ranges for projections of sales and the result for the current financial year, we have defined and communicated our medium-term goals. They are integrated within our rolling five-year planning as key data. The table on the right presents an overview.

The experience of recent years has shown clearly how important financial stability is. We have taken important steps to ensure the stabilization of our financial situation during the past two years. 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. This 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 Group's outlook permit such step to be considered appropriate. We will not propose to the Annual General Meeting the payment of a dividend for the reporting year.



We have the best and most advanced offerings in our industry, so we will benefit from drupa to an especially high degree. On pages 25 – 29, we describe the competitive advantages offered by our solutions. In the "Regional Report" on page 97, we explain the advantages of our solutions in individual markets.

MEDIUM-TERM FINANCIAL TARGETS

- > Sales > € 3 billion
- > Operational return on sales > 5 percent
- > Other targets
 - Net working capital < 35 percent of sales
 - R & D costs ≤ 5 percent of sales
 - Investments (excluding finance leases): approx. 2 percent of sales
- > ROCE > 15 percent

Our optimized **CAPITAL AND FINANCING STRUCTURE**, which would even be viable in the case of another crisis, provides us with the necessary planning security in order to purposefully implement our strategy.

Supplementary Report

On April 7, 2011 Heidelberg issued a high yield bond with an overall volume issued totaling a nominal € 304 million and a term to maturity of seven years. Some of the proceeds from the issue were used to immediately repay the credits – which were in part secured by guarantees from the German Federal Government and the German Federal States. We will strive for a listing on the Luxembourg stock exchange in May. 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 “Business Development”.

No further significant events occurred following the financial reporting date.

IMPORTANT NOTE:

This Annual Report contains forward-looking statements based on assumptions and estimations by the Management Board of Heidelberger Druckmaschinen Aktiengesellschaft. Even though the Management Board is of the opinion that these assumptions and estimations are realistic, the actual future development and results may deviate substantially from these forward-looking statements due to various factors, such as changes in the macro-economic situation, in the exchange rates, in the interest rates, and in the print media industry. Heidelberger Druckmaschinen Aktiengesellschaft gives no warranty and does not assume liability for any damages in case the future development and the projected results do not correspond with the forward-looking statements contained in this Annual Report. Heidelberg does not intend, and does not assume any obligation, to update the forward-looking statements contained in this Annual Report to reflect events or developments that have occurred after this Annual Report was published.

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Glossary

ANICOLOR

Heidelberg presented its Anicolor inking unit technology for the first time at the 2006 IPEX trade show. With Anicolor, hardly any start-up sheets are required – startup spoilage is thus reduced by up to 90 percent. Since no color-zone adjustments are required, set-up times are reduced by up to 40 percent, and the capacity of the printing press is increased by up to 25 percent.

ASSET MANAGEMENT

Operating assets and liabilities are optimized in order to reduce and more efficiently utilize tied capital. This serves to improve free cash flow and value added.

BIRD (BEST IN RESEARCH AND DEVELOPMENT)

Heidelberg has been making use of the BiRD program since 2008 in order to optimize all processes in research and development. Among others, we rely on the benchmarks of successful companies, including those outside the engineering industry.

BSC (BALANCED SCORECARD)

The balance scorecard system is an approach to business management that aligns the organization towards strategic goals from various perspectives: monetary goals, goals related to the customer, goals relating to employees, and processes.

COMMERCIAL PRINTING

Printed products that do not appear regularly. These products include a diversity of font types and sizes as well as printing stocks – for example, brochures or catalogs.

FINISHING (POSTPRESS)

All the manufacturing steps after the printing process in order to prepare a product – for example cutting, folding, stitching, binding, and packaging.

KPI (KEY PERFORMANCE INDICATOR)

Key indicators that measure the extent to which important goals or critical factors for success within the Company have been met.

LEAN MANUFACTURING

The core objective is to cut back on resource deployment while simultaneously reducing fluctuations on the part of suppliers and customers, as well as internal fluctuations.

MAKEREADY TIME

The time required to prepare a machine for a specific work process. During makeready times, machines cannot be used for production purposes, and investments do not yield a return.

OEM-PRODUCTS

Printing presses, modules or components of other manufacturers that are integrated within and marketed as part of Heidelberg's overall solution.

PREPRESS

All the steps required to prepare the printing plate for the actual printing process.

PRINET

With its Prinect workflow software, Heidelberg provides the most complete software offering in the print media industry. Customers thereby attain the greatest possible production security in color management with color measuring devices as well as closely coordinated measurement fields and seamless integration within the workflow.

PRINT COLOR MANAGEMENT

Ensures maximum color fidelity through the perfect interplay of all elements in the overall printing process. Print shops thereby attain enhanced productivity with improved cost effectiveness – among others, due to a quick “inking up” process and a reduction in spoilage.

QUALITY GATES

Quality Gates are clearly-defined milestones, which occur during a product's life cycle, to evaluate a project's maturity. These milestones are firmly established in all areas that are decisive for the quality of our products – including, among others, development, production, service, purchasing, order management, as well as sales and marketing. The Quality Gates include processes, performance targets, and checklists that are binding components of product-based projects.

REMOTE SERVICES TECHNOLOGY

Internet-based service platform which, among other things, makes it possible to analyze and inspect printing presses via a data link – without the need for customers to interrupt their production.

SHEETFED OFFSET PRINTING

Offset printing is based on the principle that oil and water repel each other. The printing and non-printing areas are at nearly the same level. As the name indicates, the sheetfed offset process prints individual sheets as opposed to web offset printing, which prints paper rolls.

SPOILAGE

Damaged, defective, or not yet rejected printed matter that arises in the printing process. Spoilage results from the makeready process as well as during the production run – for example, due to defective ink feeds and color registers or contamination – as well as during the finishing process.

STAR SYSTEM

With the Heidelberg Star System print shops can employ environmentally friendly printing processes, because Star peripherals cover the entire system solution – from dryers and powder sprayers to the dampening solution supply, as well as from cleaning waste air to recycling cleaning agents.

TECHNOLOGY ROADMAP

A tool used to visualize measures necessary in the development of all forms of technological expertise in connection with future products.

**VALUE DIGITAL PRINTING
SEGMENT**

Digital printing systems, with printing speeds of between 60 and 90 pages per minute and a monthly production volume that ranges from around 80,000 to over 300,000 DIN-A4-size pages. The Ricoh Pro™ C901 Graphic Art Edition is included in this segment.

WEB-TO-PRINT

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

Overview charts, graphs, and illustrations

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FINANCIAL SECTION

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CONSOLIDATED INCOME STATEMENT 2010/2011

 Figures in € thousands

	Note	1-Apr-2009 to 31-Mar-2010	1-Apr-2010 to 31-Mar-2011
Net sales	8	2,306,403	2,628,921
Change in inventories		- 142,640	- 45,613
Other own work capitalized		14,663	14,757
Total operating performance		2,178,426	2,598,065
Other operating income	9	155,521	136,462
Cost of materials	10	1,031,351	1,234,047
Staff costs	11	816,596	872,711
Depreciation and amortization	12	105,352	99,600
Other operating expenses	13	510,813	524,245
Special items	14	28,415	- 2,233
Result of operating activities		- 158,580	6,157
Financial income	16	19,897	22,690
Financial expenses	17	147,392	171,724
Financial result	15	- 127,495	- 149,034
Income before taxes		- 286,075	- 142,877
Taxes on income	18	- 57,568	- 13,987
Consolidated net loss		- 228,507	- 128,890
Basic earnings per share according to IAS 33 (in € per share)	35	- 2.94	- 0.83
Diluted earnings per share according to IAS 33 (in € per share)	35	- 2.94	- 0.83

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 2010/2011

Figures in € thousands

	Note	1-Apr-2009 to 31-Mar-2010	1-Apr-2010 to 31-Mar-2011
Consolidated net loss		- 228,507	- 128,890
Pension obligations ¹⁾		- 36,187	16,761
Currency translation			
Change in other comprehensive income		19,601	4,257
Change in profit or loss		0	0
		19,601	4,257
Available-for-sale financial assets			
Change in other comprehensive income		444	- 362
Change in profit or loss		0	0
		444	- 362
Cash flow hedges			
Change in other comprehensive income		- 15,188	904
Change in profit or loss		10,306	16,625
		- 4,882	17,529
Deferred income taxes		32,441	- 14,279
Total other comprehensive income		11,417	23,906
Total comprehensive income		- 217,090	- 104,984

¹⁾ Change in actuarial gains and losses and change in adjustment amount on account of IAS 19.58b)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF MARCH 31, 2011

> ASSETS

Figures in € thousands

	Note	31-Mar-2010	31-Mar-2011
Non-current assets			
Intangible assets	19	292,605	266,667
Property, plant, and equipment	20	595,122	569,972
Investment property	20	1,750	5,664
Financial assets	21	24,901	19,547
Receivables from sales financing	22	116,910	90,419
Other receivables and other assets	22	51,786	42,920
Income tax assets		570	499
Deferred tax assets	23	151,250	118,927
		<u>1,234,894</u>	<u>1,114,615</u>
Current assets			
Inventories	24	827,163	747,680
Receivables from sales financing	22	94,927	87,582
Trade receivables	22	395,697	376,928
Other receivables and other assets	22	171,297	153,523
Income tax assets		17,957	13,862
Cash and cash equivalents	25	120,696	147,934
		<u>1,627,737</u>	<u>1,527,509</u>
Assets held for sale	20	<u>16,611</u>	<u>908</u>
Total assets		<u>2,879,242</u>	<u>2,643,032</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF MARCH 31, 2011

> EQUITY AND LIABILITIES

Figures in € thousands

	Note	31-Mar-2010	31-Mar-2011
Equity	26		
Issued capital		198,767	596,302
Capital reserves and retained earnings		608,690	401,180
Consolidated net loss		- 228,507	- 128,890
		<u>578,950</u>	<u>868,592</u>
Non-current liabilities			
Provisions for pensions and similar obligations	27	225,378	221,011
Other provisions	28	355,497	303,014
Financial liabilities	29	464,491	105,256
Other liabilities	31	142,282	127,670
Deferred tax liabilities	23	12,681	6,298
		<u>1,200,329</u>	<u>763,249</u>
Current liabilities			
Other provisions	28	357,053	291,239
Financial liabilities	29	351,055	289,361
Trade payables	30	132,073	129,726
Income tax liabilities		1,978	1,842
Other liabilities	31	257,804	299,023
		<u>1,099,963</u>	<u>1,011,191</u>
Total equity and liabilities		<u>2,879,242</u>	<u>2,643,032</u>

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY¹⁾

Figures in € thousands

	Issued capital	Capital reserves	Pension obligations	Currency translation	Fair value of other financial assets
April 1, 2009	198,767	30,005	- 109,574	- 220,142	- 517
Loss carryforward	0	0	0	0	0
Total comprehensive income	0	0	- 5,064	19,601	264
Consolidation adjustments/ other changes	0	- 10,980	0	0	0
March 31, 2010	198,767	19,025	- 114,638	- 200,541	- 253
April 1, 2010	198,767	19,025	- 114,638	- 200,541	- 253
Capital increase ²⁾	397,535	6,409	0	0	0
Loss carryforward	0	0	0	0	0
Total comprehensive income	0	0	7,764	4,257	- 640
Consolidation adjustments/ other changes	0	2,260	0	0	0
March 31, 2011	596,302	27,694	- 106,874	- 196,284	- 893

¹⁾ For further details please refer to note 26

²⁾ The capital increase was reduced by issuing costs after taxes of € 15,498 thousand

		Retained earnings	Total capital reserves and retained earnings	Consolidated net profit/loss	Total
Fair value of cash flow hedges	Other retained earnings	Total retained earnings			
- 3,301	1,149,595	816,061	846,066	- 248,707	796,126
0	- 248,707	- 248,707	- 248,707	248,707	0
- 3,384	0	11,417	11,417	- 228,507	- 217,090
0	10,894	10,894	- 86	0	- 86
- 6,685	911,782	589,665	608,690	- 228,507	578,950
- 6,685	911,782	589,665	608,690	- 228,507	578,950
0	0	0	6,409	0	403,944
0	- 228,507	- 228,507	- 228,507	228,507	0
12,525	0	23,906	23,906	- 128,890	- 104,984
0	- 11,578	- 11,578	- 9,318	0	- 9,318
5,840	671,697	373,486	401,180	- 128,890	868,592

CONSOLIDATED STATEMENT OF CASH FLOWS 2010/2011 ¹⁾

Figures in € thousands

	1-Apr-2009 to 31-Mar-2010	1-Apr-2010 to 31-Mar-2011
Consolidated net loss	- 228,507	- 128,890
Depreciation and amortization, write-downs and reversals ²⁾	112,095	101,716
Change in pension provisions	25,032	13,619
Change in deferred tax assets/ deferred tax liabilities/tax provisions	- 88,091	- 17,313
Result from disposals ²⁾	745	- 9,813
Cash flow	- 178,726	- 40,681
Change in inventories	212,810	80,662
Change in sales financing	66,397	31,988
Change in trade receivables/payables	7,196	18,064
Change in other provisions	- 72,631	- 79,507
Change in other items of the statement of financial position	- 75,613	88,869
Other operating changes	138,159	140,076
Cash used in/generated by operating activities ³⁾	- 40,567	99,395
Intangible assets/property, plant, and equipment/ investment property		
Investments	- 58,732	- 73,348
Proceeds from disposals	41,073	37,875
Business acquisitions	- 1,900	- 900
Financial assets		
Investments	- 2,259	- 2,470
Income from disposals	18	14,316
Cash used in investing activities	- 21,800	- 24,527
Free cash flow	- 62,367	74,868
Income from capital increase	0	397,787
Dividend payment	0	0
Borrowing of financial liabilities	595,599	34,221
Repayment of financial liabilities	- 498,532	- 482,047
Cash generated by/used in financing activities	97,067	- 50,039
Net change in cash and cash equivalents	34,700	24,829
Cash and cash equivalents at the beginning of the year	80,006	120,696
Changes in the scope of the consolidation	90	0
Currency adjustments	5,900	2,409
Net change in cash and cash equivalents	34,700	24,829
Cash and cash equivalents at year-end	120,696	147,934

¹⁾ For further details please refer to note 36

²⁾ Relates to intangible assets, property, plant, and equipment, investment property, loans, and other securities

³⁾ Includes income taxes paid and refunded of € 11,912 thousand (previous year: € 41,745 thousand) and € 5,271 thousand (previous year: € 11,101 thousand) respectively. Interest expenses and interest income amount to € 85,469 thousand (previous year: € 117,615 thousand) and € 23,027 thousand (previous year: € 24,852 thousand) respectively

HEIDELBERG 2010/2011

Notes to the Consolidated Financial Statements

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR APRIL 1, 2010 TO MARCH 31, 2011

