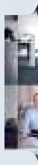
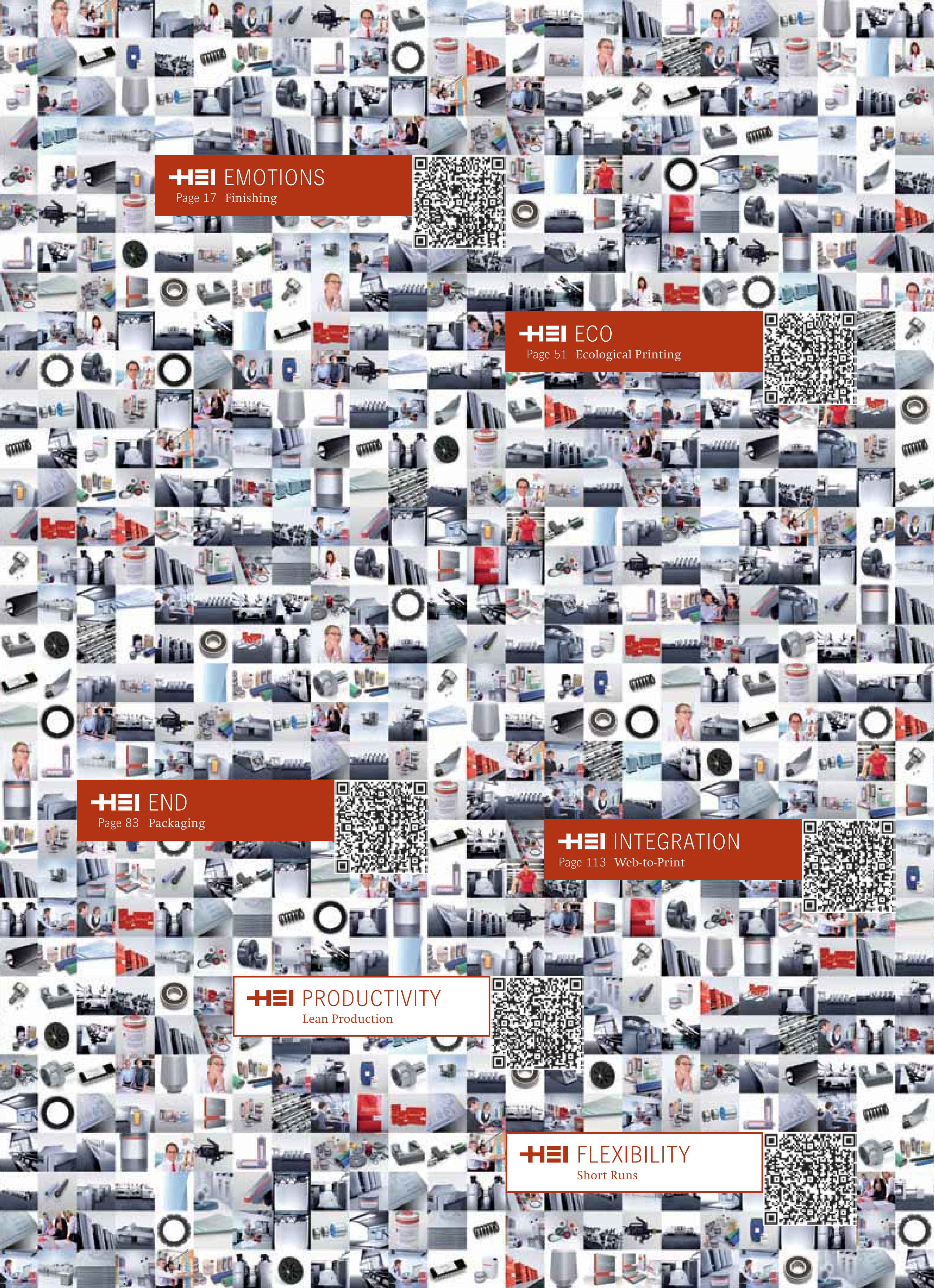
DISCOVER

ANNUAL REPORT 2011/2012

HEIDELBERG

DISCOVER HEI >>





Please refer to the back cover flap for detailed information on the HEIlights from the Product Portfolio

DISCOVER HEI

This is the slogan we used in May to invite more than 300,000 visitors to drupa 2012 to learn about our responses to the seven global trends in the print media industry. In Hall 1 of the industry's biggest trade show, these visitors gained a clear picture of the opportunities that open up for print shops if they rely on the innovations and quality that Heidelberg provides, whether in printing, finishing, operating systems, consumables, or services. This Annual Report will show you, too, what kinds of potential our integrated solutions provide and how Heidelberg distinguishes itself from its competition. You will already have gained a good first impression from the inside cover flaps.

ANNUAL REPORT 2011 / 2012

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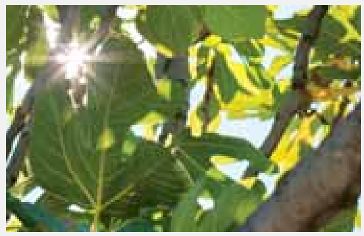

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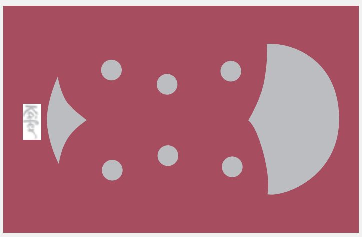

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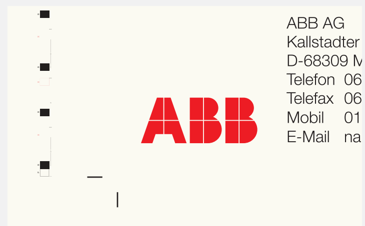

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Cover

BERNHARD SCHREIER

Chairman of the Management Board
Heidelberger Druckmaschinen
Aktiengesellschaft

Introduction by the Chairman of the Management Board

Dear Reader,

A few days ago, we returned from the drupa trade show in Düsseldorf. The atmosphere of this sold-out, premier trade show of our industry, which took place from May 3 through 16, was impressive as always. Around 2,000 manufacturers from 50 countries were represented, and more than 300,000 visitors attended from all over the world. I was happy to see many familiar faces in Hall 1 and to speak with customers I have known personally now for a long time. The conversations mainly revolved around our concrete responses to market trends which we displayed at the trade show under the motto “Discover HEI.” These conversations confirmed that, as the largest exhibitor at the show, we presented the right technologically leading solutions at the right time. Our innovations were convincing and were met with enthusiasm. The possibilities for linking print and online media in print advertising impressed attendees. And all were astonished by our special morsel: LEDs of organic – printed! – electronics.

drupa creates renewed impetus for the printing media industry

There has hardly been a drupa that the industry had looked forward to like this one; the hopes placed in it were great. You will remember: Only a few months following the last drupa in May 2008, the world economic crisis began, which hit our industry, in particular, extremely hard. In the crisis years, printing companies in the industrialized countries suffered as a result of reduced advertising budgets. Our incoming orders fell by a half. It was not until the year 2010 and in the first half of 2011 that the industry finally began to pick up again. But in the reporting year, the upward trend came unexpectedly to a halt, as state and debt crises slowed down the economic momentum. And that is why the new impetus provided by drupa 2012 was so important for the industry. The assumption that the trade show would invigorate the print media industry was correct. Even if it is still too soon to know for sure whether this will continue, cautious optimism appears to be justified.

Important measures of Focus 2012 were implemented even before the trade show

Naturally, I was asked again and again at the trade show about our Focus 2012 efficiency program and about the changes in the Group, by which we are adapting the organizational and cost structures of Heidelberg to the anticipated underlying conditions in the print media industry. Customers were relieved that our negotiations with the Works Council had been brought to an early conclusion and that, thanks to the prudent decisions of the employee representatives, we do not have to fear work stoppages and thus delivery delays. I was particularly pleased by the feedback that the market recognizes that Heidelberg is changing processes, that with the expansion of its market share in packaging and digital printing, it is clearly emphasizing the newly industrializing countries and the consumables and service sectors, and that customers worldwide can continue to depend on the highest quality and best service. Regardless of the size of their print shop or their business model, we continue to be the comprehensive-solution provider for most professional printing applications.

Sheetfed offset continues to be the dominant printing process; this market has a worldwide volume of around € 14.5 billion

We continue to rely on the worldwide dominant printing process, with which more than a third of the total print volume will continue to be produced: sheetfed offset printing. Naturally, the share of digital printing in total print volume is growing, among other things as a result of photo books, but currently, it is only slightly more than 10 percent. Print shops achieve a high degree of flexibility through digital printing; for good reason, practically every print shop today already has a simple digital printing press, which it can also purchase from us through our joint venture with Ricoh. We offer comprehensive solutions for commercial as well as for packaging printers, including services and consumables. It was again obvious at drupa that Heidelberg is the only manufacturer capable of integrating offset and digital printing into a single workflow, a definite added value for print shops.