> DEVELOPMENT OF INTANGIBLE ASSETS, PROPERTY, PLANT, AND EQUIPMENT, AND INVESTMENT PROPERTY

Figures in € thousands

	Cost						
	As of start of financial year	Change in scope of consolidation	Additions	Re- classifications ¹⁾	Currency adjustments	Disposals	As of end of financial year
2009/2010							
Intangible assets							
Goodwill	125,559	- 3,735	109	0	621	0	122,554
Development costs	288,235	0	2,485	- 209	0	0	290,511
Software/other rights	126,774	70	1,588	52	550	2,964	126,070
Advance payments	86	0	2	- 78	0	10	0
	<u>540,654</u>	<u>- 3,665</u>	<u>4,184</u>	<u>- 235</u>	<u>1,171</u>	<u>2,974</u>	<u>539,135</u>
Property, plant, and equipment							
Land and buildings	659,417	0	1,217	1,536	4,547	1,193	665,524
Technical equipment and machinery	615,170	33	14,361	23,684	2,477	24,428	631,297
Other equipment, operating and office equipment	783,291	38	31,212	2,116	3,136	74,023	745,770
Advance payments and assets under construction	32,736	0	11,498	- 25,301	11	885	18,059
	<u>2,090,614</u>	<u>71</u>	<u>58,288</u>	<u>2,035</u>	<u>10,171</u>	<u>100,529</u>	<u>2,060,650</u>
Investment property	<u>6,650</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>6,650</u>
2010/2011							
Intangible assets							
Goodwill	122,554	0	207	0	140	0	122,901
Development costs	290,511	0	19	0	0	7,038	283,492
Software/other rights	126,070	0	2,116	20	322	2,027	126,501
Advance payments	0	0	1,250	0	0	0	1,250
	<u>539,135</u>	<u>0</u>	<u>3,592</u>	<u>20</u>	<u>462</u>	<u>9,065</u>	<u>534,144</u>
Property, plant, and equipment							
Land and buildings	665,524	0	8,642	- 8,221	3,600	1,800	667,745
Technical equipment and machinery	631,297	0	12,227	9,096	2,456	30,297	624,779
Other equipment, operating and office equipment	745,770	0	34,307	5,516	142	54,126	731,609
Advance payments and assets under construction	18,059	0	19,976	- 14,997	- 518	1,343	21,177
	<u>2,060,650</u>	<u>0</u>	<u>75,152</u>	<u>- 8,606</u>	<u>5,680</u>	<u>87,566</u>	<u>2,045,310</u>
Investment property	<u>6,650</u>	<u>0</u>	<u>0</u>	<u>7,192</u>	<u>14</u>	<u>5,631</u>	<u>8,225</u>

¹⁾ Includes reclassifications to "Assets held for sale" of € 791 thousand (previous year: € 1,077 thousand)²⁾ Including impairment loss of € 3,964 thousand (previous year: € 1,564 thousand), see note 12³⁾ Including special items of € 1,921 thousand (previous year: € 0 thousand)

Cumulative depreciation and amortization							Carrying amounts	
As of start of financial year	Change in scope of consolidation	Depreciation and amortization ²⁾³⁾	Re-classifications ¹⁾	Currency adjustments	Disposals	Reversals	As of end of financial year	As of end of financial year
0	0	3	0	0	0	0	3	122,551
133,774	0	21,455	0	0	0	0	155,229	135,282
84,634	23	9,307	0	290	2,956	0	91,298	34,772
0	0	0	0	0	0	0	0	0
218,408	23	30,765	0	290	2,956	0	246,530	292,605
410,811	0	10,798	78	2,018	1,005	0	422,700	242,824
465,126	9	22,726	4	1,406	16,162	0	473,109	158,188
569,062	- 34	41,047	- 1,193	2,411	41,574	0	569,719	176,051
0	0	0	0	0	0	0	0	18,059
1,444,999	- 25	74,571	- 1,111	5,835	58,741	0	1,465,528	595,122
4,884	0	16	0	0	0	0	4,900	1,750
3	0	0	0	0	0	0	3	122,898
155,229	0	20,504	0	0	5,901	0	169,832	113,660
91,298	0	8,142	5	196	1,999	0	97,642	28,859
0	0	0	0	0	0	0	0	1,250
246,530	0	28,646	5	196	7,900	0	267,477	266,667
422,700	0	11,585	- 1,571	1,865	1,395	0	433,184	234,561
473,109	0	21,982	- 17	1,453	22,837	0	473,690	151,089
569,719	0	37,540	- 61	127	38,861	0	568,464	163,145
0	0	0	0	0	0	0	0	21,177
1,465,528	0	71,107	- 1,649	3,445	63,093	0	1,475,338	569,972
4,900	0	1,768	800	3	4,910	0	2,561	5,664

GENERAL NOTES
**1
BASIS FOR THE PREPARATION
OF THE CONSOLIDATED
FINANCIAL STATEMENTS**

Heidelberger Druckmaschinen Aktiengesellschaft, based in Heidelberg, Germany, Kurfuersten-Anlage 52–60, is the parent company of the Heidelberg Group. The consolidated financial statements of Heidelberger Druckmaschinen Aktiengesellschaft were prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union and in accordance with the supplemental provisions of section 315a (1) of the Handelsgesetzbuch (HGB – German Commercial Code). The consolidated financial statements also comply with the IFRS in force as of the end of the reporting period.

Certain consolidated income statement and consolidated statement of financial position items have been combined to improve the clarity of presentation. A breakdown of these items is presented in the notes to the consolidated financial statements.

The consolidated income statement has been prepared in line with the nature of expense method.

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

These consolidated financial statements relate to financial year 2010/2011 (April 1, 2010 to March 31, 2011). They were approved for publication by the Management Board of Heidelberger Druckmaschinen Aktiengesellschaft on May 25, 2011.

**2
ADOPTION OF AMENDED
OR NEW STANDARDS**

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

The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) have issued the following new standards and interpretations as well as amendments to existing standards and interpretations, which are to be applied for the first time in financial year 2010/2011:

Standard	Publication by the IASB/IFRIC	Date of adoption in EU ¹⁾	Published in Official Journal of the EU	Effects
Amendments to standards				
IAS 27: Consolidated and Separate Financial Statements	10-Jan-2008	1-Jul-2009	12-Jun-2009	> None ²⁾
Amendment to IAS 32: Financial Instruments: Presentation: Classification of Rights Issues	8-Oct-2009	1-Feb-2010	24-Dec-2009	> None
Amendment to IAS 39: Financial Instruments: Recognition and Measurement – Eligible Hedged Items	31-Jul-2008	1-Jul-2009	16-Sep-2009	> None
IFRS 1: First-time Adoption of Inter- national Financial Reporting Standards	27-Nov-2008	1-Jan-2010	26-Nov-2009	> None
Amendments to IFRS 1: Additional Exemptions for First-time Adopters	23-Jul-2009	1-Jan-2010	24-Jun-2010	> None
Amendment to IFRS 2: Group Cash-settled Share-based Payment Transactions	18-Jun-2009	1-Jan-2010	24-Mar-2010	> None
IFRS 3: Business Combinations	10-Jan-2008	1-Jul-2009	12-Jun-2009	> None ²⁾
Improvements to International Financial Reporting Standards 2009	16-Apr-2009	Various, 1-Jan-2009 at earliest	24-Mar-2010	> None
New interpretations				
IFRIC 15: Agreements for the Construction of Real Estate	3-Jul-2008	1-Jan-2010	23-Jul-2009	> None
IFRIC 16: Hedges of a Net Investment in a Foreign Operation	3-Jul-2008	1-Jul-2009	5-Jun-2009	> None
IFRIC 17: Distributions of Non-cash Assets to Owners	27-Nov-2008	1-Nov-2009	27-Nov-2009	> None
IFRIC 18: Transfers of Assets from Customers	29-Jan-2009	1-Nov-2009	1-Dec-2009	> None

¹⁾ For financial years beginning on or after this date

²⁾ Effects on accounting for business acquisitions and disposals and for transactions with non-controlling interests, which did not occur in the reporting period

New accounting provisions

The IASB and the IFRIC approved and amended other standards and interpretations, whose application during financial year 2010/2011 is not yet compulsory or

Standard	Publication by the IASB/IFRIC	Effective date ¹⁾	Published in Official Journal of the EU
Amendments to standards			
IAS 24: Related Party Disclosures (Revised 2009)	4-Nov-2009	1-Jan-2011	20-Jul-2010
Amendment to IFRS 1: Limited Exemption for First-time Adopters from IFRS 7 and to IFRS 7: Financial Instruments: Disclosures	28-Jan-2010	1-Jul-2010	1-Jul-2010
Amendments to IFRS 1: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	20-Dec-2010	1-Jul-2011	open
Amendments to IFRS 12: Deferred Tax: Recovery of Underlying Assets	20-Dec-2010	1-Jan-2012	open
Amendments to IFRS 7: Financial instruments: Disclosures: Transfers of Financial Assets	7-Oct-2010	1-Jul-2011	open
Improvements to International Financial Reporting Standards 2010	10-May-2010	Various, 1-Jul-2010 at earliest	19-Feb-2011
Amendments to interpretations			
Amendments to IFRIC 14: Prepayments of a Minimum Funding Requirement	26-Nov-2009	1-Jan-2011	20-Jul-2010
New standards			
IFRS 9: Financial Instruments	12-Nov-2009	1-Jan-2013	open
New interpretations			
IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments and amendment to IFRS 1: First-time Adoption of International Financial Reporting Standards	26-Nov-2009	1-Jul-2010	24-Jul-2010

¹⁾ For financial years beginning on or after this date

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

Content	Expected effects
<ul style="list-style-type: none"> > Companies related to governments only have to provide disclosures on transactions with related parties that are individually or jointly significant. > Simplification of the definition of a related party. 	> None
> Regarding the applicability of the regulations of IFRS 7 on comparative information for financial instruments, first-time adopters are considered the same as preparers already using IFRS.	> None
> The amendments relate to additional information for first-time adopters whose currency was subject to hyperinflation on the one hand and the elimination of the set first-time adoption date on the other.	> None
> Under IAS 12, the measurement of deferred taxes is based on whether the carrying amount of the underlying asset is realized by sale or use. For investment property, which is measured at fair value under IAS 40, it is assumed in line with the amendment to IAS 12 that the carrying amount is realized by way of sale.	> None
> The amendments relate to the disclosure of risks resulting from transfers of financial assets.	> Currently being examined
> As part of the IASB's annual improvement project, minor and non-urgent improvements are made to IFRS.	> Currently being examined
> If a company is subject to minimum financing requirements and makes prepayments the benefit of these prepayments is recognized as an asset.	> Currently being examined
<ul style="list-style-type: none"> > Introduction of new provisions on the classification and measurement of financial assets. > The aim of the IASB is to completely replace IAS 39 in future to increase comprehension of the recognition of financial instruments and to reduce complexity. 	> Currently being examined
> Clarification of the recognition of liabilities in full or partial repayment with shares of the company.	> None

3 SCOPE OF CONSOLIDATION

The consolidated financial statements of Heidelberger Druckmaschinen Aktiengesellschaft include a total of 75 (previous year: 75) domestic and foreign companies in which Heidelberger Druckmaschinen Aktiengesellschaft has a controlling influence as defined by IAS 27. Of these companies, 64 (previous year: 64) are located outside Germany.

	2009/2010	2010/2011
April 1	73	75
Initial consolidation due to formation	3	0
Initial consolidation due to acquisition	0	0
Merger	1	0
Deconsolidation	0	0
March 31	75	75

Control as defined by IAS 27 exists if the financial and operating policy of a company can be influenced in order to derive benefits from its activities. Owing to the business management by Heidelberger Druckmaschinen Aktiengesellschaft, the Company also has a controlling influence over subsidiaries in which it holds less than 50 percent of the capital. These subsidiaries are therefore consolidated in full. Inclusion in the consolidated financial statements occurs at the time that control is established. Subsidiaries that are of minor importance are not included. These subsidiaries are of minor significance if the total of the equity, total assets, sales and net profit or loss of the subsidiaries not included amounts to only a minor portion of the Group figure. The list of all shareholdings of Heidelberger Druckmaschinen Aktiengesellschaft, which is a component of the notes to the consolidated financial statements, can be found on our Web site www.heidelberg.com in the "Investor Relations" section under "Annual General Meeting": it is also published in the electronic Bundesanzeiger (Federal Gazette). The material subsidiaries included in the consolidated financial statements are listed in the notes to the consolidated financial statements in the appendix "Material investments".

The Heidelberg consolidated financial statements as of March 31, 2011 include five (previous year: five) companies whose reported period ends as of December 31, 2010. If these companies conduct material transactions between December 31 and March 31, they are included in the consolidated financial statements.

The scope of the consolidation has not changed as against the previous year.

4
**PRINCIPLES
 OF CONSOLIDATION**

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

On first-time consolidation of acquired companies, the identifiable assets, liabilities and contingent liabilities are measured at fair value as of the date of acquisition. If the purchase price exceeds the fair value of the identifiable assets less liabilities, and contingent liabilities, this is recognized as goodwill. Intra-Group sales, expenses and income, receivables, liabilities, and contingent liabilities are eliminated. Intra-Group transactions are calculated both on the basis of market prices and on the basis of arm's length transfer prices. Assets from commercial transactions among consolidated companies included in inventories are adjusted to eliminate intercompany profits and losses. In consolidation processes affecting profit or loss, income tax effects are taken into account and deferred taxes are recognized.

5
CURRENCY TRANSLATION

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

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

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

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

Currency translation is based on the following exchange rates:

	Average rates for the year		Reporting date rates	
	2009/2010 € 1 =	2010/2011 € 1 =	2009/2010 € 1 =	2010/2011 € 1 =
AUD	1.6536	1.3975	1.4650	1.3668
CAD	1.5354	1.3459	1.3731	1.3674
CHF	1.4980	1.3292	1.4316	1.2993
CNY	9.6542	8.8591	9.2025	9.2381
GBP	0.8854	0.8503	0.8933	0.8789
HKD	10.9634	10.2881	10.4682	10.9696
JPY	130.6392	112.6583	124.8000	117.0100
USD	1.4139	1.3229	1.3482	1.4090

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

6 GENERAL ACCOUNTING POLICIES

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

General principles

In the opinion of the IASB, the consolidated financial statements present a true and fair view and a fair presentation (overriding principle) if the qualitative criteria of the presentation of accounts are met and the individual IFRS guidelines are complied with. Consequently, to achieve a fair presentation, preparers cannot deviate from the individual regulations.

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

Uniform accounting policies

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

Consistency of accounting policies

The accounting policies were retained.

Revenue recognition

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

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

Income from **OPERATING AND FINANCE LEASES** is recognized based on the provisions of IAS 17.

Intangible assets

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

Research and development costs

Development costs for newly developed products are capitalized at cost to the extent that expenses are directly attributable and if both the technical feasibility and the marketing of the newly developed products are assured (IAS 38). There must also be a sufficient degree of probability that the development activity will lead to future inflows of funds. Capitalized development costs include all direct costs and overheads that are directly attributable to the development process. If capitalized development projects meet the criteria of qualifying assets, borrowing costs are capitalized as part of cost in line with IAS 23. The corresponding interest expense is calculated using the effective interest method. Capitalized development costs are amortized on the basis of the estimated period during which sales may be expected.

In accordance with IAS 38, research costs cannot be capitalized and are therefore recognized in profit or loss directly in the consolidated income statement.

Property, plant, and equipment

Property, plant, and equipment, including that leased in operating leases, are measured at cost less cumulative straight-line depreciation and cumulative impairment.

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

Borrowing costs that can be assigned directly to qualifying assets are capitalized as a part of cost in line with IAS 23.

Costs of repairs to property, plant, and equipment that do not result in an expansion or substantial improvement of the respective asset are recognized in profit or loss.

Investment property

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

Leases

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

If economic ownership is not assigned to the Heidelberg Group as the lessee and the leases in question are therefore operating leases, the lease installments are recognized in profit or loss in the consolidated income statement on a straight-line basis over the term of the lease.

Depreciation and amortization

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

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

Impairment of non-financial assets

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

The carrying amounts of goodwill are subject to impairment testing if there is evidence to suggest a decline in value. Regardless of whether there are indications of impairment, goodwill is tested for possible impairment annually. An

impairment loss is recognized when the recoverable amount is less than the carrying amount of the cash-generating unit to which goodwill has been assigned. Any additional impairment requirements are recognized by way of the pro rata reduction of the carrying amounts of other assets. Goodwill impairment is not reversed in subsequent periods.

Inventories

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

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

In particular, the cost of products includes directly attributable direct costs (such as production materials and wages used in construction), as well as fixed and variable production overheads (such as materials and production overheads), including an appropriate depreciation on manufacturing equipment. Particular account is taken of costs that are charged to specific production cost centers.

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

Financial instruments

Basic information

A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments are recognized when Heidelberg becomes party to a contract for the financial instrument. If the trade date and settlement date differ for standard purchases or sales, financial instruments are recognized at the settlement date.

First-time measurement of financial assets and liabilities is at fair value. The carrying amount of financial instruments not measured at fair value through profit or loss includes the directly attributable transaction costs. Subsequent measurement of financial instruments is in line with the measurement categories defined in IAS 39 "Financial Instruments: Recognition and Measurement". There were no reclassifications between the different IAS 39 measurement categories in the year under review. Under IAS 39, on first-time recognition financial assets and liabilities can be designated as financial instruments in the fair value through profit and loss category. Heidelberg did not exercise this option.

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

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

For loans and receivables the amount of impairment is equal to the difference between the carrying amount and the present value of the expected future cash flows, discounted at the original effective interest rate of the financial asset. Impairment is either recognized directly in income by reducing the carrying amount of

the financial asset or by using an allowance account. The way in which the impairment is shown is dependent on the estimated probability of the risk of default. The carrying amount of uncollectible receivables is derecognized. If the amount of the impairment is objectively reduced in subsequent reporting periods due to an event occurring after recognition of the impairment, the impairment recognized is reversed accordingly in income.

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

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

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

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

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

Investments and securities

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

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

The appropriate classification of securities is determined at the time of purchase and is reviewed as of the end of each reporting period.

Loans

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

Receivables from sales financing

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

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

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

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

Trade receivables

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

Receivables and other assets

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

Cash and cash equivalents

Cash on hand and bank balances are carried at amortized cost. Bank balances have a remaining term of up to three months.

Financial liabilities

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

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

Derivative financial instruments

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

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

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

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

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

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

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

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

Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated in accordance with the standard international liability method (IAS 12). Under this method, deferred taxes are recognized for all temporary differences between IFRS carrying amounts and the tax carrying amounts of the individual companies or Group companies and on corresponding consolidation adjustments. In addition, deferred tax assets for future benefits from tax loss carryforward are also taken into account. Deferred tax assets for accounting differences and for tax loss carryforwards are recognized in the amount for which it is probable that taxable income will be available, i. e. for which utilization seems reasonably assured. Deferred taxes are measured on the basis of the income tax rates of the respective countries. A tax rate of 28.43 percent (previous year: 28.14 percent) is used to calculate domestic deferred taxes. In addition to the corporation tax of 15 percent and the solidarity surcharge of 5.5 percent, the average trade tax rate was also taken into account.

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

Assets and liabilities held for sale

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

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

Provisions for pensions and similar obligations

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

The calculation of the return expected on plan assets in the long term depends on the respective asset category. Our forecasts are based on long-term historical average figures.

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

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

Other provisions

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

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

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

Advance payments

Advance payments are recognized under liabilities.

Deferred income

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

Share-based payment

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

Contingent liabilities

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

7 ESTIMATES AND JUDGMENTS

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

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

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

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

The useful lives used throughout the Group for intangible assets – with the exception of goodwill – and for items of property, plant, and equipment are subject to management assessments. In addition, the impairment test determines the recoverable amount of the asset or cash-generating unit to which the asset is attributed as the higher of fair value less costs to sell and value in use. The fair value here reflects the best estimate of the amount for which an independent third party would acquire the asset at the end of the reporting period. The value in use is the present value of the estimated future cash flows that can be anticipated from the continued use of the asset or cash-generating unit. A change in determining factors may change the fair value or the value in use and could result in the recognition or reversal of an impairment loss.

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

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

The calculation of the provisions for pensions and similar obligations is based on the parameters listed in note 27. Increasing or reducing the interest rate used in calculations by one quarter of a percentage point to 5.25 percent or 4.75 percent respectively (previous year: to 5.0 percent or 4.5 percent respectively) would result in a € 26,818 thousand (previous year: € 28,298 thousand) reduction or a € 28,564 thousand (previous year: € 30,175 thousand) increase in domestic pension claims. After income taxes, the losses offset in other comprehensive income would be reduced by € 19,194 thousand (previous year: € 20,335 thousand) or increased by € 20,443 thousand (previous year: € 21,684 thousand) respectively.

The goodwill impairment test is based on the parameters listed in note 19. As in the previous year, increasing the discount rate before taxes by one percentage point to 10.7 percent for the cash-generating unit Heidelberg Equipment and 11.0 percent for the cash-generating unit Heidelberg Services would not result in any impairment requirements. The same applies to a reduction in the growth factor used to calculate the perpetual annuity by one percentage point either way and 5 percent for the reduction in the result of operating activities.

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

NOTES TO THE CONSOLIDATED INCOME STATEMENT

- 8 In addition to income from sales of products and services, sales include income from commissions, from finance and operating leases totaling € 7,404 thousand (previous year: € 8,449 thousand), as well as interest income from sales financing and finance leases amounting to € 16,148 thousand (previous year: € 19,304 thousand).

Further information on sales can be found in the reports of the divisions and the reports of the regions in the Group management report. The classification of sales by segment and sales by region are shown in note 37.

9
OTHER OPERATING INCOME

	2009/2010	2010/2011
Reversal of other provisions and accruals	77,863	44,369
Recoveries on loans and other assets previously written down	23,535	22,455
Income from operating facilities	15,081	14,161
Hedging/exchange rate gains	8,921	11,035
Income from disposals of intangible assets, property, plant, and equipment, and investment property	643	8,791
Other income	29,478	35,651
	<u>155,521</u>	<u>136,462</u>

10
COST OF MATERIALS

	2009/2010	2010/2011
Cost of raw materials, consumables and supplies, and of goods purchased and held for resale	932,602	1,111,793
Cost of purchased services	96,533	119,044
Interest expense of Heidelberg Financial Services	2,216	3,210
	<u>1,031,351</u>	<u>1,234,047</u>

The ratio of the cost of materials to total operating performance is 47.5 percent (previous year: 47.3 percent).

11

STAFF COSTS AND
NUMBER OF EMPLOYEES

	2009/2010	2010/2011
Wages and salaries	674,508	733,677
Retirement benefit expenses ¹⁾	45,077	41,932
Return on plan assets	- 23,816	- 30,847
Other social security contributions and expenses	120,827	127,949
	<u>816,596</u>	<u>872,711</u>

¹⁾ See note 27

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

Reimbursements from the German Federal Labor Agency for social security expenses as part of reduced working hours decreased staff costs by € 14,040 thousand (previous year: € 44,737 thousand). This increase in staff costs is essentially due to the reduction of shorter working hours at the German locations as against the previous year, which was partially offset by savings through headcount reduction measures.

The number of EMPLOYEES¹⁾ was:

	2009/2010	Average 2010/2011	31-Mar-2010	As of 31-Mar-2011
Europe, Middle East and Africa	12,680	11,286	11,659	11,156
Eastern Europe	722	653	687	631
North America	1,216	1,033	1,086	1,000
South America	250	245	247	250
Asia/Pacific	2,132	2,133	2,117	2,160
	<u>17,000</u>	<u>15,350</u>	<u>15,796</u>	<u>15,197</u>
Trainees	768	714	700	631
	<u>17,768</u>	<u>16,064</u>	<u>16,496</u>	<u>15,828</u>

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

**12
DEPRECIATION
AND AMORTIZATION**

Depreciation and amortization including impairment and special items of € 101,521 thousand (previous year: € 105,352 thousand) relate to intangible assets (€ 28,646 thousand; previous year: € 30,765 thousand), property, plant, and equipment (€ 71,107 thousand; previous year: € 74,571 thousand) and investment property (€ 1,768 thousand; previous year: € 16 thousand).

Impairment was recognized as follows: € 1,756 thousand (previous year: € 0 thousand) on investment property, primarily due to lower market values, € 307 thousand on land and buildings (previous year: € 0 thousand), € 258 thousand on other equipment, office and operating equipment (previous year: € 0 thousand), and € 1,643 thousand on intangible assets (previous year: € 1,564 thousand). Impairments primarily relate to the Heidelberg Equipment Division with a larger portion recorded under special items.

**13
OTHER OPERATING
EXPENSES**

	2009/2010	2010/2011
Special direct sales expenses including freight charges	101,695	117,734
Other deliveries and services not included in the cost of materials	103,709	109,222
Rent and leases	71,758	65,761
Travel expenses	37,662	41,993
Hedging/exchange rate losses	23,038	25,596
Additions to provisions and accruals relating to several types of expense	19,916	19,719
Bad debt allowances and impairment on other assets	37,334	18,242
Insurance expense	14,595	12,714
Costs of car fleet (excluding leases)	7,723	8,302
Other overheads	93,383	104,962
	<u>510,813</u>	<u>524,245</u>

**14
SPECIAL ITEMS**

Special items include expenses and income in connection with both our Heidelberg 2010 program and our efficiency enhancement measures.

In the 2010/2011 financial year, provisions of € 41,829 thousand (previous year: € 41,847 thousand) were reversed in Germany after agreements were reached between the management and employee representatives on the coordination of

interests for German locations. Following the deduction of expenses for personnel adjustments, income of € 20,689 thousand (previous year: expenses of € 51,088 thousand) was therefore generated in the reporting period and expenses of € 18,456 thousand (previous year: € 19,239 thousand) were incurred for other structural measures. The latter expenses essentially include the costs of reducing office space and consolidating locations.

15
FINANCIAL RESULT

	2009/2010	2010/2011
Financial income	19,897	22,690
Financial expenses	147,392	171,724
Financial result	- 127,495	- 149,034

16
FINANCIAL INCOME

	2009/2010	2010/2011
Interest and similar income	13,849	14,036
Income from financial assets/loans/securities	6,048	8,654
Financial income	19,897	22,690

17
FINANCIAL EXPENSES

	2009/2010	2010/2011
Interest and similar expenses	133,133	169,459
– of which: net interest expenses for pensions	(40,973)	(37,403)
Expenses for financial assets/loans/securities	14,259	2,265
Financial expenses	147,392	171,724

Owing to the issuance of loans as part of the new loan agreements concluded in August 2009 (see note 29), expenses are included in interest and similar expenses. In addition to the financing costs, non-recurring expenses for the repayment of

loan liabilities due to the restructuring of financing as a result of the capital increase, the new credit facilities and the high-interest bond issued had a burdening effect on financing expenses. In the previous year, interest and similar expenses also included the loss on the sale of corporation tax credit of € 17,894 thousand. Net interest expenses for pensions comprise interest expenses for pension rights less the portion of return on plan assets not netted against staff costs (see note 11).

Expenses for financial assets/loans/securities include write-downs of € 194 thousand (previous year: € 6,564 thousand).

18
TAXES ON INCOME

Taxes on income are broken down as follows:

	2009/2010	2010/2011
Current taxes	- 7,803	- 33,664
of which Germany	19,706	- 24,862
of which abroad	- 27,509	- 8,802
Deferred taxes	- 49,765	19,677
of which Germany	- 56,037	- 36,105
of which abroad	6,272	55,782
	<u>- 57,568</u>	<u>- 13,987</u>

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

Taxes on income comprise German corporate tax (15 percent) including the solidarity surcharge (5.5 percent), trade tax (12.60 percent; previous year: 12.31 percent) and comparable taxes of the foreign subsidiaries. The nominal total German tax rate is 28.43 percent for the financial year (previous year: 28.14 percent).

No deferred tax liabilities were recognized for temporary differences on shares in subsidiaries of € 282,425 thousand (previous year: € 285,047 thousand) as it is unlikely that these differences will reverse in the foreseeable future or the corresponding effects are not subject to taxation. Any recognition of deferred taxes would be based on the respective applicable tax rates in line with local taxation on distributed dividends. Owing to the reduction in deferred tax assets on temporary differences, deferred tax expenses amounted to € 54,586 thousand in the reporting year (previous year: € 0 thousand).

Total tax loss carryforwards for which no deferred tax assets were recognized amount to € 525,865 thousand (previous year: € 436,366 thousand). Of these, € 4,556 thousand can be used until 2012 (previous year: € 2,045 thousand until 2011), € 5,688 thousand until 2013 (previous year: € 8,398 thousand until 2012), € 7,406 thousand until 2014 (previous year: € 3,706 thousand until 2013), € 2,518 thousand until 2015 (previous year: € 775 thousand until 2014), € 6,416 thousand until 2016 (previous year: € 10,681 thousand until 2015), and € 499,281 thousand until 2017 and later (previous year: € 410,761 thousand until 2016 and later).

Deferred tax assets are recognized for tax loss carryforwards only if their realization is guaranteed in the near future. Deferred tax assets on current tax losses amounting to € 968 thousand (previous year: € 26,503 thousand) were recognized in profit or loss in the reporting year. No deferred tax assets (previous year: € 2,140 thousand) were recognized for tax loss carryforwards not previously recognized. Write-downs of deferred tax assets for loss carryforwards recognized in previous years were recognized in the amount of € 0 thousand in the year under review (previous year: € 835 thousand). Deferred tax assets were tested for impairment. The existence of tax loss carryforwards is a basic indication that the use of deferred tax assets cannot be assumed. On the basis of tax planning, it was assumed that positive taxable income will be available in the foreseeable future. Accordingly, deferred tax assets of € 107,312 thousand (previous year: € 122,250 thousand) were capitalized at companies that generated a tax loss in the current or prior financial year.

Income of € 215 thousand was recognized from loss carrybacks in the reporting year (previous year: € 6,010 thousand).

Unutilized tax credit for which no deferred tax assets have been recognized in the consolidated statement of financial position amounted to € 2,326 thousand (previous year: € 172 thousand).

Current taxes were reduced in the reporting year by € 1,418 thousand (previous year: € 596 thousand) as a result of deferred tax assets for tax loss carryforwards that had not previously been taken into account. In the reporting period, current income taxes included net prior-period income of € 50,804 thousand (previous year: € 27,021 thousand).

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

	2009/2010	2010/2011
Income before taxes	- 286,075	- 142,877
Theoretical tax rate in percent	28.14	28.43
Theoretical tax expense/income	- 80,502	- 40,620
Change in theoretical tax expense/income due to:		
- corporate income tax credit from previous years due to a change in the German Corporation Tax Act	0	- 9,173
- differing tax rate	499	- 4,363
- tax loss carryforwards ¹⁾	28,294	26,214
- reduction due to tax-free income	- 5,173	- 7,419
- tax increase due to non-deductible expenses	11,752	5,310
- change in tax provisions/taxes attributable to previous years/impairment deferred tax assets temporary differences	- 14,371	21,427
- other	1,933	- 5,363
Taxes on income	- 57,568	- 13,987
Tax rate in percent	20.12	9.79

¹⁾ Amortization of loss carryforwards, utilization of non-recognized loss carryforwards, and non-recognition of current losses

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

19
INTANGIBLE ASSETS

GOODWILL includes amounts arising from the acquisition of businesses (asset deals) and from capital consolidation. For the purpose of impairment testing, assets are allocated to cash-generating units. These correspond to the new segment structure from April 1, 2010 (see note 37); the figures for the previous year have been restated accordingly. The carrying amounts of the goodwill associated with the cash-generating units Heidelberg Equipment and Heidelberg Services total € 47,527 thousand (previous year: € 47,412 thousand) and € 75,371 thousand (previous year: € 75,139 thousand) respectively.