The sheetfed offset market will benefit above all from the growth rate of packaging printing as well as from the structural shift from webfed to sheetfed. Overall, with our sheetfed offset solutions, which comprise machinery and equipment, consumables and services, we address worldwide a market with an enormous volume of around € 14.5 billion per annum. We want to exploit this potential even more in the future. We plan to grow significantly, specifically in the area of consumables; the high printing production volume in the industrialized countries with our large installed bases is a good starting point for us. In the newly industrializing countries, we want to benefit from the print shops' higher investment rate, and in the industrialized countries we want to participate in the recovery of the industry.

Range of offerings at drupa addresses growth markets

Our product offerings reflect our strategy. The employees of Heidelberg put on a trade show appearance with 60 innovations! I hope you, our readers, use the opportunity in this Annual Report and on the Internet to learn about the outstanding benefits of our offerings, whether in terms of flexibility, productivity, or environmental protection.

One of our priorities was, of course, the packaging market, which is growing worldwide and which is relatively independent of economic trends, particularly when it comes to folding cartons and labels. We showed complete solutions, including printing inks which are especially well-suited for food packaging, among other uses. In the area of pharmaceuticals, Diana X with its Braille module optimizes finishing.

With our completely new high-performance category Speedmaster SX, which we offer in three format classes, we especially appeal to customers in newly industrializing countries who want to reach the next level of productivity.

But we also showed important innovations for classic commercial printing in industrialized countries. For example, we expanded the XL series for the top segment in the industry. This series, we are pleased to report, was the most successful product line at the trade show; customers were enthusiastic over the Speedmaster XL 106. The bulk of printing production volume will continue to be produced in the industrialized countries; though the advertising market has seen competition from online media, it continues to be ubiquitous.

Following a disappointing reporting year: What will happen next? Planned operating result, excluding special items, of around € 150 million in financial year 2013/2014

Dear Reader, I would like to make it clear that Heidelberg is the world market leader in a field which continues to have high potential and that we are on a good course strategically. Nevertheless, we did not reach our goals for the reporting year; our result is disappointing. The resulting development of the share is presented in the chapter on “The Heidelberg Share.” Our shares are now listed on the SDAX.

We had correctly assessed the development of the market up to the beginning of last year, but we assessed developments beyond that too optimistically, as did industry associations, market studies, and the other participants in the market. You know the outcome: one of our competitors had to file for bankruptcy. We ourselves missed the goals we had set. Sales fell slightly, the operating result remained at the level of the prior year, among other things due to one-time effects, and we again had to make deep cuts in our workforce in all areas. With our Focus 2012 efficiency program, we still intend to secure our goal for an operating result of around € 150 million in the financial year 2013/2014.

You will see this program mentioned on almost every page of this report, for its purpose is not just to lower costs: the program is the start of a profound change in our Group, so that we will be able to quickly and comprehensively utilize the potentials that we see and possess. We are adapting our portfolio of products, our processes, and our organization worldwide to the challenges we face, so we can respond with more efficiency and power.

MARCEL KIESSLING
Management Board Member and Head of the Heidelberg Services Segment

STEPHAN PLENZ
Management Board Member and Head of the Heidelberg Equipment Segment

DIRK KALIEBE
Chief Financial Officer and Head of the Heidelberg Financial Services Segment

BERNHARD SCHREIER
Chief Executive Officer and Chief Human Resources Officer

(from left to right)

Thanks to our employees, shareholders, and customers

The path from drupa 2008 to drupa 2012 was an extremely rocky one – for our customers, for our employees, and for our shareholders. I am sure that at drupa 2016 the industry will again look back on a decisive period.

Our range of products at the trade show demonstrated that print shops that rely on Heidelberg can profitably implement new trends. That Heidelberg is in a good starting position to be among the winners in the coming stretch is thanks, above all, to our employees and their representatives in the Works Council. To them, I would like to take this opportunity to extend my sincere thanks, in the name of the entire Management Board. I would also like to thank all of our shareholders and our customers for their confidence and support.

B. Schreier

BERNHARD SCHREIER

Chairman of the Management Board
Heidelberger Druckmaschinen Aktiengesellschaft

ROBERT J. KOEHLER

Chairman of the Supervisory Board

Report of the Supervisory Board

Dear Shareholders,

In the last ten years, the printing press industry, including Heidelberg, has passed through an unprecedented downturn in the industrial sector, in the process passing through several upswings and, unfortunately, increasingly severe downswings and upheavals. Perhaps the most difficult crisis hit the industry in the years 2008 and 2009. The Supervisory Board observed the developments closely, and together with the Management Board, analyzed and adapted the Company's direction and strategy by which Heidelberg maneuvered through this crisis. By the time the chairmanship of the Supervisory Board passed from Dr. Mark Wössner to Robert J. Koehler, immediately following the 2011 Annual General Meeting, the industry, including Heidelberg, following completion of restructuring and refinancing, were on the way to overcoming the crisis.

Strategic further development adapted to underlying conditions

The goal was for the Company to quickly return to the black. This prospect was undermined, above all, by the public debt crises, in particular in Europe, in two respects: Print shops continued to hold back on their capital investments due to the high degree of economic uncertainty. In addition, banks changed their lending behavior, and it became more difficult for print shops to finance larger capital investments. As a result, a large German printing press manufacturer filed for bankruptcy in November, 2011. At Heidelberg, sales stagnated and incoming orders shrank.

Accordingly, the Management Board of the Group, with the support of the Supervisory Board, reacted promptly and forcefully to the renewed worsening of already difficult conditions. In order to gain as comprehensive a picture as possible of the future development of the printing press industry, the Management Board commissioned a detailed industry study. The results, which were also explained in detail to the Supervisory Board, were incorporated from then on into strategic planning, and accordingly, led to the establishment of the Focus 2012 efficiency program, with which the Group adapted to the future demands. The goal of the program is to cut costs by € 180 million on a sustained basis in order to further lower the operating break-even point and thus to achieve around € 150 million EBIT in the financial year 2013/2014.

In the preceding years, necessary cuts already had to be made in order to put the Company on a sustainable basis for the long term. The upheavals in the industry caused by the underlying conditions and our failure to meet our profitability goals in the reporting year unfortunately forced us, however, to reduce capacities again and to adjust the number of employees.

The prudent, responsible negotiating results achieved through the joint efforts of the staff representatives and ourselves made it possible for Heidelberg to fully concentrate on the further development of the potential of Heidelberg's products and applications at drupa in May, 2012 in Düsseldorf, the world's largest trade show for the print media industry. The success of the trade show, with orders exceeding expectations, confirms our strategy.

Current year and beyond

The improved order situation, and signs that banks are increasingly willing to finance necessary investments again, makes us cautiously optimistic for the future.

With the implementation of Focus 2012, we aim to give the Group the capacity and flexibility to put the Company in the black again soon. On the assumption of a stabilizing environment in the industry, the Management Board anticipates an operating result of around € 150 million for the financial year 2013/2014. For the new 2012/2013 financial year, on the basis of our positive experience at drupa and the progress of the Focus 2012 project, Heidelberg is looking into the future with cautious optimism, in order to be able to largely establish the conditions necessary to return to profitability in the following year. Various risk factors cannot be precisely forecast at present, and therefore in our budget monitoring we cannot completely rule out the possibility that further adjustments may be necessary. At the time of preparation of this report, however, such adjustments are not anticipated.

As a comprehensive solution provider for the print media industry, Heidelberg is further developing those business areas that are relatively independent of the economy, integrating new technologies such as digital printing, and developing innovations such as organic electronics.

The Supervisory Board supported the decision of the Management Board to fully exploit the potentials of the Group through an organizational change as of June 1, 2012. Through the formation of globally responsible business areas, the individual business segments will be strengthened; in the future they will have comprehensive responsibility for strategy, capital investments, pricing policy, and the operating result for their products. In this connection, Marcel Kiessling, as Head of Sales and Services, will assume global responsibility for this sector. In the framework of the Focus 2012 efficiency program, the sales and services activities will ultimately be expanded in the newly industrializing countries, while in the industrialized countries, they will be adapted to the current demand situation.

Close cooperation between the Management Board and the Supervisory Board

In this very difficult reporting year, the Supervisory Board fully supported the Management Board in implementing the necessary measures and in finding solutions to highly complex responsibilities. In our regular Supervisory Board meetings and in committee meetings, as well as in numerous other meetings of the shareholder representatives, we consulted with the Management Board, discussed all important matters and measures intensively with each other, and initiated important decisions.

Shareholder and employee representatives met several times in separate meetings in order to discuss the current situation in detail and to prepare for upcoming decisions.

We extensively advised and supervised 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 good cooperation between the Management Board and Supervisory Board could be seen not only in the four regular Supervisory Board meetings, in which the Management Board informed us of all important details concerning current developments and business trends, but also in the many 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 with the necessary exactness about the Company's business development and financial position. During the reporting year, I maintained the close contact with the Chairman of the Management Board which my predecessor had cultivated before me, thereby ensuring that I was continually kept informed of significant developments and upcoming decisions 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 represent the interests of the Company cohesively and credibly.

We were always promptly and extensively involved in all significant decision-making processes. For resolutions that necessitated a quick decision we deliberated in writing. This occurred once during the financial year in the plenary session.

One member of the Supervisory Board, Ms. Lone Fønss Schrøder, attended fewer than half of the meetings of the Supervisory Board during the reporting year. However, she arranged to submit her vote in writing for all necessary resolutions.