According to IAS 36, in line with the impairment test the recoverable amount of the cash-generating units is determined based on the higher of the fair value less costs to sell and the value in use. The fair value here reflects the best estimate of the amount for which an independent third party would acquire the cash-generating units at the end of the reporting period. The value in use is the present value of the estimated future cash flows expected from the cash-generating unit. Calculation of the value in use on the basis of the discounted cash flow method is based on the planning authorized by the Management Board, which in turn is based on medium-term planning for the result of operating activities for a period of five (previous year: five) financial years. This planning process is based on past experience as well as expectations of future market development. As a result, there were no impairment requirements for the Heidelberg Equipment, Heidelberg Services and Heidelberg Financial Services cash-generating units – as was the case in the previous year with the operating segments prior to restructuring.

The calculated cash flows were discounted on the basis of market data using weighted average costs of capital (WACC) before taxes of 9.7 percent for the Heidelberg Equipment cash-generating unit and of 10.0 percent for the Heidelberg Services cash-generating unit. In the previous year, the weighted average costs of capital before taxes for the Press and Postpress cash-generating units was 9.7 percent. To extrapolate cash flows beyond the detailed planning period, Heidelberg uses constant growth rates of 1 percent to show expected inflation.

Capitalized **DEVELOPMENT COSTS** relate for the most part to the development of machinery in the Heidelberg Equipment segment. Non-capitalized development costs from all segments – including research expenses – amount to € 121,470 thousand in the reporting year (previous year: € 118,267 thousand).

20
**PROPERTY, PLANT, AND
 EQUIPMENT, INVESTMENT
 PROPERTY, AND ASSETS
 HELD FOR SALE**

The carrying amounts of assets capitalized in fixed assets from finance leases in which we are the lessee are € 4,423 thousand (previous year: € 0 thousand) for land and property and € 3,445 thousand (previous year: € 5,605 thousand) for other operating and office equipment. The latter are mainly vehicles and IT equipment.

The carrying amounts of assets capitalized in fixed assets from operating leases in which we are the lessor are € 21,697 thousand (previous year: € 29,068 thousand). These assets are reported under technical equipment and machinery. These assets are printing presses leased to customers. The gross carrying amounts were € 38,891 thousand (previous year: € 47,431 thousand) and cumulative depreciation amounted to € 17,194 thousand (previous year: € 18,363 thousand). In the reporting year, depreciation of € 5,590 thousand (previous year: € 6,756 thousand) was recognized. Future lease income of € 5,456 thousand (previous year: € 6,648 thousand) is anticipated from operating leases. Payments with maturities of up to one year, between one and five years, and more than five years amount to € 2,506 thousand (previous year: € 3,484 thousand), € 2,809 thousand (previous year: € 3,147 thousand), and € 141 thousand (previous year: € 17 thousand) respectively.

In connection with a long-term loan, there are restrictions on disposal in the form of usufructory rights in the amount of € 75,105 thousand (previous year: € 75,105 thousand) on three developed plots of land. In connection with the loan agreements concluded in June and August 2009 (see note 29), property, plant, and equipment and investment property were pledged as collateral by way of assignment and the appointment of a collective land charge. The carrying amounts of this collateral as of the end of the reporting period were € 379,388 thousand (previous year: € 397,995 thousand) and € 3,076 thousand (previous year: € 1,750 thousand) respectively.

The carrying amounts of property, plant, and equipment that are partially unused or are no longer used are of minor significance.

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

The fair value of investment property (IAS 40: Investment Property) is € 7,596 thousand (previous year: € 1,810 thousand). As in the previous year, immaterial current income or expenses were only incurred in connection with investment property in the reporting year.

In the Heidelberg Group, the disposal of three undeveloped and one developed plot of land was planned and initiated. In line with IFRS 5, assets of € 908 thousand (previous year: € 16,611 thousand) were therefore classified as held for sale as of March 31, 2011. These essentially relate to the Heidelberg Equipment segment.

21
FINANCIAL ASSETS

Financial assets include shares in subsidiaries totaling € 12,645 thousand (previous year: € 9,805 thousand), other investments of € 3,476 thousand (previous year: € 7,179 thousand) and securities of € 3,426 thousand (previous year: € 7,917 thousand). In the previous year, other investments largely comprised the shares held in Goss International Corporation, Bolingbrook, Illinois, USA, which were sold in the current financial year. The underlying quoted prices for the securities qualify under level 1 in the hierarchy of fair values stipulated by IFRS 7: Financial Instruments: Disclosures as only quoted prices observed on active markets were used in measurement.

RECEIVABLES AND OTHER ASSETS

	31-Mar-2010			31-Mar-2011		
	Current	Non-current	Total	Current	Non-current	Total
Receivables from sales financing	94,927	116,910	211,837	87,582	90,419	178,001
Trade receivables	395,697	0	395,697	376,928	0	376,928
Other receivables and other assets						
Other tax assets	17,729	0	17,729	18,757	0	18,757
Loans	349	9,211	9,560	421	7,333	7,754
Derivative financial instruments	20,850	17,483	38,333	30,318	8,500	38,818
Deferred interest	202	0	202	104	0	104
Deferred income	17,334	966	18,300	12,544	2,190	14,734
Other assets	114,833	24,126	138,959	91,379	24,897	116,276
	171,297	51,786	223,083	153,523	42,920	196,443

In the reporting year, plan assets of € 6,997 thousand (previous year: € 8,905 thousand) are included in non-current other assets (see note 27).

In connection with the loan agreements concluded in June and August 2009 (see note 29), trade receivables, receivables from sales financing, and other receivables and other assets were assigned as collateral by way of undisclosed assignment. The carrying amounts of this collateral as of the end of the reporting period were € 170,616 thousand (previous year: € 188,716 thousand), € 106,116 thousand (previous year: € 124,512 thousand) and € 9,027 thousand (previous year: € 14,079 thousand) respectively.

Receivables from sales financing

RECEIVABLES FROM SALES FINANCING are shown in the following table:

Contract currency	Carrying amount 31-Mar-2010 in € thousand	Remaining term in years	Effective interest rate in %	Carrying amount 31-Mar-2011 in € thousand	Remaining term in years	Effective interest rate in %
EUR	111,140	up to 8	up to 18	96,663	up to 8	up to 18
AUD	28,842	up to 7	up to 13	29,027	up to 7	up to 13
USD	26,267	up to 6	up to 11	20,637	up to 6	up to 11
Other	45,588			31,674		
	<u>211,837</u>			<u>178,001</u>		

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

The fair value of receivables from sales financing is essentially the reported carrying amount. This fair value is based upon expected cash flows which are discounted taking into account the interest rates with matching maturities prevailing at the end of the reporting period and the customer-specific credit rating.

A specific allowance for impairment losses of € 27,406 thousand (previous year: € 37,579 thousand) was recognized for receivables from sales financing with a gross carrying amount of € 52,728 thousand (previous year: € 87,227 thousand). The estimated fair values of rights of recourse to delivered products are the carrying amounts. Some additional **RIGHTS OF RECOURSE** in respect of third parties exist in the form of guarantees.

To the extent that there was no individual, objective evidence of impairment, a specific impairment allowance calculated on a portfolio basis was recognized for receivables from sales financing. The carrying amounts of these receivables, which are also offset by rights of recourse to the delivered products, were past due as follows as of the end of the reporting period:

	2009/2010	2010/2011
Receivables from sales financing neither past due nor impaired	148,641	139,156
Receivables past due but not impaired		
less than 30 days	5,720	5,888
between 30 and 60 days	3,333	1,646
between 60 and 90 days	552	702
between 90 and 180 days	945	1,636
more than 180 days	2,998	3,651
Total	13,548	13,523
	162,189	152,679

The total impairment loss in the period for receivables from sales financing was € 6,761 thousand (previous year: € 13,850 thousand). Of this, impairment amounts booked to allowance accounts developed as follows:

	2009/2010	2010/2011
As of the start of the financial year	47,841	43,147
Additions	11,009	5,291
Utilization	- 8,886	- 7,025
Reversals	- 9,464	- 10,829
Change in the scope of the consolidation, currency adjustments, other changes	2,647	505
As of the end of the financial year	43,147	31,089

Receivables from sales financing include lease receivables from finance leases in which in particular our financing companies act as lessors. Cumulative impairment on these lease receivables amounts to € 1,177 thousand (previous year: € 2,682 thousand). Leases are subject to the following parameters:

	31-Mar-2010				31-Mar-2011			
	Up to 1 year	Between 1 and 5 years	More than 5 years		Up to 1 year	Between 1 and 5 years	More than 5 years	
Total lease payments	-	-	-	25,258	-	-	-	19,692
Lease payments received	-	-	-	- 16,679	-	-	-	- 15,101
Outstanding lease payments	2,368	6,204	7	8,579	1,659	2,932	-	4,591
Interest portion of outstanding lease payments	- 535	- 817	0	- 1,352	- 286	- 359	-	- 645
Present value of outstanding lease payments (carrying amount)	1,833	5,387	7	7,227	1,373	2,573	-	3,946

Trade receivables

A specific allowance for impairment losses of € 37,823 thousand (previous year: € 41,362 thousand) was recognized for trade receivables with a gross carrying amount of € 46,140 thousand (previous year: € 56,856 thousand). To the extent that there was no individual, objective evidence of impairment, a specific impairment allowance calculated on a portfolio basis was recognized for trade receivables. The carrying amount of these receivables was past due as follows as of the end of the reporting period:

	2009/2010	2010/2011
Trade receivables neither past due nor impaired	271,902	252,781
Receivables past due but not impaired		
less than 30 days	48,396	65,197
between 30 and 60 days	23,914	17,425
between 60 and 90 days	14,945	6,042
between 90 and 180 days	8,976	13,362
more than 180 days	12,070	13,804
Total	108,301	115,830
	380,203	368,611

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

The total impairment loss in the period for trade receivables was € 10,881 thousand (previous year: € 20,373 thousand). Of this, impairment amounts booked to allowance accounts developed as follows:

	2009/2010	2010/2011
As of the start of the financial year	51,845	50,672
Additions	17,218	8,344
Utilization	- 8,114	- 5,012
Reversals	- 12,778	- 9,090
Change in the scope of the consolidation, currency adjustments, other changes	2,501	361
As of the end of the financial year	50,672	45,275

Other receivables and other assets

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

Specific allowances for impairment losses of € 4,959 thousand (previous year: € 4,920 thousand) and € 4,661 thousand (previous year: € 5,168 thousand) relate to loans (gross carrying amount € 12,716 thousand; previous year: € 14,531 thousand) and other financial assets (gross carrying amount € 52,857 thousand; previous year: € 63,523 thousand) respectively.

Of the impairment recognized on loans in the previous year, € 116 thousand (previous year: € 124 thousand) were utilized and € 51 thousand (previous year: € 0 thousand) were reversed. Additions to impairment losses of € 89 thousand were required (previous year: € 224 thousand). Of the impairment recognized on other financial assets in the previous year, € 1,454 thousand (previous year: € 1,096 thousand) were utilized and € 34 thousand (previous year: € 15 thousand) were reversed. Additions to impairment of € 551 thousand were required (previous year: € 1,793 thousand).

€ 318 thousand (previous year: € 673 thousand) of unimpaired loans and other financial assets were past due by more than 180 days.

Derivative financial instruments essentially include positive fair values from cash flow hedges of € 35,241 thousand (previous year: € 24,165 thousand) and from fair value hedges of € 1,745 thousand (previous year: € 11,923 thousand).

23
DEFERRED TAX ASSETS AND
DEFERRED TAX LIABILITIES

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

	31-Mar-2010		31-Mar-2011	
	Asset	Liability	Asset	Liability
Tax loss carryforwards	70,705	0	70,574	0
Assets:				
Intangible assets/property, plant, and equipment/investment property/financial assets	37,214	70,147	35,571	59,380
Inventories, receivables, and other assets	23,522	6,533	15,676	11,593
Securities	0	37,125	286	0
Liabilities:				
Provisions	119,230	4,546	71,103	6,003
Liabilities	26,250	20,001	8,392	11,997
Gross amount	276,921	138,352	201,602	88,973
Offsetting	125,671	125,671	82,675	82,675
Carrying amount	151,250	12,681	118,927	6,298

Deferred tax assets include non-current deferred taxes of € 92,227 thousand (previous year: € 93,034 thousand). Deferred tax liabilities include non-current deferred taxes of € 5,430 thousand (previous year: € 10,850 thousand).

Due to currency translation, deferred tax assets were increased in equity by € 1,860 thousand (previous year: € 1,990 thousand) in the reporting year. As in the previous year, there was no change recognized outside profit or loss in deferred tax liabilities owing to changes in the scope of consolidation.

The income taxes recognized in the consolidated statement of comprehensive income for the financial years 2009/2010 and 2010/2011 break down as follows:

	2009/2010			2010/2011		
	Before income taxes	Income taxes	After income taxes	Before income taxes	Income taxes	After income taxes
Pension obligations	- 36,187	31,123	- 5,064	16,761	- 8,997	7,764
Currency translation	19,601	0	19,601	4,257	0	4,257
Available-for-sale financial assets	444	- 180	264	- 362	- 278	- 640
Cash flow hedges	- 4,882	1,498	- 3,384	17,529	- 5,004	12,525
Total other comprehensive income	- 21,024	32,441	11,417	38,185	- 14,279	23,906

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INVENTORIES

	31-Mar-2010	31-Mar-2011
Raw materials and supplies	117,013	113,572
Work and services in progress	338,607	332,086
Finished goods and goods for resale	369,475	299,160
Advance payments	2,068	2,862
	827,163	747,680

In order to adjust inventories to the net realizable value, impairment of € 12,614 thousand was recognized in the year under review (previous year: € 10,274 thousand). The reason for the write-down to the lower net realizable value is primarily the decreased likelihood of market success for a small portion of our inventories. Used machinery was repossessed as collateral owing to the insolvency of customers. In the year under review, used machinery of € 527 thousand (previous year: € 2,663 thousand) was reported under finished goods and goods held for resale. The carrying amount of the inventories pledged as collateral in connection with the loan agreements concluded in June and August 2009 (see note 29) was € 470,776 thousand (previous year: € 511,957 thousand).

25
**CASH AND
 CASH EQUIVALENTS**

Cash and cash equivalents consist of cash on hand and bank balances. Restrictions on disposal of cash and cash equivalents due to foreign exchange restrictions amount to € 70,650 thousand (previous year: € 58,731 thousand). Bank balances are exclusively held for short-term cash management purposes.

26
EQUITY

Capital stock/number of shares outstanding/treasury stock

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

In the 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 increases was entered in the commercial register on September 24, 2010, the share capital has been increased accordingly. The proceeds from the issue of € 419,442 thousand were reduced by issuing costs after taxes of € 15,498 thousand (tax: € 6,157 thousand). 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 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 percent as of March 31, 2011 (previous year: 0.51 percent). The cost of the acquisition was € 13,246 thousand. Additional transaction fees amounted to € 12 thousand. The total cost of the acquisition was therefore € 13,258 thousand.

As part of the agreement reached at the start of the year under review between the management and employee representatives on the coordination of interests for German locations (see note 14) it was agreed to set up an employee share participation program. The issuance of shares is therefore free of charge for employees. At the beginning of financial year 2011/2012 approximately 260,000 of the 400,000 bearer shares held by the Company were used for this employee share participation program.

Employee shares were measured on the basis of IFRS 2: Share-based Payment. The total cost of the employee program was € 3,025 thousand in the year under review. Capital reserves amounted to € 2,260 thousand as of March 31, 2011.

Capital reserves

The capital reserves essentially include amounts from the capital increase according to Section 272 (2) 1 HGB (Commercial Code), from the simplified capital reduction in line with Section 237 (5) AktG (Stock Corporation Act) and expenses from the issuance of option rights to employees in line with IFRS 2: Share-based Payment.

Convertible bond

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

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

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 therefore granted two authorizations at the Annual General Meeting on July 18, 2008, which in principle have the same content, but which differ with regard to the option and conversion prices stipulated, for the issue of convertible bonds and/or bonds with warrants, profit-sharing rights, and/or profit participating bonds (or combinations of these instruments) with or without a limit on the term

with a total nominal amount of up to € 500,000,000.00 and to grant conversion or option rights on bearer shares in the Company with a total pro rata amount of share capital of up to € 19,979,118.08 to the bearers or creditors of bonds and while disapplying subscription rights. These supplement the authorization granted on July 20, 2006 to issue bonds with warrants or convertible bonds, but do not increase the amount of share capital up to which the Management Board can arrange option rights, conversion rights or conversion obligations.

Contingent capital

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, in accordance with 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 be carried out only to the extent that bearers of option or conversion rights or those obliged to exercise their conversion rights/ options from bonds with warrants or convertible bonds issued or guaranteed by the Company or a subsidiary Group company exercise their option or conversion rights or fulfill their obligation regarding conversion/the exercising of options. The new shares are issued at the option or conversion price to be determined according to the enabling resolution as described under "Convertible bond".

To 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/or bonds with warrants, profit-sharing rights and/or participating bonds (or combinations of these instruments) that were issued by the Company or one of its direct or indirect Group companies on the basis of the authorization resolved at the Annual General Meeting on July 18, 2008 under agenda item 9 a) and that grant a conversion or option right 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/or bonds with warrants, profit-sharing rights and/or participating bonds (or combinations of these instruments) that were issued by the Company or one of its direct or indirect Group companies on the basis of the authorization resolved at the Annual General Meeting on July 18, 2008 under agenda item 10 a) and that grant a conversion or option right to bearer shares in the Company or that stipulate a conversion obligation.

Authorized capital

By way of resolution of the Annual General Meeting of July 18, 2008, the Management Board is authorized, with the approval of the Supervisory Board, to increase the share capital of Heidelberger Druckmaschinen Aktiengesellschaft by up to € 59,937,356.80 on one or several occasions against cash or non-cash contributions by July 1, 2011 (Authorized Capital 2008). The subscription rights of shareholders can be disappplied in accordance with the more detailed provisions in Article 3 (4) of the Articles of Association, with the approval of the Supervisory Board. The Authorized Capital 2006 was canceled.

By way of resolution dated July 23, 2009, the Annual General Meeting authorized the Management Board, with the approval of the Supervisory Board, to increase the share capital of the Company by up to € 39,958,236.16 on one or several occasions against cash contributions by July 1, 2014 (Authorized Capital 2009). The subscription rights of shareholders can be disappplied in accordance with the more detailed provisions in Article 3 (7) of the Articles of Association, with the approval of the Supervisory Board.

Retained earnings

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

In the year under review, risk provisions were recognized for mediation proceedings initiated by the former shareholders of Linotype-Hell Aktiengesellschaft, Eschborn (Taunus), to review the exchange ratio. The possible settlement in shares of Heidelberger Druckmaschinen Aktiengesellschaft in this context resulted in a reduction of retained earnings in the year under review.

Appropriation of the net profit of

Heidelberger Druckmaschinen Aktiengesellschaft

To settle the loss generated by Heidelberger Druckmaschinen Aktiengesellschaft in the 2009/2010 financial year of € 105,727,558.74 and for allocation to the reserve for treasury shares in the amount of € 675,600.00, in the annual financial statements a total of € 105,875,284.27 was withdrawn from reserves after offsetting the profit carried forward of € 527,874.47. In line with section 150 (4) no. 1 AktG, in the annual financial statements as of March 31, 2010, capital reserves in the amount of € 10,980,282.39, the legal reserve of € 20,451,675.25 and other revenue reserves of € 74,443,326.63 were utilized.

As a result of the new accounting regulations for treasury shares under section 272 (1a) HGB amended by the Bilanzrechtsmodernisierungsgesetz (BilMoG – German Accounting Law Modernization Act), the treasury shares of Heidelberger Druckmaschinen Aktiengesellschaft recognized in the annual financial statements of the previous year in the amount of € 2,131,600 had to be derecognized and offset in the amount of their notional share of capital of € 1,024,000 against issued capital and in the amount of € 1,107,600 against the reserve for treasury shares. The remaining reserve for treasury shares in the amount of € 1,024,000 was reversed in the annual financial statements.

To settle the loss generated by Heidelberger Druckmaschinen Aktiengesellschaft in the year under review of € 22,364,781.44, after offsetting the reversed reserve for treasury shares of € 1,024,000 in the annual financial statements, the difference of € 21,340,781.44 was withdrawn from retained earnings.

27 PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

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

The expenses for defined contribution plans amounted to € 58,511 thousand (previous year: € 50,554 thousand) in the reporting year and essentially include contributions to the statutory pension insurance.

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

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

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

Figures in percent	2009/2010		2010/2011	
	Germany	Abroad	Germany	Abroad
Discount rate	4.75	4.55	5.00	4.30
Expected return on plan assets	3.73	5.44	4.91	5.16
Expected future salary increases	3.00	2.68	3.00	2.69
Expected future pension increases	2.00	2.00	2.00	2.04

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

The information on pensions is structured as follows:

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

- 1) The net carrying amounts break down as follows:

	31-Mar-2010	31-Mar-2011
Provisions for pensions and similar obligations	225,378	221,011
Reported assets	8,905	6,997
Net carrying amounts at the end of the financial year	216,473	214,014

The net carrying amounts developed as follows:

	2009/2010	2010/2011
Net carrying amounts at the start of the financial year	154,162	216,473
Expenses for pension obligations	67,003	69,981
Pension payments	- 7,542	- 10,118
Funding of pensions/contributions	- 6,460	- 6,915
Change in actuarial gains (-)/losses (+)	36,187	- 16,761
Expected return on plan assets	- 29,864	- 41,201
Change in adjustment amount due to IAS 19.58b)	0	0
Change in the scope of the consolidation, currency adjustments, other changes	2,987	2,555
Net carrying amounts at the end of the financial year	216,473	214,014

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

	31-Mar-2010	31-Mar-2011
Present value of defined benefit obligation for employees (funded)	996,681	1,011,907
Less fair value of plan assets	- 806,263	- 823,019
	190,418	188,888
Present value of defined benefit obligation for employees (unfunded)	26,055	25,126
Net carrying amount	216,473	214,014
Reported assets included therein	8,905	6,997
Provisions for pensions and similar obligations	225,378	221,011

3) The defined benefit obligation for employees developed as follows:

	2009/2010	2010/2011
Defined benefit obligation for employees at the start of the financial year	856,972	1,022,736
Current service cost	18,977	21,552
Interest expense	47,021	47,757
Pension payments	- 44,056	- 45,348
Change in actuarial gains (-)/losses (+)	125,131	- 26,645
Past service cost	1,430	0
Curtailments	- 425	672
Change in the scope of the consolidation, currency adjustments, other changes	17,686	16,309
Defined benefit obligation for employees at the end of the financial year	1,022,736	1,037,033
- of which: funded	996,681	1,011,907
- of which: unfunded	26,055	25,126

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

	2009/2010	2010/2011
Fair value of plan assets at the start of the financial year	702,810	806,263
Expected return on plan assets	29,864	41,201
Funding of pensions	3,211	3,963
Employee contributions	3,249	2,952
Pension payments from funds	- 36,514	- 35,230
Change in actuarial gains (+)/losses (-)	88,944	- 9,884
Change in scope of consolidation, currency adjustments, other changes	14,699	13,754
Fair value of fund assets at end of the financial year	806,263	823,019

The actual return on plan assets is € 31,318 thousand (previous year: € 118,808 thousand).

5) Plan assets break down as follows:

	31-Mar-2010	31-Mar-2011
Fixed-income securities	442,011	440,440
Shares	261,257	275,122
Real estate	33,856	36,201
Qualifying insurance policy	28,772	29,192
Cash and cash equivalents	29,033	25,886
Other	11,334	16,178
	806,263	823,019

6) Retirement benefit expenses break down as follows:

	2009/2010	2010/2011
Current service cost ¹⁾	18,977	21,552
Interest expense	47,021	47,757
Past service cost ¹⁾	1,430	0
Curtailments ¹⁾	- 425	672
Expenses for pension obligations	67,003	69,981
Expected return on plan assets	- 29,864	- 41,201
Expenses for other pension plans ¹⁾	25,095	19,708
	62,234	48,488

¹⁾ Retirement benefit expenses reported under staff costs before netting against the return on plan assets amount to €41,932 thousand (previous year: €45,077 thousand)

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

It was not possible to reliably estimate expected future contributions to the employee pension funds as of the end of the reporting period.

The cumulative actuarial losses and the cumulative adjustment amount in accordance with IAS 19.58 b) are €119,379 thousand as of the end of the reporting period (previous year: €135,160 thousand).

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

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

	31-Mar-2007	31-Mar-2008	31-Mar-2009	31-Mar-2010	31-Mar-2011
Present value of defined benefit obligation for employees (funded)	946,726	810,564	832,648	996,681	1,011,907
Less fair value of plan assets	- 875,990	- 817,618	- 702,810	- 806,263	- 823,019
	70,736	- 7,054	129,838	190,418	188,888
Present value of defined benefit obligation for employees (unfunded)	23,450	21,201	24,324	26,055	25,126

	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011
Experience adjustments to liabilities	2,318	- 1,699	1,223	14,846	5,107
Experience adjustments to assets	- 7,962	- 57,071	- 108,105	88,944	- 9,883

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OTHER PROVISIONS

	31-Mar-2010			31-Mar-2011		
	Current	Non-current	Total	Current	Non-current	Total
Tax provisions	25,525	215,989	241,514	27,364	176,313	203,677
Other provisions						
Staff obligations	60,349	54,777	115,126	73,009	36,427	109,436
Sales obligations	116,744	16,063	132,807	120,927	13,695	134,622
Other	154,435	68,668	223,103	69,939	76,579	146,518
	331,528	139,508	471,036	263,875	126,701	390,576
	357,053	355,497	712,550	291,239	303,014	594,253

	As of 1-Apr-2010	Change in scope of consolidation, currency adjustments, reclassification	Utilization	Reversal	Addition	As of 31-Mar-2011
Tax provisions	241,514	- 847	4,147	40,709	7,866	203,677
Other provisions						
Staff obligations	115,126	1,228	58,048	17,221	68,351	109,436
Sales obligations	132,807	369	44,576	26,406	72,428	134,622
Other	223,103	- 2,550	72,443	54,627	53,035	146,518
	471,036	- 953	175,067	98,254	193,814	390,576
	712,550	- 1,800	179,214	138,963	201,680	594,253

Additions include accrued interest and the effects of the change in discount rates of € 8,214 thousand (previous year: € 3,361 thousand). These relate to expenses of € 2,196 thousand (previous year: € 3,410 thousand) for staff obligations, € 253 thousand (previous year: € 1,073 thousand) for sales obligations, and expenses/income of € 5,765 thousand (previous year: income of € 1,122 thousand) for miscellaneous other provisions.

As in previous years, **TAX PROVISIONS** primarily recognize the risks of additional assessments.

STAFF PROVISIONS essentially relate to bonuses (€ 29,221 thousand; previous year: € 23,671 thousand), expenses for early retirement payments and for the partial retirement program (€ 25,739 thousand; previous year: € 26,148 thousand), and anniversary expenses (€ 16,585 thousand; previous year: € 16,953 thousand).

SALES PROVISIONS mainly relate to warranties, reciprocal liability, and buyback obligations (€ 87,430 thousand; previous year: € 89,628 thousand). The provisions for warranty obligations and obligations to provide subsequent performance and product liability serve to cover risks that are either not insured or which go beyond insurable risks. Of the reciprocal liability and buyback obligations of € 13,091 thousand (previous year: € 16,818 thousand), € 10,716 thousand (previous year: € 11,739 thousand) relates to financial guarantees issued to finance partners of our customers for sales financing. The maximum risk of default of these financial guarantees that can result in cash outflows in the subsequent financial year is € 68,239 thousand (previous year: € 104,250 thousand). In connection with the finance guarantees for sales financing, there are claims against third parties in connection with the transfer of machinery. Outstanding claims were not capitalized.

MISCELLANEOUS OTHER PROVISIONS include provisions for onerous contracts of € 49,944 thousand (previous year: € 52,780 thousand) and research and development obligations of € 5,511 thousand (previous year: € 7,424 thousand). They also include provisions of € 51,550 thousand (previous year: € 123,056 thousand) for measures in connection with our **HEIDELBERG 2010 PROGRAM** and the other measures to enhance efficiency as part of our new segment structure that have applied from April 1, 2010 onwards.

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FINANCIAL LIABILITIES

	31-Mar-2010				31-Mar-2011			
	Up to 1 year	Between 1 and 5 years	More than 5 years	Total	Up to 1 year	Between 1 and 5 years	More than 5 years	Total
Borrower's note loans ¹⁾	7,042	54,500	0	61,542	4,518	50,000	0	54,518
Amounts due to banks ¹⁾	323,228	381,801	25,823	730,852	264,679	32,067	17,660	314,406
From finance leases	3,343	2,173	109	5,625	2,152	2,868	2,661	7,681
Other	17,442	85	0	17,527	18,012	0	0	18,012
	<u>351,055</u>	<u>438,559</u>	<u>25,932</u>	<u>815,546</u>	<u>289,361</u>	<u>84,935</u>	<u>20,321</u>	<u>394,617</u>

¹⁾ Including deferred interest

Convertible bond

In the fourth quarter of the 2009/2010 financial year, our convertible bond was largely refinanced by the KfW (Reconstruction Loan Corporation) loan that was approved for this purpose.

Borrower's note loans

Two (previous year: two) floating-rate borrower's note loans with a nominal amount of € 54,500 thousand (previous year: € 61,500 thousand) are currently outstanding. While one of these loans, with a nominal amount of € 4,500 thousand (previous year: € 11,500 thousand), has an amortizing repayment structure and matures in July 2011, the other has a nominal amount of € 50,000 thousand and provides for a bullet maturity repayment in 2013. The contractually arranged interest rate adjustment periods are up to six months.

Amounts due to banks

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

Type	Contract currency	Carrying amount 31-Mar-2010 in € thousand	Remaining term in years	Effective interest rate in %	Carrying amount 31-Mar-2011 in € thousand	Remaining term in years	Effective interest rate in %
Loans	EUR	776,378	up to 8	up to 9.25	363,491	up to 7	up to 6.57
Loans	Other	14,317	up to 5	up to 6.95	2,873	up to 3	up to 14.4
Current account	EUR	0	–	–	0	–	–
Other	Other	1,699	up to 1	up to 12.25	2,560	up to 1	up to 14.5
		<u>792,394</u>			<u>368,924</u>		

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

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

In connection with the arranging of a long-term loan of € 55,564 thousand (previous year: € 62,325 thousand), the lender was granted usufractory rights to three developed properties. The basis of this is a sale (usufractory rights)-and-leaseback transaction in line with SIC 27, which provides for a fixed basic term for the lease agreement of ten years and two renewal options of four years each. The usufractory rights each have a term of 18 years. The usufractory rights can be commuted after ten years. The fair value calculated on the basis of the discounted cash flow method using market interest rates is € 57,135 thousand (previous year: € 65,726 thousand).