Major topics of the Supervisory Board meetings

In the reporting year, our discussions were concentrated, on the one hand, on the strategic thrusts under the existing difficult conditions as well as the market and competitive environment and, on the other hand, on our net assets, and result of operating activities, the liquidity situation, and the Focus 2012 efficiency program. In addition, we worked to safeguard the capital structure of the Company. During the financial year, the development of Heidelberg's sales and earnings, as well as its financial position, were a regular topic of discussion on the Supervisory Board.

In its meeting on June 9, 2011, the Supervisory Board approved the consolidated and non-consolidated financial statements for the financial year 2010/2011 after hearing and discussing the auditor's report, thereby following the recommendation of the audit committee. It moreover adopted the agenda for the Annual General Meeting for 2011; in this connection, it followed the recommendation of the nominating committee to nominate Ms. Fønss Schrøder and Dr. Meyer as candidates for the Supervisory Board. In addition, the Supervisory Board discussed the remuneration of the Management Board, ascertained the fulfillment of targets, and defined new targets.

As in every meeting, the Supervisory Board, in the meeting preceding the Annual General Meeting on July 28, 2011, dealt with the report of the Management Board on the business situation, in particular with the acquisition of CSAT Gesellschaft für Computer-Systeme und Automations-Technik mbH. In continuation of the June meeting, the Supervisory Board passed several resolutions concerning Management Board remuneration. The meeting also served as preparation for the Annual General Meeting which followed. In its constitutive meeting following the Annual General Meeting, the Supervisory Board elected Mr. Robert J. Koehler as its new chairman and confirmed the composition of its committees.

In October 2011, the Supervisory Board passed a resolution by circular to expand the commissioning of Schuh & Co. GmbH, Würselen, in which a member of our Supervisory Board holds a majority interest. Schuh & Co. GmbH is successfully advising the Company's research and development activities in the area of its complexity management.

The focus of the Supervisory Board meeting on November 25, 2011, was on current economic developments of the Company and the resulting risks. The possibility of another restructuring of the Company and the prerequisites and underlying conditions for such restructuring were discussed in detail. The Supervisory Board resolved to approve the planning for the next financial year along with the efficiency program and adjustments in the financing subject to its approval. The Management Board reported to the Supervisory Board concerning possible ramifications of the bankruptcy of our competitor manroland. Finally, the Management Board term of Mr. Kaliebe was extended in this meeting by three additional years, and the Declaration of Compliance was issued.

The topic of the Supervisory Board's last meeting of the financial year, on March 28, 2012, was the planning for the coming financial year and projections for the following years. The Supervisory Board unanimously approved the progress of the Focus 2012 efficiency program, which had also been reconciled with the banks, as well as the planning. The Management Board informed the Supervisory Board in depth concerning its digital strategy. In addition, the Management Board term of Mr. Kiessling was extended in this meeting by three additional years.

Finally, the Supervisory Board once again focused intensively on the Management Board's remuneration, following preparation by the Personnel Matters Committee. The structure of Management Board remuneration continues to comply with legal requirements. In order to also make an important contribution to the return to profitability, Management Board remuneration in the future will be adapted to the fundamentally changed underlying conditions. In this connection, the Management Board, among other things, waived a significant amount of their bonus entitlements. In addition, it agreed to invest an appreciable portion of its variable remuneration in shares of the Company which must be held for a period of at least 24 months after allocation.

Corporate Governance

The corporate governance of the Company was a regular topic of our discussions in the Supervisory Board as were the recommendations of the German Corporate Governance Code. A new updating of our Rules of Procedure was not necessary in the reporting year. The Corporate Governance Report, which was integrated into the Declaration concerning Company Management, provides further information about the Company's corporate governance and related actions taken by the Supervisory Board. You will find them in the Internet at www.heidelberg.com under the heading Investor Relations/Corporate Governance.

Work in the Committees

For the efficient exercise of its responsibilities, the Supervisory Board, in its constitutive meeting following the Annual General Meeting on July 28, 2011, set up a total of five committees (Management Committee, Audit Committee, Personnel Matters Committee, Nomination Committee, and Mediation Committee). 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 composition of the committees is presented in the notes.

In the reporting year 2011/2012, the Personnel Matters Committee met four times. The focus of its activity was on matters concerning remuneration and other issues regarding the members of the Management Board. The Management Committee, after being empowered by the plenary session, passed a resolution by written circular on May 30, 2011, concerning the capital increase from authorized capital which served to satisfy claims of the former Linotype-Hell AG shareholders from the settlement of arbitration proceedings as well as with respect to the adaptation of the Articles of Association in this regard. The Audit Committee met five times and also held one extraordinary meeting by conference call. It examined questions pertaining to the respective quarter and event-driven matters relating to 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. The general tax conditions, as well as other special features in the non-consolidated and the consolidated financial statements of the Heidelberg Group, were also discussed in depth. Discussions additionally focused on risk management, compliance, controlling of participations, and sales financing. 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 Codetermination Act. Special committees were not formed in the reporting year.

Audit of the Non-Consolidated and Consolidated Financial Statements

The Annual General Meeting held on Thursday, July 28, 2011 selected Pricewaterhouse-Coopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft as the external auditor. This firm examined and approved, without qualification, the non-consolidated financial statements for financial year 2011/2012 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 28, 2011. The non-consolidated 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 financial statements, which was held on June 1, 2012. 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 1, 2012, the Audit Committee recommended approval of the non-consolidated and consolidated financial statements. We examined and accepted the non-consolidated 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 sets of financial statements, and approved the non-consolidated and consolidated financial statements as of March 31, 2012.

Composition of the Management Board and Supervisory Board

In the financial year, the composition of the Supervisory Board changed on July 28, 2011, following the Annual General Meeting. The previous Chairman of the Supervisory Board, Dr. Mark Wössner, as well as shareholder representative Dr. Werner Brandt, left the board. In their place, Dr. Herbert Meyer and Ms. Lone Fønss Schrøder were elected to the board by the Annual General Meeting. In the new financial year, the Supervisory Board will continue to focus intensively on the interests of the Company and its long-term development, and will work diligently for its benefit. There was no change in the composition of the Management Board during the reporting year.

Appreciation by the Supervisory Board

The Supervisory Board wishes to express its thanks to the retired members of the Supervisory Board for their dedicated, constructive work and their commitment. I would like to express my special gratitude to our employees and their representatives in the Supervisory Board, in works councils, and in the Speakers Committee for their high degree of commitment during the reporting year, in some cases despite extraordinarily high stress and workloads. On behalf of the entire Supervisory Board, I would like to emphasize that the path out of the crisis can only be mastered with a determined, hard-fighting team, and this is exactly what one can depend on at Heidelberg. In my expression of thanks, I would like to expressly include the members of the Management Board who, in a highly volatile environment and under some extreme conditions, were not able to meet all the goals that had been set, but nevertheless undertook everything possible to return as quickly as possible to profitability.

Wiesbaden, June 1, 2012

FOR THE SUPERVISORY BOARD

ROBERT J. KOEHLER

Chairman of the Supervisory Board

Corporate Governance

> Recommendations of the German Corporate Governance Code implemented with few exceptions
> Preparation for new regulations of the Corporate Governance Code in 2012

The Management Board and the Supervisory Board continued to work together in the financial year 2011/2012 to improve the corporate governance of Heidelberger Druckmaschinen AG. The principal focus was firstly on ensuring effective management and control within the new corporate structure in order to satisfy the interests of Heidelberg's various stakeholders. Secondly, we regularly monitor to ensure that all laws and regulations are complied with throughout the Group (Compliance) and that recognized standards and recommendations as well as the values of the Company, its Code of Conduct and our Business Guidelines are followed. As in the prior years, the Corporate Governance Code and its recommendations served as a point of reference, and its recommendations and suggestions were followed, with few exceptions.

On November 25, 2011, the Management Board and the Supervisory Board issued the following Declaration of Compliance:

Declaration of Compliance within the meaning of Section 161 of the German Stock Corporation Act

"Since the issuance of its last Declaration of Compliance on November 24, 2010, Heidelberger Druckmaschinen Aktiengesellschaft has, in the period from November 24, 2010, to November 25, 2011, complied with all recommendations of the Government Commission German Corporate Governance Code in the version of May 26, 2010, announced by the Federal Ministry of Justice on July 2, 2010 in the electronic Federal Gazette (Elektronischer Bundesanzeiger), and will also comply with these recommendations in the future, with the following exceptions:

One member of the Company's Supervisory Board, who is a member of the Management Board of a publicly traded company, held mandates until September 23, 2011 in four supervisory boards in publicly traded companies outside of the Group since the last Declaration of Compliance. Since September 23, 2011, this member has held a mandate in three supervisory boards in publicly traded companies outside the Group. 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 already held all of these mandates at the time the Code was revised in 2010, and even as early as 2009.

The Management Board and the Supervisory Board intend to **UPDATE** the annual **DECLARATION OF COMPLIANCE**, prospectively on November 28, 2012, following due examination.