The Heidelberg Group was able to meet its financial obligations at all times in the reporting year. The CREDIT LINES not yet fully utilized in our Group of € 636,937 thousand (previous year: € 731,028 thousand) can be used as financing for general business purposes.

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 percent backed by guarantees from the German

government and the states of Baden-Württemberg and Brandenburg and a syndicated credit line from a syndicate of banks of € 550 million. The carrying amounts of the collateral pledged in connection with these loan agreements as part of a collateral pool concept are shown under the appropriate notes. Furthermore, collateral was also provided in the form of pledged shares in subsidiaries. The additional liability comprises the net assets of these companies including the carrying amounts of other collateral provided and in line with country-specific regulations on liability limitation.

Following the successful completion of the capital increase in September 2010 (see note 26), 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.

On March 25, 2011, Heidelberg agreed a comprehensive refinancing of the credit lines due in summer 2012. Firstly, this included the high-yield bond of € 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. Moreover, in this context we refer to note 46 'Events after the end of the reporting period'.

Liabilities from finance leases

Liabilities from finance leases are as follows:

	31-Mar-2010				31-Mar-2011			
	Up to 1 year	Between 1 and 5 years	More than 5 years		Up to 1 year	Between 1 and 5 years	More than 5 years	
Total lease payments	–	–	–	15,750	–	–	–	20,423
Lease payments already made	–	–	–	–10,006	–	–	–	–9,758
Outstanding lease payments	3,407	2,217	120	5,744	2,789	4,589	3,287	10,665
Interest portion of out- standing lease payments	– 64	– 44	– 11	– 119	– 637	– 1,721	– 626	– 2,984
Present value of outstanding lease payments (carrying amount)	3,343	2,173	109	5,625	2,152	2,868	2,661	7,681

30 As a general rule, until full payment has been effected trade payables are collateral-
TRADE PAYABLES ized by reservation of title.

31
OTHER LIABILITIES

	31-Mar-2010				31-Mar-2011			
	Up to 1 year	Between 1 and 5 years	More than 5 years	Total	Up to 1 year	Between 1 and 5 years	More than 5 years	Total
Accruals (staff)	42,982	0	–	42,982	46,655	0	0	46,655
Advance payments on orders	59,783	0	–	59,783	86,610	0	0	86,610
From derivative financial instruments	18,376	24,098	–	42,474	15,680	10,040	0	25,720
From other taxes	31,838	0	–	31,838	33,628	0	0	33,628
For social security contributions	7,519	3,747	909	12,175	8,010	2,254	845	11,109
Deferred income	56,888	26,048	4,885	87,821	44,223	22,406	4,045	70,674
Other	40,418	71,235	11,360	123,013	64,217	75,221	12,859	152,297
	257,804	125,128	17,154	400,086	299,023	109,921	17,749	426,693

Derivative financial instruments

Derivative financial instruments essentially include negative fair values from cash flow hedges of € 22,025 thousand (previous year: € 38,601 thousand) and from fair value hedges of € 1,860 thousand (previous year: € 1,628 thousand).

Deferred income

Deferred income includes taxable investment subsidies of € 2,673 thousand (previous year: € 3,818 thousand), tax-free investment allowances of € 899 thousand (previous year: € 1,388 thousand), and other deferred income of € 67,102 thousand (previous year: € 82,615 thousand).

TAXABLE SUBSIDIES essentially comprise funds under the regional economic promotion program for investing in Brandenburg. The subsidies were for Heidelberger Druckmaschinen Aktiengesellschaft in connection with the joint task for the development area totaling € 2,534 thousand (previous year: € 3,651 thousand).

TAX-FREE ALLOWANCES include allowances in line with the German Investment Allowance Act of 1991/1996/1999/2005/2007 of € 899 thousand (previous year: € 1,388 thousand) mainly for the Brandenburg location.

OTHER DEFERRED INCOME essentially includes advance payments for future maintenance and services and non-recurring payments for heritable building rights under sale-and-leaseback agreements. These amounts are reversed in the income statement over the term of the agreement.

Miscellaneous other liabilities

Recognized liabilities are essentially the undiscounted contractual cash flows. The fair value of one non-current financial liability calculated on the basis of the discounted cash flow method using market interest rates is € 63,516 thousand (previous year: € 49,877 thousand) compared to the carrying amount of € 78,452 thousand (previous year: € 66,049 thousand). The carrying amounts of the miscellaneous non-current other financial liabilities are largely the same as their fair values.

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INFORMATION ON
FINANCIAL INSTRUMENTS

Carrying amounts of financial instruments

The carrying amounts of financial instruments are assigned to the measurement categories of IAS 39:

> RECONCILIATION > ASSETS

Items in statement of financial position	IAS 39 measure- ment- category ¹⁾	Carrying amounts			Carrying amounts		
		31-Mar-2010			31-Mar-2011		
		Current	Non-current	Total	Current	Non-current	Total
Financial assets							
Shares in affiliated companies	AFS	0	9,805	9,805	0	12,645	12,645
Other investments	AFS	0	7,179	7,179	0	3,476	3,476
Securities	AFS	0	7,917	7,917	0	3,426	3,426
		0	24,901	24,901	0	19,547	19,547
Receivables from sales financing							
Receivables from sales financing not including finance leases	L & R	93,094	111,516	204,610	86,209	87,846	174,055
Receivables from finance leases	n. a.	1,833	5,394	7,227	1,373	2,573	3,946
		94,927	116,910	211,837	87,582	90,419	178,001
Trade receivables	L & R	395,697	0	395,697	376,928	0	376,928
Other receivables and other assets							
Derivative financial instruments	n. a. ²⁾	20,850	17,483	38,333	30,318	8,500	38,818
Other financial assets	L & R	78,946	12,548	91,494	53,412	11,001	64,413
		99,796	30,031	129,827	83,730	19,501	103,231
Miscellaneous other assets		71,501	21,755	93,256	69,793	23,419	93,212
		171,297	51,786	223,083	153,523	42,920	196,443
Securities	AFS	0	0	0	0	0	0
Cash and cash equivalents	L & R	120,696	0	120,696	147,934	0	147,934

¹⁾ Information on abbreviations of the IAS 39 measurement categories:

AFS: available-for-sale financial assets

L & R: loans and receivables

n. a.: no IAS 39 measurement category

²⁾ Derivative financial instruments include €1,835 thousand in short-term hedges (previous year: €2,245 thousand) assigned to the IAS 39 measurement category of financial instruments held for trading

> RECONCILIATION > EQUITY AND LIABILITIES

Items in statement of financial position	IAS 39 measure- ment- category ¹⁾	Carrying amounts			Carrying amounts		
		31-Mar-2010			31-Mar-2011		
		Current	Non-current	Total	Current	Non-current	Total
Financial liabilities							
Convertible bond	FLAC	0	0	0	0	0	0
Borrower's note loans	FLAC	7,042	54,500	61,542	4,518	50,000	54,518
Amounts due to banks	FLAC	323,228	407,624	730,852	264,679	49,727	314,406
Liabilities from finance leases	n. a.	3,343	2,282	5,625	2,152	5,529	7,681
Other financial liabilities	FLAC	17,442	85	17,527	18,012	0	18,012
		<u>351,055</u>	<u>464,491</u>	<u>815,546</u>	<u>289,361</u>	<u>105,256</u>	<u>394,617</u>
Trade payables	FLAC	<u>132,073</u>	<u>0</u>	<u>132,073</u>	<u>129,726</u>	<u>0</u>	<u>129,726</u>
Other liabilities							
Derivative financial instruments	n. a. ²⁾	18,376	24,098	42,474	15,680	10,040	25,720
Other financial liabilities	FLAC	84,786	71,526	156,312	110,424	77,144	187,568
		<u>103,162</u>	<u>95,624</u>	<u>198,786</u>	<u>126,104</u>	<u>87,184</u>	<u>213,288</u>
Miscellaneous other liabilities		<u>154,642</u>	<u>46,658</u>	<u>201,300</u>	<u>172,919</u>	<u>40,486</u>	<u>213,405</u>
		<u>257,804</u>	<u>142,282</u>	<u>400,086</u>	<u>299,023</u>	<u>127,670</u>	<u>426,693</u>

¹⁾ Information on abbreviations of the IAS 39 measurement categories:

FLAC: financial liabilities at amortized cost

n. a.: no IAS 39 measurement category

²⁾ Derivative financial instruments include € 1,835 thousand in short-term hedges (previous year: € 2,245 thousand) assigned to the IAS 39 measurement category of financial instruments held for trading

Liquidity risk of financial liabilities

The following table shows the contractually agreed, undiscounted cash flows of financial liabilities. The yield curves of the respective currencies valid as of the end of the reporting period were used to determine the variable interest payments from financial instruments. Where necessary, foreign currencies were translated at reporting date rates. Financial liabilities repayable on demand are always assigned to the earliest time band. Utilization of the respective syndicated credit line remaining at the end of the reporting period is on a current basis. The period of utilization is normally not more than three months. These loans have therefore been assigned to the "Up to 1 year" column, although the agreements in place as of March 31, 2011 on which they are based run until July 2012.

	31-Mar-2010	31-Mar-2011
Up to 1 year	340,217	294,105
Between 1 and 5 years	546,110	93,770
More than 5 years	27,465	21,722
	<u>913,792</u>	<u>409,597</u>

Net gains and losses

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

	2009/2010	2010/2011
Available-for-sale financial assets	- 5,172	7,827
Loans and receivables	- 11,803	- 3,942
Financial liabilities at amortized cost	- 49,222	- 99,324

Changes in the value of available for sale financial assets of € - 362 thousand (previous year: € 444 thousand) were also recognized in other comprehensive income.

Net gains and losses include € 8,595 thousand (previous year: € 7,730 thousand) of interest income and € 103,128 thousand (previous year: € 61,889 thousand) of interest expenses for financial assets and financial liabilities not measured at fair value through profit or loss.

In addition, there were net gains/losses on financial instruments held for trading of € – 22 thousand (previous year: net gains of € 49 thousand). These financial instruments relate to hedges that do not satisfy the documentation requirements of IAS 39 for hedge accounting or whose underlying hedged items no longer exist.

Derivative financial instruments

The Corporate Treasury department of Heidelberger Druckmaschinen Aktiengesellschaft is responsible for all hedging and financing activities of Heidelberger Druckmaschinen Aktiengesellschaft and our subsidiaries. It is also responsible for the cash pooling operations of our Group as a whole. Within the Corporate Treasury department, we ensure that there is both a functional and a physical separation of the trading, processing, and risk control activities, and this is regularly reviewed by our internal audit department.

The prerequisite for an adequate risk management system is a well-founded database. The Corporate Treasury department of Heidelberger Druckmaschinen Aktiengesellschaft operates a Group-wide financial reporting system – the Treasury Information System. This system is used to identify interest rate, currency, and liquidity risks within the Group and to derive appropriate action plans and strategies with which to manage these risks on a central basis in line with guidelines issued by the Management Board. Heidelberg operates a monthly, annualized consolidated liquidity planning system on a rollover basis, which makes it possible to manage current and future liquidity needs.

The Heidelberg Group is exposed to market price risks in the form of interest rate and exchange rate fluctuations. Derivative financial instruments are used to manage these risks. Corresponding contracts with third-party banks are mainly concluded through Heidelberger Druckmaschinen Aktiengesellschaft. The credit ratings of these business partners are reviewed regularly. The risk control activities include an ongoing market evaluation of contracted transactions.

CURRENCY RISKS arise in particular as a result of US dollar and Japanese yen exchange rate fluctuations in connection with receivables and liabilities, anticipated cash flows, and onerous contracts. **INTEREST RATE RISKS** essentially occur with

regard to variable-rate interest refinancing transactions. In hedge accounting, the derivative financial instruments designated as a hedge of these currency risks and of interest rate risks are shown as follows:

	Nominal volumes		Fair values	
	31-Mar-2010	31-Mar-2011	31-Mar-2010	31-Mar-2011
Currency hedging				
Cash flow hedge				
Forward exchange transactions	273,800	191,878	- 7,174	3,770
- of which: positive fair value	(88,640)	(135,455)	(3,931)	(4,681)
- of which: negative fair value	(185,160)	(56,423)	(- 11,105)	(- 911)
Currency options	1,344,421	1,156,342	- 4,096	10,520
- of which: positive fair value	(760,071)	(672,742)	(20,234)	(30,560)
- of which: negative fair value	(584,350)	(483,600)	(- 24,330)	(- 20,040)
	1,618,221	1,348,220	- 11,270	14,290
Fair value hedge				
Forward exchange transactions	559,077	495,260	10,295	- 115
- of which: positive fair value	(413,180)	(243,188)	(11,923)	(1,745)
- of which: negative fair value	(145,897)	(252,072)	(- 1,628)	(- 1,860)
Interest rate hedging				
Cash flow hedge				
Interest rate swaps	112,686	50,404	- 3,166	- 1,074
- of which: positive fair value	(0)	(0)	(0)	(0)
- of which: negative fair value	(112,686)	(50,404)	(- 3,166)	(- 1,074)

The nominal volumes result from the total of all the purchase and sale amounts of the underlying hedged items. The fair values correspond to changes in value arising from a notional revaluation taking into consideration market parameters applicable at the end of the reporting period. The fair values were calculated using standardized measurement procedures (discounted cash flow and option pricing models), which is level 2 of the fair value calculation hierarchy of IFRS 7: Financial Instruments: Disclosures as only input data observed on the market was used.

The positive and negative fair values of the derivative financial instruments designated as hedging instruments are offset by opposing value developments in the hedged items. All derivative financial instruments are carried as assets or liabilities at their corresponding fair values.

The following table shows the contractually agreed, undiscounted incoming and outgoing payments for derivative financial instruments. The yield curves of the respective currencies valid as of the end of the reporting period were used to determine the variable interest payments from financial instruments. Where necessary, foreign currencies were translated at reporting date rates.

	Up to 1 year	from 1 to 5 years	More than 5 years	Total undiscounted cash flows
31-Mar-2010				
Derivative financial liabilities				
Outgoing payments	- 356,871	- 86,581	0	- 443,452
Associated incoming payments	340,712	82,189	0	422,901
Derivative financial assets				
Outgoing payments	- 531,205	- 37,200	0	- 568,405
Associated incoming payments	548,929	38,625	0	587,554
31-Mar-2011				
Derivative financial liabilities				
Outgoing payments	- 433,116	- 89,726	0	- 522,842
Associated incoming payments	420,765	88,577	0	509,342
Derivative financial assets				
Outgoing payments	- 573,518	- 61,447	0	- 634,965
Associated incoming payments	598,648	63,383	0	662,031

Currency hedging

Cash flow hedge

The forward exchange and currency option transactions outstanding as of the end of the reporting period essentially hedge highly likely currency risks expected from purchase volumes of our subsidiaries over the next 24 months. Therefore, the remaining term of these derivatives at the end of the reporting period was up to two years. Of the hedges, 50 percent (previous year: 55 percent) of the hedging volume relates to the US dollar and 24 percent (previous year: 27 percent) to the Japanese yen as of the end of the reporting period.

As of the end of the reporting period, hedges resulted in total positive fair values of € 35,241 thousand (previous year: € 24,165 thousand) and negative fair values of € 20,951 thousand (previous year: € 35,435 thousand). The change in value of the designated portion of the hedge was recognized outside profit and loss and will be recognized in income from operating activities over the subsequent 24 months. As the forecast purchasing volumes of our subsidiaries are no longer highly likely, cash flow hedges were terminated early and expenses totaling € 1,702 thousand (previous year: € 2,607 thousand) were transferred from the hedge reserve to the financial result.