We make all **DECLARATIONS OF COMPLIANCE** permanently available on our Internet pages at www.heidelberg.com under Investor Relations/Corporate Governance. There you will also find the Declaration of Compliance of November 25, 2011; in addition, it is reproduced in the current, detailed **DECLARATION CONCERNING COMPANY MANAGEMENT**, in which we present the primary elements of our **CORPORATE GOVERNANCE** structures. It also can be found permanently on our Internet pages at www.heidelberg.com under Investor Relations/Corporate Governance.

Therefore, the recommendation of No. 5.4.5 of the Code, that, at most, three mandates be held, was and is not complied with. Nevertheless, Heidelberger Druckmaschinen Aktiengesellschaft does not see any impairment of the due performance of responsibilities here, because the member of the Supervisory Board has adequate time to carry out his mandate at Heidelberger Druckmaschinen Aktiengesellschaft, particularly now that the number of supervisory boards was reduced on September 23, 2011. The Supervisory Board intends to take this recommendation into consideration for future nominations of members of the Supervisory Board.

Heidelberger Druckmaschinen AG deviated from the recommendations in Nos. 4.1.5, 5.1.2 sentence 2 and 5.4.1(2) of the Code in the versions of May 26, 2010 and will continue also in the future to deviate to the extent that an appropriate consideration or participation of women is supposed to be aimed for or provided. The Supervisory Board and the Management Board of the Company have taken measures in the past year for the professional advancement of women in the Company and have recommended to the Annual General Meeting to elect another woman to the Supervisory Board. However, the Supervisory Board and the Management Board will continue, in the future, to be guided in recommendations and decisions in personnel matters exclusively by the abilities and qualifications of the available candidates and not to accord the candidates' gender any special or emphasized significance. The Supervisory Board and the Management Board expressly welcome all efforts to counteract discrimination based on gender or any other form of discrimination and to appropriately promote diversity."

Heidelberg, May 24, 2012

For the Supervisory Board

ROBERT J. KOEHLER

For the Management Board

BERNHARD SCHREIER

DISCOVER

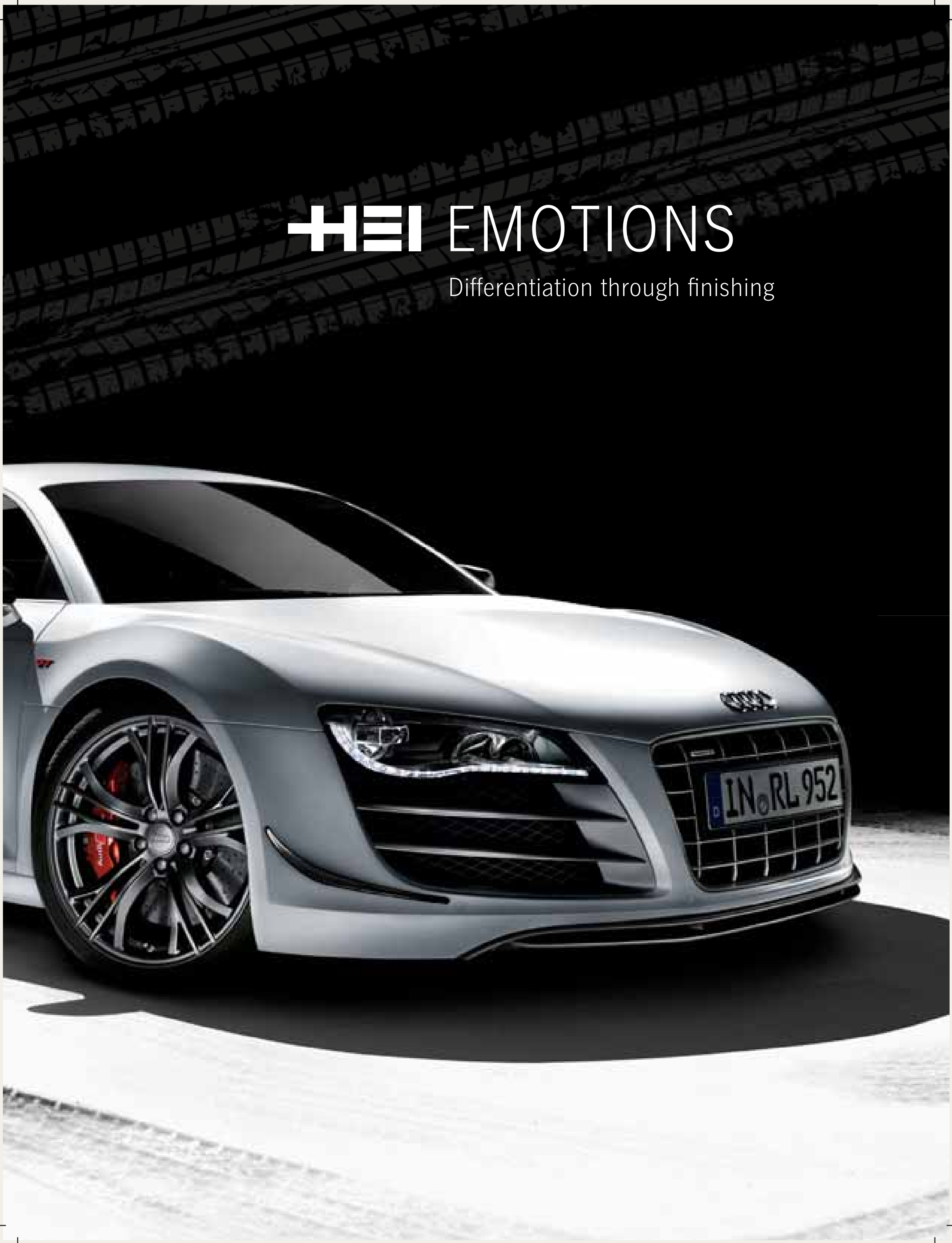
If you were at drupa, some of the motifs in this report will be familiar to you. Partitions made of die-cut, used printing plates were a significant structural element of our trade show presence – and, using concrete examples of applications for companies such as Audi, we showed how print shops can successfully implement business models.

HEI EMOTIONS

Differentiation through finishing

HDM GB 2011/2012 – Image Pages HEI Emotions
Black

In order to make a good impression with paper you need a printing plate ...



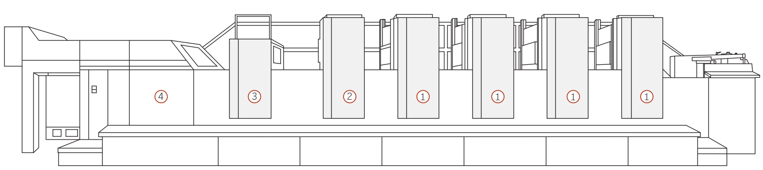
HDM GB 2011/2012 – Image Pages HEI Emotions
Process Cyan Magenta Yellow Black Coating 1 Coating 2

… and the right printing press so that the finished sheet looks sophisticated.

“Our printed products personify the Audi brand – they captivate with an originality that conveys our passion for technology, design, and sportiness.”

Michael Finke
Head of Advertising and Sales Media
Audi AG

By means of finishing techniques, paper becomes a medium that can transmit brand value. For instance, with surfaces that convey a feel for a product – print shops have various options for realistically depicting almost any material – be it velvet or silk, wood, metal, leather, or carbon. For the product to appeal to the senses it takes a masterpiece of technology with the highest level of precision, a perfect combination of inks and coatings, and – to keep it all affordable – a high degree of streamlining and automation. Therefore, inline finishing is required: the tire print on the frontispiece was produced with the rest of the motif in one print run. By contrasting matt and glossy surfaces, various effects can be achieved. Fine lettering, lines or halftones are also possible. Moreover, Heidelberg’s printing presses captivate with their flexibility: after just a short changeover time, they can print a hint of flower petals and inspire a sense of the aroma of a perfume …



1 INKING UNITS 1 – 4
The process colors of cyan, magenta, yellow and black are applied in the first four printing units.

2 INKING UNIT 5
In the fifth printing unit, an effects coating is applied to the surfaces that are to look matt.

3 COATING UNIT
The coating unit is used to apply a conventional full-area high-gloss coating that drips off the matt surface. A matt/gloss effect is achieved.

4 DRYING UNIT
Thanks to an energy-efficient and complete drying process, the printed sheets can be immediately processed further.