Fair value hedge

This is essentially the exchange rate hedge for loan receivables in foreign currencies within the Group. The opposing result on the fair value of hedges of € - 17,365 thousand (previous year: € 16,678 thousand) and the translation of hedged items at reporting date rates of € 15,936 thousand (previous year: € 16,536 thousand) are reported in the consolidated income statement.

Interest rate hedging

Cash flow hedge

The Heidelberg Group limits the risk from increasing interest expenses for refinancing by using interest rate swaps, under which Heidelberg receives variable-rate interest and pays fixed interest (payer interest rate swap). The remaining terms of these interest rate swaps are up to two years and are in line with our planning horizon. As of the end of the reporting period, the measurement of all transactions resulted in negative fair values of € 1,074 thousand (previous year: € 3,166 thousand), which were recognized in other comprehensive income and will be reversed to

net financial income over the term of the transactions. The expenses from deferred interest included in the fair values of the interest rate swaps of € 11 thousand (previous year: € 80 thousand) was recognized in the consolidated income statement.

Sensitivity analysis

In order to show clearly the effects of currency and interest rate risks on the consolidated income statement and the equity, the impact of hypothetical changes in exchange rates and interest is shown below in the form of sensitivity analyses. It is assumed here that the position at the end of the reporting period is representative for the financial year.

On-balance-sheet **CURRENCY RISKS** as defined by IFRS 7 are caused by monetary financial instruments not denominated in the functional currency. The portfolio of primary monetary financial instruments is mainly held directly in the functional currency or transferred to the functional currency through the use of derivatives. It is therefore assumed in this analysis that changes in exchange rates show no influence on income or equity with regard to this portfolio. The impact of the translation of the subsidiaries' financial statements into the Group currency (translation risk) is not taken into account either. Accordingly, the analysis includes the derivative financial instruments that were concluded in order to hedge highly probable future cash flows in a foreign currency (cash flow hedge). Assuming a 10 percent increase in the value of the euro against all currencies, the hedge reserve would have been € 27,190 thousand (previous year: € 18,278 thousand) higher as of the end of the reporting period and the financial result would have been € 897 thousand lower (previous year: € 13,872 thousand higher). Assuming a 10 percent decrease in the value of the euro, the hedge reserve would have been € 29,540 thousand (previous year: € 35,898 thousand) lower and the financial result would have been € 690 thousand higher (previous year: € 1,929 thousand lower).

In accordance with IFRS 7, recognized **INTEREST RATE RISKS** of the Heidelberg Group must still be shown. These are partly due to the portion of primary floating rate financial instruments that were not hedged through the use of derivative financial instruments within cash flow hedging transactions. In addition, a hypothetical change in market interest rates with regard to derivative financial instruments would result in changes to the hedge reserve in the cash flow hedge. However, fixed-income financial instruments carried at amortized cost and floating rate financial instruments hedged within cash flow hedges are not subject to any recognized interest rate risk. These financial instruments are therefore not taken into account. Assuming an increase of 100 basis points in the market interest rate across all terms, the hedge reserve would have been € 841 thousand (previous year:

€ 2,449 thousand) higher as of the end of the reporting period and the financial result would have been € 3,053 thousand lower (previous year: € 2,841 thousand). Assuming a decrease of 100 basis points in the market interest rate across all terms, the hedge reserve would have been € 869 thousand (previous year: € 2,549 thousand) lower and the financial result would have been € 3,053 thousand (previous year: € 2,841 thousand) higher.

Risk of default

The Heidelberg Group is exposed to default risks to the extent that counterparties do not fulfill their contractual obligations arising from derivative financial instruments. In order to control this risk, default risks and changes in credit ratings are continually monitored. There is a theoretical **RISK OF DEFAULT (CREDIT RISK)** for the existing derivative financial instruments in the amount of the positive fair values as of the respective reporting date. However, no actual default of payments from these derivatives is expected at present.

33 CONTINGENT LIABILITIES

Contingent liabilities from guarantees, amounting to € 3,476 thousand as of March 31, 2011 (previous year: € 3,615 thousand), comprise in particular reciprocal liability and buyback obligations for third-party liabilities in connection with long-term sales financing, which in turn largely correspond to rights of recourse on the delivered products.

34 OTHER FINANCIAL LIABILITIES

Other financial liabilities break down as follows:

	31-Mar-2010				31-Mar-2011			
	Up to 1 year	From 1 to 5 years	More than 5 years		Up to 1 year	From 1 to 5 years	More than 5 years	
Lease obligations	54,762	151,443	132,740	338,945	49,146	129,548	106,531	285,225
Investments and other purchasing requirements	31,619	12,067	0	43,686	39,462	3,590	0	43,052
	<u>86,381</u>	<u>163,510</u>	<u>132,740</u>	<u>382,631</u>	<u>88,608</u>	<u>133,138</u>	<u>106,531</u>	<u>328,277</u>

The figures shown are nominal values.

The minimum lease payments for operating leases primarily comprise:

- > the Research and Development Center (Heidelberg) in the amount of € 38,565 thousand (previous year: € 42,059 thousand);
- > the Print Media Academy (Heidelberg) in the amount of € 31,805 thousand (previous year: € 35,315 thousand);
- > the World Logistics Center (WLC) (Wiesloch-Walldorf plant) in the amount of € 29,669 thousand (previous year: € 32,930 thousand);
- > the X-House administrative building (Heidelberg) in the amount of € 12,893 thousand (previous year: € 14,731 thousand);
- > the administrative and production building in Rochester, New York, USA, in the amount of € 31,327 thousand (previous year: € 37,065 thousand);
- > the administrative and production building in Durham, USA, in the amount of € 17,476 thousand (previous year: € 19,358 thousand); and
- > motor vehicles with a total value of € 23,192 thousand (previous year: € 25,849 thousand).

Investments and other purchasing requirements are largely financial obligations in connection with orders of property, plant, and equipment and obligations for the purchase of raw materials and supplies.

Future payments for other financial obligations are partially offset by future incoming payments for license agreements.

ADDITIONAL INFORMATION

35 EARNINGS PER SHARE IN ACCORDANCE WITH IAS 33

	2009/2010	2010/2011
Consolidated net loss for the year (€ thousand)	- 228,507	- 128,890
Number of shares in thousands (weighted average)	77,643	156,140
Basic earnings per share (€)	- 2.94	- 0.83
Diluted earnings per share (€)	- 2.94	- 0.83

The basic earnings per share are calculated by dividing the consolidated net loss for the year by the weighted average number of the shares outstanding in the reporting year of 156,140 thousand (previous year: 77,643 thousand shares). The weighted number of shares outstanding was influenced by the capital increase (see note 26) and the holdings of treasury shares. As of March 31, 2011, the Company still held 400,000 treasury shares. 218,923 potential shares were not taken into account in the calculation of the diluted earnings per share on account of the agreed issue of employee shares to employees of Heidelberger Druckmaschinen Aktiengesellschaft and its subsidiaries in the reporting period. As a result of the full repayment of the convertible bond as of March 31, 2010, there was no dilutive effect as a result of the inclusion of potential shares owing to the convertible bond as of the end of the prior-year reporting period.

36 INFORMATION ON THE CONSOLIDATED STATEMENT OF CASH FLOWS

The consolidated statement of cash flows shows the changes in the cash and cash equivalents of the Heidelberg Group during the financial year as a result of the inflows and outflows of cash. Cash flows are broken down into operating, investing and financing activities (IAS 7). The changes in statement of financial position items shown in the consolidated statement of cash flows cannot be derived directly from the consolidated statement of financial position as the effects of currency translation and changes in the scope of consolidation do not affect cash and have therefore been eliminated.

The additions from finance leases of € 5,396 thousand (previous year: € 3,740 thousand) are not included in the investments in intangible assets, property, plant, and equipment, and investment property.

€ 3,592 thousand (previous year: € 4,184 thousand) of investments in intangible assets and property, plant, and equipment relate to intangible assets, € 69,756 thousand (previous year: € 54,548 thousand) to property, plant, and equipment. € 28 thousand (previous year: € 15 thousand) of income from the disposal of intangible assets, property, plant, and equipment, and investment property relates to intangible assets and € 37,848 thousand (previous year: € 41,058 thousand) to property, plant, and equipment.

The cash used in intangible assets, property, plant, and equipment, and investment property includes investments of € 15,993 thousand (previous year: € 3,536 thousand) used to increase operating capacity.

The payments from operating leases in which Heidelberg is the lessee are shown in the consolidated statement of cash flows under operating activities. The repayment portion of lease installments for finance leases in which Heidelberg is the lessee is reported under financing activities. The interest portion of lease installments is shown under operating activities.

Payments received from operating and finance leases in which Heidelberg is the lessor are reported under changes in cash from operating activities.

The carrying amounts of the collateral pledged in connection with the loan agreements as part of a collateral pool concept is shown under the appropriate notes. Please see note 29 for information on the unutilized credit lines.

Cash and cash equivalents include cash and cash equivalents only (€ 147,934 thousand; previous year: € 120,696 thousand).

Detailed information on the consolidated statement of cash flows can be found in the Group management report.

INFORMATION ON SEGMENT REPORTING

Figures in € thousands

	Heidelberg Equipment		Heidelberg Services		Heidelberg Financial Services		Heidelberg Group	
	1-Apr-2009 to 31-Mar-2010	1-Apr-2010 to 31-Mar-2011	1-Apr-2009 to 31-Mar-2010	1-Apr-2010 to 31-Mar-2011	1-Apr-2009 to 31-Mar-2010	1-Apr-2010 to 31-Mar-2011	1-Apr-2009 to 31-Mar-2010	1-Apr-2010 to 31-Mar-2011
External sales	1,270,819	1,515,944	1,016,280	1,096,829	19,304	16,148	2,306,403	2,628,921
Depreciation and amortization	79,725	80,244	24,054	17,302	9	11	103,788	97,557
Non-cash expenses	216,019	216,528	111,696	84,588	20,423	9,515	348,138	310,631
Special items	-10,935	9,813	-17,451	-7,473	-29	-107	-28,415	2,233
Result of operating activities (segment result)	-164,266	-88,339	-5,036	76,653	10,722	17,843	-158,580	6,157
Investments	50,712	67,459	11,760	11,278	0	7	62,472	78,744

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

Since April 1, 2010, the Heidelberg Group's structure has been broken down in line with the new internal organizational and reporting structure into the segments Heidelberg Equipment, Heidelberg Services, and Heidelberg Financial Services. Heidelberg Equipment essentially comprises the new machinery business of the previous Press and Postpress segments. Services, consumables, and used machinery business, which was previously also included in these two segments, is now bundled in the Heidelberg Services segment. The Heidelberg Financial Services segment still comprises sales finance business. The figures for the previous year were restated accordingly. Further information on the business activities, products, and services of the individual segments can be found in "Group Corporate Structure and Organization" and "Product Portfolio" in the Group management report.

As a result of the adjustments made in the allocation of markets to regions in the reporting year, we distinguish between the regions of Europe, Middle East and Africa, Eastern Europe, North America, South America, and Asia/Pacific. Figures of the previous year were adjusted accordingly.

Further information on the business areas can be found in the reports of the divisions and the reports of the regions in the Group management report. Transfer prices for internal Group sales are determined using a market-driven approach, based on the principle of dealing at arm's length.

Notes on segment data

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

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

Inter-segment sales are of minor financial significance.

INVESTMENTS comprise investments in intangible assets, property, plant, and equipment, and investment property.

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

	1-Apr-2009 to 31-Mar-2010	1-Apr-2010 to 31-Mar-2011
Result of operating activities (segment result)	- 158,580	6,157
Financial income	19,897	22,690
Financial expenses	147,392	171,724
Financial result	- 127,495	- 149,034
Income before taxes	- 286,075	- 142,877

Information by region

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

	1-Apr-2009 to 31-Mar-2010 ¹⁾	1-Apr-2010 to 31-Mar-2011
Europe, Middle East and Africa		
Germany	374,008	397,565
Other Europe, Middle East and Africa regions	577,962	613,716
	<u>951,970</u>	<u>1,011,281</u>
Asia/Pacific		
China	321,709	418,875
Other Asia/Pacific regions	347,290	437,437
	<u>668,999</u>	<u>856,312</u>
Eastern Europe	272,750	299,175
North America	299,891	300,821
South America	112,793	161,332
	<u>2,306,403</u>	<u>2,628,921</u>

¹⁾ Previous year's figures adjusted accordingly

Of the non-current assets, which comprise intangible assets, property, plant, and equipment, and investment property, € 599,373 thousand (previous year: € 646,091 thousand) relates to Germany and € 242,930 thousand (previous year: € 243,385 thousand) to other countries.

38 CAPITAL MANAGEMENT

In the context of implementing the holistic management approach, it is the task of capital management to provide the best possible support in the attainment of the Heidelberg Group's goals. These focus on ensuring liquidity and creditworthiness and increasing the enterprise value of the Heidelberg Group on an ongoing basis. We calculate the value contribution for a reporting period, the benchmark used for this as the net total of return on capital employed (ROCE) and capital costs (see Group management report, page 85). The value contribution shows whether the Heidelberg Group earned its capital costs in the period under review. The following capital structure is used to calculate the cost of capital:

	2009/2010	2010/2011
Equity	578,950	868,592
– Net deferred taxes	138,569	112,629
Adjusted equity	440,381	755,963
Annual average	591,067	598,172
Pension provisions	225,378	221,011
+ Tax provisions	241,514	203,677
+ Net tax receivables/liabilities	– 2,440	2,352
+ Non-operating financial liabilities	749,207	366,601
Liabilities	1,213,659	793,641
Annual average	1,129,608	1,003,650
Adjusted total capital	1,654,040	1,549,604
Annual average	1,720,675	1,601,822

Neither the capital management strategy nor its focus have changed as against the previous year. Priority is given to reducing the commitment of capital, strengthening the equity ratio, and securing liquidity. In the year under review, the equity of the Heidelberg Group increased sharply from € 578,950 thousand to € 868,592 thousand. Based on total assets, the equity ratio therefore increased from 20.1 percent to 32.9 percent.

Owing to the capital increase (see note 26) and our measures to reduce capital tie-up, net financial liabilities declined from € 694,850 thousand in the previous year to € 246,683 thousand. Net financial liabilities are the total of financial liabilities less cash and cash equivalents.

Heidelberg is not subject to any capital requirements arising from its Articles of Association.

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 percent backed by guarantees from the German government and the states of Baden-Württemberg and Brandenburg and a syndicated credit line from a syndicate of banks of € 550 million. One of these covenants of this financing package is the minimum equity criterion that the Heidelberg Group must comply with.

Following the successful completion of the capital increase in September 2010 (see note 26), 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.

On March 25, 2011, Heidelberg agreed a comprehensive refinancing of the credit lines due in summer 2012. Firstly, this included the high-yield bond of € 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.

39
**DECLARATION OF COM-
 PLIANCE IN ACCORDANCE
 WITH SECTION 161 OF
 THE GERMAN STOCK
 CORPORATION ACT**

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

40
**EXECUTIVE BODIES
 OF THE COMPANY**

The basic characteristics of the remuneration system and amounts of remuneration for the members of the Management Board and Supervisory Board are presented in the remuneration report. The remuneration report is part of the Group management report and the Corporate Governance Report (see pages 55 to 61).

The members of the Supervisory Board and the Management Board are listed in the separate overview presented on pages 246 – 247 (Supervisory Board) and 249 (Management Board).

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, the expenses for retirement benefits under IFRS (service cost and interest cost) for members of the Management Board amounted to € 731 thousand (previous year: € 795 thousand); this includes the service cost of € 458 thousand (previous year: € 411 thousand).