SHARE, STRATEGY, FOCUS 2012 EFFICIENCY PROGRAM

The Heidelberg Share

> Slow recovery by the printing press industry adversely affects share performance
> Share listed in the SDAX from March, 2012
> High-yield bond issued

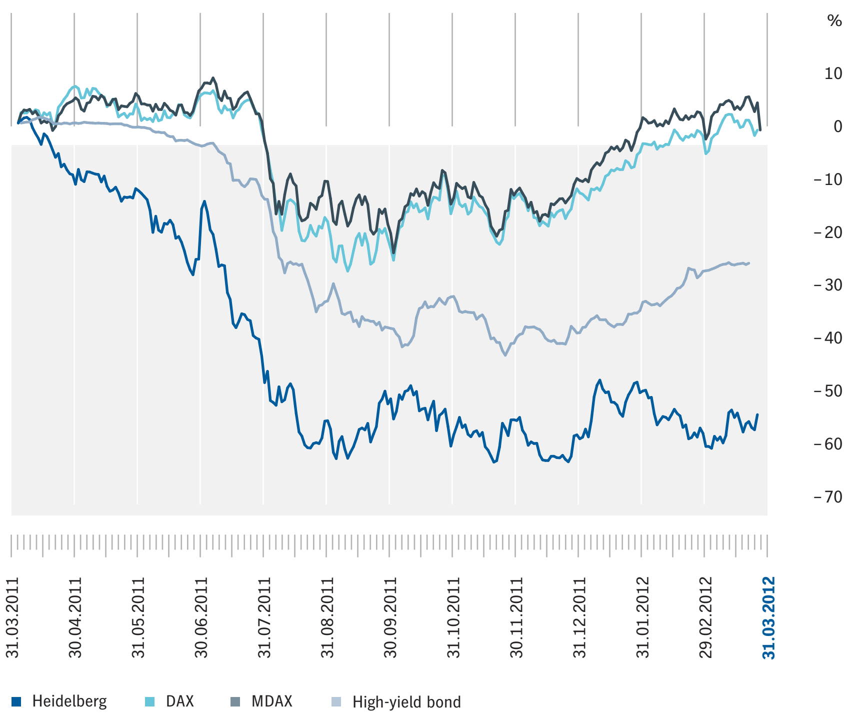
The performance of the Heidelberg share was disappointing in the reporting year. It only benefited to a small extent from the upward trend in the stock market and was hit badly by the uncertainty over the situation in the printing press industry.

Massive drops on German stock indices in the meantime

Capital markets were initially marked by uncertainty around the world between March 2011 and March 2012. The disasters in Japan and, in particular, the sovereign debt crises led to sharp drops on the DAX and MDAX, the

PERFORMANCE OF THE HEIDELBERG SHARE

Compared to the DAX / MDAX (Index: April 1, 2011 = 0 percent)



KEY PERFORMANCE DATA OF THE HEIDELBERG SHARE

Figures in €

	10/11	11/12
Basic earnings per share [1)]	– 0.83	– 0.98
Cash flow per share	– 0.26	– 0.56
Share price – high	5.49	3.38
Share price – low	2.93	1.20
Share price – beginning of financial year [2)]	3.51	3.36
Share price – end of financial year [2)]	3.34	1.50
Market capitalization – financial year-end in € millions	779	351
Number of shares in thousands [3)]	156,140	233,899

[1)] Determined based on the weighted number of outstanding shares
[2)] Xetra closing price; source for prices: Bloomberg
[3)] Weighted number of outstanding shares

two most important German stock indices. Between July and September, 2011, the DAX had to face up to its biggest drop in nine years. After moving laterally, the markets witnessed a year-end rally in December 2011; supported by the decisions reached at the European Summit, this turned into a sharp upward trend, which carried on into the first months of calendar year 2012. On March 31, 2012, the DAX stood at 6,900 points, well over the psychologically significant 6,000-point mark; it made up for the year's losses and ended with a slight drop of around 1 percent compared to March 31, 2011. Over the same period, the MDAX was up by around 4 percent.

Slow recovery by the printing press industry adversely affects the performance of the Heidelberg share, which was listed on the SDAX from March 2012

Following the general downward trend by stock exchanges at the beginning of the second quarter, the Heidelberg share fell by around 37 percent. By September 30, 2011, it had made a slight recovery and was listed at € 1.57. In line with the performance of the leading share indices, the Heidelberg share, at first, started to move laterally. Because Heidelberg reacted to the uncertain outlook for the economy by adjusting its forecast in October, and furthermore, because a competitor filed for bankruptcy at the end of November 2011, the share then fell even more sharply, reaching a low of € 1.20 at the end of November. Slightly lagging behind the important leading share indices, this was followed by a strong upward movement at the beginning of the fourth reporting quarter. Once Heidelberg had announced specific measures as part of its Focus 2012 efficiency program, the Heidelberg share continued to recover until the beginning of February.

However, prior to the regular **REVIEW OF THE STOCK EXCHANGE** by Deutsche Börse, the Heidelberg share came under renewed pressure. Other sectors had recovered significantly faster and more comprehensively from the global economic and financial crisis in 2008/2009 than the printing press sector. This was also reflected in the share prices of companies listed on the MDAX. At the end of February, 2012, Heidelberg was in 62nd place in terms of market capitalization of the shares in free float, 48th in terms of order book turnover on Deutsche Börse. On March 6, 2012, Deutsche Börse announced that, **UNDER THE "REGULAR EXIT RULES," THE HEIDELBERG SHARE** would be moved to the **SDAX**, as it no longer met the criteria in terms of market capitalization for staying on the MDAX. Since March 19, 2012, the Heidelberg share has been listed on the SDAX. At the end of the financial year, on March 30, 2012, the share price of € 1.50 was around 55 percent below the closing price on March 31, 2011.

High-yield bond issued

In order to further optimize Heidelberg's capital structure and financing, we issued a high-yield bond in April, 2011. Shortly after its issue, this traded at a price of around 102 percent, but from July onwards followed the downward trend of our share price. It ultimately reached a low of around 57 percent at the end of November. Thereafter, the bond recovered considerably, ending the reporting year on March 30, 2012, at a price of around 75 percent.

In constant dialog with the capital market

Our Investor Relations activities have one core aim: to present Heidelberg transparently on the capital markets in order to achieve an appropriate valuation for the Heidelberg share and the high-yield bond. We inform all stakeholders promptly and openly, and set great store on not only publishing financial figures but also explaining them. This approach was recognized in 2011 by the award of third place in the competition arranged by the German business publication *manager magazin* for "The Best Annual Reports" in the MDAX segment.

Regardless of which index we belong to, we will maintain the high standard of our capital market communications. This includes working continuously with the more than 20 financial analysts that have regularly covered the Heidelberg share and the bond. On issuing the bond, as part of our intensive creditor relations, we have also built up transparent communications in this segment with the financial analysts and investors specializing in high-yield bonds; we have integrated them into our regular capital market communications. Similarly, our collaboration with the rating agencies was an important component of our capital market communications. Heidelberg also gave presentations during the reporting year at 12 international capital market conferences and carried out many roadshows in Germany and abroad. In addition to our Investor Relations activities, our Company's locations in Heidelberg and Wiesloch-Walldorf were visited numerous times by investors and analysts. Besides one-on-ones and group discussions with the Management Board and the Investor Relations team, the visits also included tours of our production facilities. The visitors were particularly fascinated by our "Print Media Center Packaging" in Wiesloch-Walldorf, where we present completely integrated production lines for packaging printing. We also provided regular reports in the form of conference calls and IR press releases about the current course of business and market developments.

As part of the issuance of its bond, Heidelberg had obtained a credit rating for the first time in the previous year from two prominent rating agencies. These ratings were reviewed during the reporting year. Standard & Poor's downgraded the long-term rating to B with a negative outlook. Moody's gave Heidelberg a Corporate Family rating of B3 and a negative rating outlook. Standard & Poor's gave a CCC+ rating to the high-yield bond, and Moody's once again rated the bond at Caa1.

Personal contact with private investors is important to us. You can find an IR contact form on the Web site. Our IR Web site also contains extensive information on the Heidelberg share, such as transcriptions of conference calls, the latest IR presentations, corporate news, and dates of publications.

The Investor Relations team looks forward to hearing your questions and ideas!

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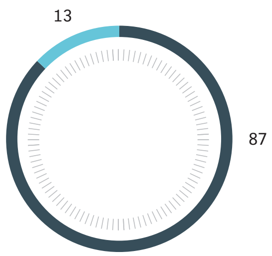
Fax: +49-62 21-92 51 89

SHAREHOLDER STRUCTURE

Figures in percent



Free float	87
Allianz SE	13

As of the reporting date, the biggest investors continued to include Allianz SE with around 13 percent of the voting rights. At the time this report was printed, other shareholders holding more than 3 percent of the Heidelberg share included: RWE AG (4.22 percent), SEB Investment GmbH (5.02 percent) and BlackRock, Inc., New York, USA (3.02 percent).

In the course of the reporting year, the number of international investors in the free float continued to increase. Institutional funds from Norway, Switzerland, and Italy, in particular, invested in the share for the first time or increased their holdings.

In addition to our annual analysts' and investors' conference, where our annual financial statements are released, we also organized a "Capital Markets Day" on May 9, 2012, at drupa, the world's biggest trade show.

Settlement made with former Linotype-Hell shareholders

Heidelberg amicably settled its longstanding litigation with former shareholders of Linotype-Hell AG on March 30, 2011. Under the terms of a court settlement, it was agreed that the former Linotype-Hell shareholders should receive an additional payment. For this purpose, the authorization to issue Authorized Capital 2008 was partially utilized: 916,638 new shares were issued. The amount of the capital increase is equivalent to a 0.39 percent share of the capital prior to the increase. The new total number of outstanding shares at the end of the reporting year stood at 234,246,940.

Annual General Meeting 2011: all resolutions adopted

Just under 2,000 shareholders participated in our Annual General Meeting for financial year 2010/2011, which was held in the Rosengarten Congress Center in Mannheim on July 28, 2011. A total of approximately 48 percent of capital eligible to vote was represented. One of the key proposals was the appointment of two new members to the Supervisory Board, which is covered in more detail in the Report of the Supervisory Board on page 11.