In the reporting year, as in the previous year, no performance share units were awarded to members of the Management Board under the long-term incentive plan. As of the 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 financial year 1997/1998 within the framework of universal succession. The pension obligations (defined benefit obligations) to former members of the Management Board and their surviving dependents amount to € 40,040 thousand (previous year: € 42,335 thousand). € 8,929 thousand of this (previous year: € 9,483 thousand) relate to the pension obligations of the former Linotype-Hell Aktiengesellschaft, acquired in financial year 1997/1998 under the provisions of universal succession. Former members of the Management Board held no stock options (previous year: 21,000 stock options) as of the end of the reporting period.

No loans or advances were made to members of the Company's Management Board or the Supervisory Board in the reporting period. One member of the Management Board has loans collateralized by real estate dating back to before Group affiliation in the amount of € 522 thousand at interest of 5.31 percent; 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 financial year 2010/2011; these payments do not include value added tax.

**41
RELATED PARTY
TRANSACTIONS**

Business relations exist between numerous companies and Heidelberger Druckmaschinen Aktiengesellschaft and its subsidiaries in the course of ordinary business. This also includes associated companies, which are regarded as related companies of the Heidelberg Group. Related parties include members of the Management Board and the Supervisory Board.

In the 2010/2011 financial year, transactions were carried out with related parties that resulted in liabilities of € 5,101 thousand (previous year: € 5,182 thousand), receivables of € 14,157 thousand (previous year: € 16,537 thousand), expenses of € 14,133 thousand (previous year: € 10,674 thousand) and income of € 20,617 thousand (previous year: € 20,108 thousand), which essentially includes sales. Write-downs of € 1,604 thousand were recognized on receivables from related parties (previous year: € 2,029 thousand). All transactions were concluded at standard market terms and did not differ from trade relationships with other companies.

Enterprises controlled by a member of the Supervisory Board of Heidelberger Druckmaschinen Aktiengesellschaft have provided advisory services to fully consolidated companies amounting to € 222 thousand (previous year: € 79 thousand).

**42
STOCK OPTION PROGRAM ¹⁾**

The Annual General Meeting of September 29, 1999 approved a contingent increase of share capital of up to € 10,996,288.00 through the issue of up to 4,295,425 shares (Contingent Capital). The sole purpose of the contingent capital increase is to grant subscription rights to members of the Company's Management Board, to members of the management boards of subsidiaries in Germany and abroad and to other senior executives within the Heidelberg Group.

Authorization of the Management Board and the Supervisory Board

The Management Board has been authorized to grant subscription rights to eligible persons within a period of five years from the time the contingent capital goes into effect. The subscription rights are to be issued to those entitled by way of entry in the commercial register in tranches of not more than 30 percent of the total volume per financial year. The Supervisory Board has the sole responsibility for granting subscription rights to members of the Management Board.

¹⁾ The information on the stock option program is also a component of the Corporate Governance Report (see page 46 ff)

Vesting period/term

The subscription rights can only be exercised after the end of the vesting period. The vesting period commences when the subscription rights are issued and ends three years after the issue date. The term of the subscription rights commences when the subscription rights are issued and ends six years after the date of issue. Subscription rights that have not been exercised or cannot be exercised by the end of the term expire without compensation.

Exercise period and exercise blocking periods

Subscription rights can be exercised at any time after the end of the blocking period during the respective term. However, the subscription rights cannot be exercised during blocking periods that have been established by the Management Board and Supervisory Board – for example, periods of at least ten trading days before dates on which reports on the Company's business development are published. The entire period or parts of the period between the end of a financial year and the end of the respective ordinary Annual General Meeting may also be designated as blocking periods.

Investment on own account

When granting subscription rights, the precondition may be imposed that the eligible persons must acquire shares of Heidelberger Druckmaschinen Aktiengesellschaft on their own account and that they retain the shares for the appropriate vesting period.

Condition for exercising subscription rights

Subscription rights can 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 calculated thus exceeds that of the Index. If subscription rights are not exercised despite the target having been reached, they may not be exercised again until the target has been reached once more.

Exercise price

The exercise price is defined as the average closing price of the Company's shares on the last ten consecutive trading days in Frankfurt am Main before the relevant subscription period for the respective subscription rights (the exercise price). If the closing price of the shares in the electronic trading system of Deutsche Börse Aktiengesellschaft (which is used to determine the target price) is more than 175 percent of the exercise price determined in accordance with the above section (the threshold amount) on the last day of trading before the subscription rights are exercised (the relevant market price), the exercise price shall be increased by the amount by which the relevant market price exceeds the threshold amount. This does not affect the provisions of Section 9 (1) of the German Stock Corporation Act (AktG).

Non-transferability/dividend rights of new shares

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

Tranche 2004

The main key conditions for the last remaining tranche (2004) 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
18-Aug-2007	18-Aug-2010	25.42	493,860	0

¹⁾ Including stock appreciation rights (SARs)

The development of entitlements to stock options that have been granted is shown in the following table:

	2009/2010		2010/2011	
	Number of stock options ¹⁾	Weighted average exercise price in €	Number of stock options ¹⁾	Weighted average exercise price in €
Outstanding options at the beginning of the financial year	1,824,105	23.13	493,860	25.42
During the financial year				
Granted	0	–	0	–
Returned	8,625	25.42	0	–
Exercised	0	–	0	–
Forfeited	1,321,620	22.26	493,860	25.42
Outstanding options as of the end of the financial year	493,860	25.42	0	0
Exercisable options as of the end of the financial year	0	0	0	0

¹⁾ Including stock appreciation rights (SARs)

Servicing the subscription rights

It is currently intended to deliver the old shares that are acquired on the stock market upon exercise of the subscription rights to the authorized individuals. These individuals are to thereby receive the plan profit in the form of shares. However, this only applies if no cash settlement is required – for example, due to the form of the subscription rights as stock appreciation rights (SARs).

Accounting policies

The provisions of IFRS 2: Share-based Payment were applied to the relevant tranches (Tranche 2004 and the SARs of Tranche 2004).

As in the previous year, the total income from the stock option program was € 0 thousand. The provisions and the capital reserve carrying amounts of this collateral were also € 0 thousand (previous year: € 1 thousand) and € 9,431 thousand (previous year: € 9,431 thousand) respectively as of the end of the reporting period.

The amount of liabilities for the tranches to which IFRS 2 applies was calculated using a Monte Carlo simulation taking into account the relative target of the option plan. The significant tranches were measured on the basis of the following parameters:

	Tranche 2004
Measurement date	18-Aug-2004
Exercise price in €	25.42
Price of Heidelberg shares in €	23.90
Expected dividend yield	2.43 %
Risk-free interest rate	3.52 %
Volatility of Heidelberg shares	39.13 %
Volatility of EURO STOXX	23.98 %
Correlation between Heidelberg share price and EURO STOXX	0.26
Fair value in €	4.87

Volatilities and correlations were determined on the basis of historical end-of-day prices. The actual remaining term was used for the expected term in the option pricing model. Furthermore, upon reaching the relative target in the simulation it was assumed that the options were exercised early in all cases in which the gain on exercise exceeds the discounted amount of 75 percent of the original exercise price over the option's remaining term.

43 LONG-TERM INCENTIVE PLAN (LTI) ¹⁾

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 include all members of the executive group. Eligibility is based on total remuneration, broken down into four groups.

¹⁾ The information on the long-term incentive plan (LTI) is also a component of the Corporate Governance Report (see page 46 ff)

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 depended 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 2007 on April 1, 2007. The PSUs for LTI 2007 expired on March 31, 2010.

Performance criteria

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 rate, 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, LTI 2007 was 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 is issued.

Tranche 2007

The development of LTI 2007 entitlements is shown in the following table:

	2009/2010 Number of PSUs	2010/2011 Number of PSUs
Outstanding PSUs as of the start of the financial year	210,150	99,000
During the financial year		
Granted	0	0
Returned	2,700	0
Exercised	0	0
Forfeited	108,450	99,000
Outstanding PSUs as of the end of the financial year	99,000	0
Exercisable PSUs as of the end of the financial year	0	0

Accounting policies

Tranche 2007 of the LTI was measured on the basis of IFRS 2. The LTI was to be settled in cash. As in the previous year, the provision for this amounts to € 0 thousand. As in the previous year, the LTI did not give rise to any income or expenses in the year under review.

44 EXEMPTION UNDER SECTION 264 (3) OF THE GERMAN COMMERCIAL CODE

The following subsidiaries exercised the provisions of Section 264 (3) and 264 b of the German Commercial Code with regard to the specification and disclosure of the exemption regulations in the period under review:

Heidelberger Druckmaschinen Vertrieb Deutschland GmbH, Heidelberg;
Heidelberg Postpress Deutschland GmbH, Heidelberg;
Heidelberg China-Holding GmbH, Heidelberg;
Heidelberg Boxmeer Beteiligungs-GmbH, Heidelberg;
Print Finance Vermittlung GmbH, Heidelberg;
Heidelberg Consumables Holding GmbH, Heidelberg;
Heidelberger Druckmaschinen Real Estate GmbH & Co. KG, Walldorf.

45
 AUDITORS' FEES

In the reporting year, the following expenses were incurred for services by the auditors:

Fees for	2009/2010	2010/2011
Audits of financial statements	836	843
Other assurance services	409	236
Tax advisory services	0	43
Other services	2,004	1,985
	<u>3,249</u>	<u>3,107</u>

46
 EVENTS AFTER THE END OF
 THE REPORTING PERIOD

On March 25, 2011, Heidelberg agreed a comprehensive refinancing of the credit lines due in summer 2012. Firstly, this included the high-yield bond of € 304 million with a term of seven years successfully issued on April 7, 2011. Heidelberg used the net proceeds for the early repayment of the two partially government-backed credit lines and for general refinancing of the Company. Secondly, the lines previously in place were 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.

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

Heidelberg, May 25, 2011

HEIDELBERGER DRUCKMASCHINEN AKTIENGESELLSCHAFT

The Management Board



Bernhard Schreier



Dirk Kaliebe



Marcel Kiessling



Stephan Plenz

Auditor's Report

We have audited the consolidated financial statements prepared by Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg, comprising the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in consolidated equity, the statement of cash flows, and the notes to the consolidated financial statements, together with the Group management report for the financial year from April 1, 2010 to March 31, 2011. The preparation of the consolidated financial statements and the Group management report in accordance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315 a (1) HGB (Handelsgesetzbuch – German Commercial Code) are the responsibility of the Management Board of the Company. Our responsibility is to express an opinion on the consolidated financial statements and the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position, and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidated financial statements, the determination of the entities to be included in consolidation, the accounting policies and consolidation principles used, and significant estimates made by the Company's Management Board, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315 a (1) HGB and give a true and fair view of the net assets, financial position, and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt/Main, May 26, 2011

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Ernst-Wilhelm Frings
Wirtschaftsprüfer
(German Public Auditor)

ppa. Stefan Sigmann
Wirtschaftsprüfer
(German Public Auditor)

HEIDELBERG 2010/2011

Additional Information

ADDITIONAL INFORMATION

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> 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, Katar;
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;
Klößner & 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

PUBLISHING INFORMATION

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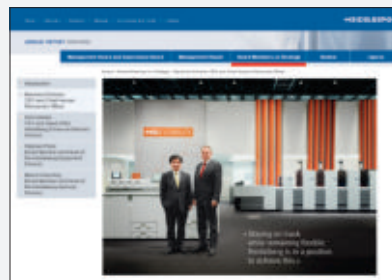
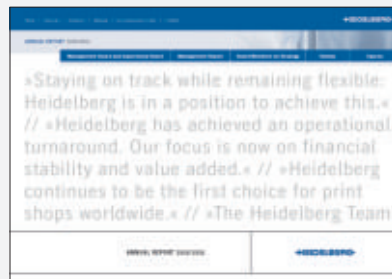
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- > Investor Relations
- > Reports and Presentations 2010/2011

FIVE-YEAR
OVERVIEW

We provide an optimized PDF file with linked contents for your iPad. For optimal viewing, we recommend the iBooks App for the iPad.

A screenshot of the Heidelberg website's 'Annual Report 2010/2011' page. The main content area features a table titled 'Consolidated Statement of Financial Position as of December 31, 2011'. The table lists various financial metrics for 2011 and 2010, including assets, liabilities, and equity. The table is organized into columns for the year, and rows for different financial categories. The data is presented in a clear, structured format, allowing for easy comparison between the two years.

On this page you will find detailed information concerning the figures for financial year 2010/2011.

We also provide downloads of all important information (PDF) and relevant charts (Excel).

FIVE-YEAR OVERVIEW – HEIDELBERG GROUP

Figures in € millions

	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011
Incoming orders	3,853	3,649	2,906	2,371	2,757
Net sales	3,803	3,670	2,999	2,306	2,629
Foreign sales share in percent	85.1	83.8	81.0	83.8	84.9
EBITDA ¹⁾	491	391	51	- 25	104
Result of operating activities ²⁾	362	268	- 49	- 130	4
- in percent of sales	9.5	7.3	- 1.6	- 5.6	0.2
Income before taxes	300	199	- 347	- 286	- 143
Net profit/loss	263	142	- 249	- 229	- 129
- in percent of sales	6.9	3.9	- 8.3	- 9.9	- 4.9
Research and development costs	237	222	186	121	121
Investments	178	217	198	62	79
Total assets	3,339	3,507	3,241	2,879	2,643
Net working capital ³⁾	1,276	1,193	1,212	1,031	908
Receivables from sales financing	431	323	273	212	178
Equity	1,202	1,193	796	579	869
- in percent of total equity and liabilities	36.0	34.0	24.6	20.1	32.9
Financial liabilities	543	544	760	816	395
Net debt ⁴⁾	467	402	681	695	247
Cash flow	398	290	- 238	- 179	- 41
- in percent of sales	10.5	7.9	- 7.9	- 7.8	- 1.6
Free cash flow	229	215	- 201	- 62	75
- in percent of sales	6.0	5.9	- 6.7	- 2.7	2.9
ROCE in percent ⁵⁾	15.7	13.5	- 3.6	- 8.8	0.7
Return on equity in percent ⁶⁾	21.9	11.9	- 31.3	- 39.6	- 14.8
Earnings per share in €	3.23	1.81	- 3.20	- 2.94	- 0.83
Dividend in €	0.95	0.95	-	-	-
Share price at financial year-end in € ⁷⁾	21.60	10.71	2.29	3.36	3.34
Market capitalization at financial year-end	2,735	1,328	284	416	779
Dividend yield in percent ⁸⁾	2.77	5.58	-	-	-
Number of employees at financial year-end	19,171	19,596	18,926	16,496	15,828

¹⁾ Result of operating activities excluding special items and before depreciation and amortization

²⁾ Excluding special items

³⁾ The total of inventories and trade receivables less trade payables and advance payments

⁴⁾ Net total of financial liabilities and cash and cash equivalents

⁵⁾ In financial year 2006/2007, adjusted for positive one-off effects totaling € 60 million

⁶⁾ After tax

⁷⁾ Previous year's figures adjusted to number of outstanding shares following capital increase

⁸⁾ Based on share price at financial year-end in Xetra-trading

Financial Calendar 2011/2012

JUNE 16, 2011	Press Conference, Annual 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	Press Conference, Annual Analysts' and Investors' Conference
JULY 26, 2012	Annual General Meeting

Subject to change

»Staying on track while remaining flexible: Heidelberg is in a position to achieve this.« //

»Heidelberg has achieved an operational turnaround. Our focus is now on financial stability and value added.« //

»Heidelberg continues to be the first choice for print shops worldwide.« //

»The Heidelberg

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