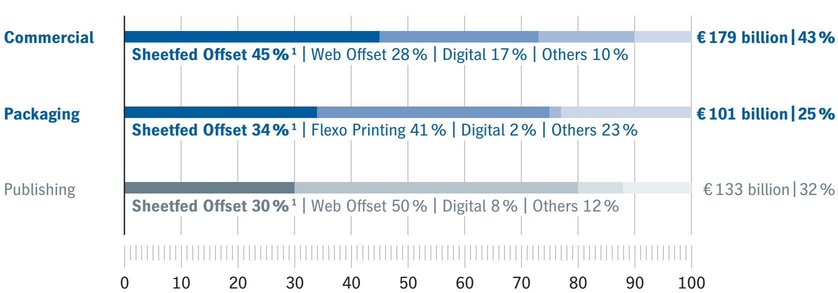
The planned amendment of the Articles of Association to make the wording of the Company's corporate mission somewhat broader was also adopted. The Articles will henceforth include activities outside of the print media industry, such as in the area of the manufacturing of control electronics elements. All resolutions were adopted by a large majority of the shareholders, including the proposals to suspend the existing authorized capital, to authorize the Management Board to increase share capital by issuing new shares, and not to distribute any dividend for the previous financial year.

Strategy

- Position as preferred solutions provider to the print media industry underscored at drupa
- Expanding less cyclical areas of business
- Innovator and integrator in new technologies: digital printing and organic electronics

Annual global production of printed materials currently stands at € 413 billion. Overall, this volume is expected to rise further over the next few years and reach about € 440 billion by 2015. This will be the result of a number of developments: the volume of production using the webfed offset printing process employed to print large runs of, for example, newspapers or advertising flyers, is falling sharply, as electronic media are increasingly used to publish information and for advertising purposes. To a substantially lower extent, advertising materials that are produced with the sheetfed offset process are also affected by this trend. In addition, any number of printing jobs that conventionally used webfed offset printing are increasingly being produced with the sheetfed offset process. Around the world, ever larger quantities of packaging are being used, and growth is particularly high in newly industrialized countries. Digital printing is growing, for example, with photo albums and individualized smallest print runs, albeit starting from a low level.

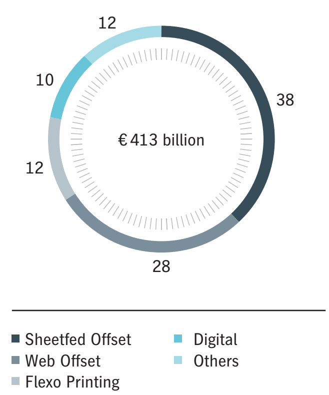
GLOBAL PRINTING VOLUME IS SUBDIVIDED INTO VARIOUS MARKET SEGMENTS AND THE PRINTING TECHNOLOGIES THEY UTILIZE



1) Area of expertise at Heidelberg
Source: Heidelberg estimate – April 2012, Industry statistics, PIRA, Jakkoo Pöyry, Primir (GAMIS), Global Insight

MARKET WEIGHTING OF PRINTING TECHNOLOGIES

Figures in percent



Source: Heidelberg estimate – April 2012, Industry statistics, PIRA, Jakkoo Pöyry, Primir (GAMIS), Global Insight

The proportion of the total volume of printing production taken up by sheetfed offset printing has been more than 35 percent for years; this percentage will remain the same if the volume rises again. It currently stands globally at € 413 billion.

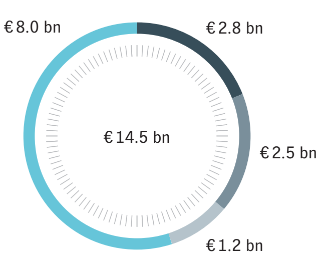
Heidelberg remains, as ever, the global market leader in sheetfed printing presses. A major domain in which offset printing is used, commercial printing, is, however, very cyclical.

We are expanding the areas of business where sales are less dependent on economic cycles and that have greater potential for growth than advertising printing.

Around the world, the significance of folding cartons and packaging at so-called points of sale has increased – since consumers generally do not decide which product to buy until they are standing in front of the supermarket shelf. Greater legal requirements imposed on the pharmaceutical industry also contribute to packaging printers investing in new methods of production.

MARKET POTENTIAL OF € 14.5 BN FOR EQUIPMENT, SERVICES, AND CONSUMABLES

The sheetfed offset sector is the largest individual segment of the printing industry.



- Equipment (~ 42 % *)
- Prepress / Finishing (~ 11 % *)
- Services (~ 58 % *)
- Consumables (~ 4.5 % *)

* In parenthesis: Heidelberg's market share in this segment

Source: Heidelberg estimate, calendar year 2011

Using market potential for Heidelberg; anticipating changes in distribution and volumes of global printing production

We aim to expand our position as preferred partner to the print media industry. To this end, we are focusing on areas with potential for growth and those that reduce the Group's dependence on cyclical trends.

Especially for Heidelberg, the sheetfed offset market has long-term potential: as the only manufacturer in the industry with a comprehensive solutions portfolio, we are facing a market with an annual investment volume of around € 14.5 billion; the chart on the left shows both the size of the individual segments and our current market shares. Being the world's market and technology leader, we provide precisely those solutions that print shops need to keep up with the competition.

Contrary to original expectations, the recovery of the **NEW SHEETFED OFFSET PRINTING PRESS BUSINESS** is still lagging. That is why we launched the Focus 2012 efficiency program, which is described in the next section. We also continue to focus, in particular, on presses for the **PACKAGING PRINTING MARKET.** There are several trends raising the demand and quality requirements for packaging around the world:

> Demographic changes and the trend toward more single households mean a larger quantity of packaging.

> Brand producers are increasingly using packaging as a distinguishing feature. The demand for high-quality packaging is accordingly on the rise, above all in the industrialized countries.

> Increasing urbanization and changing consumer behavior in newly industrialized countries has led to ever more high-quality packaging; foodstuffs, for instance, are no longer sold loose, but in packaging. That is why the potential for growth is even bigger here than in the industrialized countries.

Having, by far, the largest installed base in the market gives us opportunities for growth in the **CONSUMABLES AND SERVICE BUSINESS**. On a global basis, this area's volume is three times larger than the printing press business and is also less cyclical. Since the end of the reporting year, Saphira Eco has given us a range of environmentally friendly consumables that is unique in the market; in addition, we have been producing coatings and varnishes in our own facility in Detroit since December 2011. We intend to establish our Prinect print shop workflow as the industry standard, and will also expand and improve it. In the previous year, we had acquired in CERM a software specialist and rounded off our range of management information systems.

The goal: to be the first choice when making investments – to have the best range of products and services at drupa

At drupa, the most important trade show of the industry, we displayed solutions for all the major market trends and demonstrated how customers are able to use our range of products and services to implement business models that will have long-term success. The bulk of print volume still is produced in the industrialized countries, and maximum efficiency is as much in demand here as environmentally friendly solutions. That is why we have a major competitive advantage thanks to our products being recognized as technologically ahead of the field and thanks to our pioneering role in the industry when it comes to ecological printing. When investments need to be made, we are going to be the first choice for customers, because they can use our range of products and services to profitably implement new trends. Our solutions make it equally possible to manufacture both complicated finishings and end products in an environmentally friendly way.

In contrast to our competitors, we can provide print shops with significant potential for optimization through our comprehensive range of products and services that are all perfectly tuned to each other. In the extremely competitive printing business, print shops also have to produce cost-effectively to stand up to the competition. That is why it has been a focus of our R&D for years to systematically reduce costs for print shops.

Further expanding business in newly industrializing countries

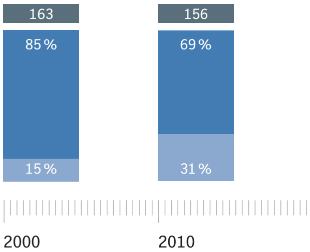
Some two-thirds of the volume of printing production is currently generated in the industrialized countries. While the overall volume tends to stagnate here, it is on the rise in the newly industrialized countries, where the level of market saturation with printed products is still low per capita, but has increased significantly over the last ten years. High population numbers and increasing income in these newly industrialized countries will bring about a further rise in the global volume of printed materials.

With the Speedmaster SX model series for sheetfed offset printing, which we presented for the first time at drupa 2012, we are aiming more at print shops in those newly industrialized countries that want to achieve the next level of productivity.

Our “Discover HEI” slogan placed slim production, ecological printing, Web-to-Print, short-run printing, finishing, the future of packaging printing, and taking a lead with our state-of-the-art technical knowledge at the heart of our presence at the trade show. You can find an overview in the front inside cover flap.

NEWLY INDUSTRIALIZING COUNTRIES DRIVE GROWTH IN THE PRINT MEDIA INDUSTRY

Sheetfed offset printing volume in € billion

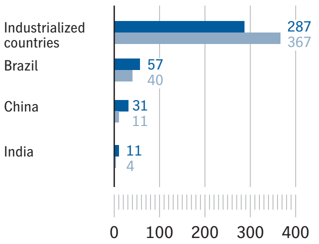


Source: Heidelberg estimate – April 2012, Industry statistics, PIRA, Jakkoo Pöyry, Primir (GAMIS), Global Insight

- Industrialized countries (share of printing volume)
- Newly industrializing countries (share of printing volume)
- Sheetfed offset (printing volume in € billion)

VOLUME OF PRINTED PRODUCTS PER CAPITA (STATUS 2011)

Figures in €



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

■ Calendar year 2011 ■ Calendar year 2000

Since the drupa trade show, we have been marketing Ricoh presses under the Linoprint brand, thereby clearly making them a Heidelberg product.

Linoprint C (= commercial) models are suitable for commercial printing; we offer Linoprint L (= label) models for packaging printers.

Our market positioning is excellent, above all in China. China has become an important pillar in our business development and still has a lot of hidden potential for us. We are now in a position to meet around one-third of Chinese demand from our facility in Qingpu; we expanded its production area during the reporting year to around 45,000 square meters. The facility was inaugurated in 2006. No other European or Japanese competitor has a local production facility in this country.

Integrating digital printing technologies and taking advantage of the opportunities they provide to participate in market growth

We are expanding our partnerships in the digital field, including with Ricoh, in line with our customers' needs, because flexibility is one of the basic requirements for print shops to generate reasonable profits in the market. That is why we have fully integrated Ricoh's digital printing presses into our Prinect print shop workflow. By doing so, we can participate in the growth of the quite rapidly expanding digital printing market. We achieved our sales targets in the first year of our strategic partnership, although overall economic conditions in the printing industry were tougher than expected.

By acquiring CSAT GmbH in July 2011, we have consistently pursued our digital printing strategy. This way, we are also expanding our offerings for the economical production of small and variable print products in the packaging and labeling segments, thus strengthening our strategic position in these markets. At the same time, the acquisition represented a further step in the expansion of new, promising areas of business with additional growth potential for Heidelberg.

We will supplement our offerings in the inkjet and dry toner area 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.

The goal: to achieve growth potential through new areas of business

We systematically look for new areas of business with growth potential, such as inkjet or electrophotography, where we can exploit synergies by introducing the expertise of our employees or taking advantage of our worldwide sales and services network and production facilities. In doing so, we follow a precisely defined process. For instance, we see interesting areas of business outside of the print media industry, both in manufacturing and in services.

We utilize, for example, our foundry in Amstetten for external production. We will achieve our goal of generating sales of € 100 million in the Heidelberg System Manufacturing area by 2017. Heidelberg System Manufacturing places existing production and assembly skills on the external market; besides foundry services, these include mechanical and electronic systems and modules, and their assembly. We will also provide new service offerings.

In the printed electronics market of the future, Heidelberg, in alliance with other technology companies, intensively researches new areas of business. Initial potential applications are already in the pre-development phase. At drupa we presented so-called O-LEDs.

PAGES 90 TO 93

Under "Research and Development," we explain how we currently review various options for new areas of business.

Focus 2012 Efficiency Program

> Program started to cushion the effects of the slowdown in market recovery
> The package of measures aims at a result of operating activities excluding special items of around € 150 million in financial year 2013/2014

Following the massive collapse in the sheetfed offset printing press business in the crisis years of 2008 and 2009, the industry slowly started to recover. In 2010 and 2011, capital investment started to rise again. In the second half of the reporting year, the recovery in demand did not continue as originally planned; overall, investment remained at the level of the previous year. In the section "Underlying Conditions" on pages 56 to 59, we explain the reasons for this, and also give our views on the outlook for the market.

Approximately 15 percent reduction in capacity

As the changes in the underlying conditions became clear, we reacted without delay and introduced the Focus 2012 efficiency program. Our goal with the program is to achieve a **RESULT OF OPERATING ACTIVITIES EXCLUDING SPECIAL ITEMS** of around € 150 million in financial year 2013/2014, even if, contrary to expectations, the recovery in the market for new presses continues to lag.

We already implemented key measures of the program prior to drupa 2012, the world's largest printing press trade show in Düsseldorf. We adjusted our **CAPACITY** in line with the changed underlying conditions and **REDUCED** it by around 15 percent. Working hours, and accordingly wages, at our German locations were lowered collectively to 31.5 hours per week. Based on this change, individual working hours can be adjusted via time records to the level of capacity utilization, thus substantially improving Heidelberg's working time flexibility. Especially in this drupa year, the Group can now react rapidly to changing market requirements. In addition, using socially responsible measures, the **NUMBER OF EMPLOYEES** is expected to **DROP** below 14,000 by mid-2014.

We will adapt our **SALES AND SERVICES ORGANIZATION** to the changed market conditions and to the expected growth in the various markets. Both in our sales and services companies and at our head office, we will merge functions and continue to standardize processes; we will restructure individual markets, sales and services activities will be more closely linked together, and

We explain the structure of the program in many places in this Annual Report. The section on "Employees," on page 97, includes an explanation of how the program has a positive impact on the age structure in the Company; the Report on the Regions, on pages 85 to 89, describes the new structures in the sales and services organization; and we present the new organization of Research and Development on pages 92 and 93.

our skills in advising customers on complete solutions will be further improved. We will, therefore, support our customers around the world more efficiently. Throughout the Group, we will better align our **ORGANIZATIONAL WORKFLOWS**. We will adapt the structure of our central functions and use new IT structures to optimize processes. Buildings will be used more efficiently and space requirements reduced. The net result will already be a lasting reduction in **FIXED COSTS** from financial year 2013/2014 of around € 180 million p. a. Thanks to the rapid implementation of these measures, up to a third of the savings will already become effective in the current financial year. There will be one-off **COSTS** of around € 150 million for implementing the program; a large part of this amount has already been recognized as expenses in the income statement for the reporting year.

We have also **REVIEWED** our **OVERALL PRODUCT PORTFOLIO** as part of our analyses for Focus 2012. Areas of growth in the print media industry may be found in the newly industrializing countries as well as in packaging, digital printing, consumables, workflow integration, and the increasing demand for large-format sheetfed offset presses. Heidelberg's success depends on our ability to offer products, consumables, and services in these areas that precisely meet the needs of our customers, regardless of whether we are dealing with the smaller commercial printers in a newly industrialized country or global industrial packaging printers. That is why we will expand the entire range of products and services that we offer in these areas.

We are realigning our **RESEARCH AND DEVELOPMENT** business, including the way it is organized. We will focus on technological development; at the same time we will aim at much greater equality of functions and parts across all product lines. We will bring together and expand the development of digital printing for advertising and packaging printing.

i

We consistently adapt our portfolio of products and services to meet our customers' needs. By putting added focus on forming standard packages, we have reduced both complexity and costs. This is how we increase our lead against the competition, especially in China.

ORGANIZATION, MANAGEMENT, AND CONTROL

Group Corporate Structure and Organization

> Legal corporate structure unchanged
> Sales and services structure realigned from June 1, 2012

As part of developing **FOCUS 2012** and further developing our strategy, we also thoroughly reviewed our structural organization and workflow management. We will maintain and further optimize our divisional structure. In the next section, and in our Report on the Regions, we give details of the more efficient sales and services structure that we are introducing.

Heidelberg's business is divided into three segments: **HEIDELBERG EQUIPMENT** develops, produces, and markets precision printing presses and print finishing equipment for offset and digital printing. The **HEIDELBERG SERVICES** segment focuses on our proven Heidelberg Systemservice, the rapid and reliable supply of service parts, our Saphira consumables, and all the software solutions related to the Prinect print shop workflow. The **HEIDELBERG FINANCIAL SERVICES** segment runs all Heidelberg's sales financing activities; it focuses

ORGANIZATIONAL CHART*

BERNHARD SCHREIER	DIRK KALIEBE	STEPHAN PLENZ	MARCEL KIESSLING
Chief Executive Officer and Chief Human Resources Officer	Chief Financial Officer and Head of the Heidelberg Financial Services Segment	Management Board Member and Head of the Heidelberg Equipment Segment	Management Board Member and Head of the Heidelberg Services Segment
FUNCTIONAL RESPONSIBILITIES			
> Markets & Sales Network > Human Resources > Marketing > Communications > Corporate Development > Enterprise Governance & Compliance	> Controlling > Accounting > Treasury > Taxes > IT > Investor Relations	> Development, Purchasing & Product Marketing of the Segment > Manufacturing & Assembly > General Purchasing > Patents > Quality & Environmental Management > Occupational Health and Safety & Product Safety	> Development, Purchasing & Product Marketing of the Segment
RESPONSIBILITY FOR THE BUSINESS AREAS			
	> Financial Services	> Press > Postpress	> Services & Service Parts > Prepress > Prinect print shop workflow > Consumables > Remarketed Equipment > Business Consulting & Training

* As of the reporting year

on successfully mediating financing solutions between our medium-sized customers and Heidelberg's financing partners.

The illustration on the previous page shows the organizational chart for the reporting year. From June 1, 2012, Business Areas will be set up to support the individual segments; they will be comprehensively responsible for their products in future. Regional Business Managers, integrated into the management structure of the sales regions, will ensure that local business is managed in accordance with uniform rules. In addition, Management Board member Marcel Kiessling will become the Head of Sales and Services, and, as such, be responsible for all customer relations with sales and services functions as well as for the consumables business. Finally, as part of the Focus 2012 efficiency program, the sales and services activities in the newly industrializing countries will be expanded, while those in the industrialized countries will be adapted to reflect current demand.

www.heidelberg.com

You will find an overview of the product portfolios of our segments and the services provided by the Heidelberg Financial Services segment at www.heidelberg.com.

Material affiliates in Germany and abroad

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

The overview below shows which of the companies that are included in the consolidated financial statements were material affiliates as of March 31, 2012.

OVERVIEW OF THE MATERIAL AFFILIATES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS *

Heidelberger Druckmaschinen Vertrieb Deutschland GmbH (D)
Heidelberg Print Finance International GmbH (D)
Heidelberg Postpress Deutschland GmbH (D)
Heidelberg International Ltd. A/S (DK)
Hi-Tech Coatings International B.V. (NL)
Heidelberg Graphic Equipment Ltd. (GB)
Heidelberg Schweiz AG (CH)
Heidelberg France S.A.S. (F)
Heidelberg Sverige AB (S)
Heidelberg Druckmaschinen Austria Vertriebs-GmbH (A)
Heidelberg Druckmaschinen Osteuropa Vertriebs-GmbH (A)
Heidelberg Polska Sp z.o.o. (PL)
Heidelberg Baltic Finland OÜ (EST)
Heidelberg Grafik Ticaret Servis Limited Sirketi (TR)
Heidelberg CIS OOO (RUS)
Heidelberg USA Inc. (USA)
Heidelberg Canada Graphic Equipment Ltd. (CDN)
Heidelberg Mexico Services S. de R.L. de C.V. (MEX)
Heidelberg do Brasil Sistemas Graficos e Servicos Ltda. (BR)
Heidelberg Graphic Equipment (Shanghai) Co. Ltd. (RC)
Heidelberg China Ltd. (RC)
Heidelberg Japan K.K. (J)
Heidelberg Hong Kong Ltd. (RC)
Heidelberg Asia Pte Ltd. (SGP)
Heidelberg Graphics (Tianjin) Co. Ltd. (RC)
Heidelberg Korea Ltd. (ROK)
Heidelberg Malaysia Sdn Bhd (MYS)
Heidelberg Graphic Equipment Ltd. (AUS)

* The list of all shareholdings in Heidelberger Druckmaschinen Aktiengesellschaft in accordance with Section 285 and Section 313 of the German Commercial Code can be found at www.heidelberg.com in the "Investor Relations" section under "Annual General Meeting"

Management and Control System

> Continuous management and control of corporate goals
> Financial goals continue to have top priority
> Principles and guidelines on Group management

In view of the rapid changes in the industry, our workflow management must ensure that we can quickly react to market changes and risks. We accelerated the flow of information within the Group in previous years. Our organization is built on intensive dialog throughout the Group and close inter-segment cooperation.

The market in which we operate is changing rapidly; as a result of excess capacity, competition in our industry in recent years has been particularly fierce. We have adjusted our management system to take account of this. In previous years, we have considerably strengthened the significance of financial management control components in our internal reporting systems and introduced a new management and control system. As part of the Focus 2012 efficiency program, we are once again significantly lowering capacity, adjusting structures and increasing flexibility. We are accordingly aiming for a result of operating activities excluding special items of around € 150 million in financial year 2013/2014. At the same time, the plan is to consistently implement our strategy and penetrate new areas of business.

Important financial goals:
> Result of operating activities excluding special items of around € 150 million in financial year 2013/2014
> Net working capital ≤ 35 percent
> R&D rate ≤ 5 percent
> Investment ratio ~ 2 percent

Important non-financial goals:
> To reduce complexity
> To further improve customer loyalty
> To support employees in the long-term
> To further harmonize processes

The Company's key goals determine all the other goals

As before, we continue to manage in accordance with the principle of "Managing by Target Agreements." The workflow, showing how the Company's key goals are translated into specific targets for individual units, is clearly defined and binding throughout the Group. The Group's organizational directives transparently lay out all processes and correlations within the Group and are available at all times to all employees on the Intranet: structures and responsibilities, management logic, processes and committees, as well as all internal regulations. These regulations range from the general values held by the Company to principles, such as our quality standards, to binding guidelines, for example on the contents of the annual employee interviews. This reliable framework makes responsibilities unambiguous, thus leading to efficiency and enabling one to check precisely the extent to which objectives under target agreements have been achieved.

Organizational structures with a high degree of flexibility

The Heidelberg Group is primarily managed by segments that are broken down into business areas and to which the production companies are allocated. A new feature is that we now bundle the supporting functions in the sales and services companies into regional or, whenever possible, global centers of competence, which are then allocated to a business area or central Group division. Responsibility for the segments and business areas extends down to the sales and services companies. Specific sales targets are agreed upon with the heads of the sales regions and the management of the sales and services companies. How these goals are to be achieved is laid down together with the business areas' Regional Business Managers; the Regional Business Managers implement all of the strategies in the markets, from recognizing specific regional customer requirements for products or consumables to marketing for new products. The sales and services units ensure that our customers around the globe are supported and advised in an optimal manner and efficiently implement our strategy of being the solutions provider to the printing industry.

In order to keep the administrative structures as slim as possible, we have been working increasingly on cross-sector global processes and committees, whose regular meeting dates are fixed in advance, since the previous year. As of the reporting year, we now also have a Group-wide environmental committee. The committees are given specific objectives and 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 of individual areas' pursuing goals that deviate from the primary goals or do not support the Company's overall strategy.

Management system: focus on financial goals; balanced scorecards integrated

We had launched a new leadership structure during the previous financial year with two integrated management levels, and we completed this in the reporting year. Our management system has a clear focus on achieving our financial goals. Depending on the particular function, defined financial goals are assigned various weightings in a so-called scorecard, which determines the variable component of remuneration. The overriding financial goals of the Heidelberg Group, EBIT and free cash flow, are taken into account for all senior executives. Our international sales and services executives are measured against sales revenues achieved, price quality, and compliance with cost and

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We know that the focus on financial goals may increase qualitative risks. That is why our risk management system, described on pages 36 to 39, is aimed at these.

Key performance indicators (KPIs) and early warning indicators in the various fields of business include:

Heidelberg Equipment:
> Printing times
> New order trend
> List of prospects (potential customer projects)

Heidelberg Services:
> Per capita sales (especially for consumables)
> Contract ratio (entering into maintenance contracts in the case of new sales)
> Service capacity utilization

Heidelberg Financial Services:
> Non-performing ratio
> Costs of risk provision
> Sales financing defaults

net working capital goals. Additional targets in the balanced scorecard, which defines qualitative and quantitative goals, are utilized in the centralized units. For this purpose, the four areas, “Customers,” “Finances,” “Employees,” and “Processes,” all receive equal weighting.

At every unit, we monitor at regular intervals whether the planned key performance indicators relating to various management control components, including sales, EBIT, free cash flow, market shares, and price quality, have been achieved. We also check how other factors have developed, as it is important to us that we maintain our strategic competitive advantages and factors for success, thus strengthening the **HEIDELBERG** brand, our most important intangible asset.

OVERALL PROCESS FOR SETTING AND REVIEWING TARGETS AT HEIDELBERG

General control system

Clear values, principles, and guidelines help us manage the Group. Our internal auditors examine regularly, based on random sampling, compliance with all guidelines and accounting standards. The principles, processes, and measures of our internal control system must ensure that management decisions are implemented effectively, that business activities are profitable, that laws 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 include the following subareas:

> Control environment: Integrity, ethical values, and employee skills 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 compromise the achievement of targets. They determine how identified 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 the risk management system is also regularly monitored by the internal auditors.

The **FOUR-EYES PRINCIPLE** applies to all transactions. Every declaration of intent that is binding on the Heidelberg Group or 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 confirm that all significant risks have been recorded completely, and that the internal control system has been followed.

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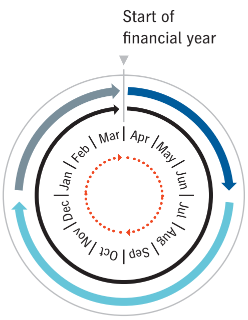
We provide an extensive description of our global **INTERNAL ACCOUNTING CONTROL SYSTEM** in the Risk and Opportunity Management section.

Risk and Opportunity Management System

> Group-wide data acquisition and management
> Dual-track approach for a realistic picture
> Focus on qualitative risks as well

PLANNING CLOCK



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

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.

Risk and opportunity management are solidly integrated as part of our strategic five-year planning. The planning clock on the left represents our rolling multiyear planning in a schematic and highly simplified format. We make monthly comparisons between budgeted and actual figures for all developments relevant to our business, such as in sales, EBIT, free cash flow, and net working capital. Using the figures generated and a host of data from the corporate environment, we regularly draw up scenarios. Besides the formal process for registering risks and opportunities, there is also an open and proactive approach to dealing with risks and opportunities at all levels of the Company. On this basis, we can anticipate risks and take advantage of opportunities.

As already indicated on the previous page, our internal auditors regularly check the efficiency of our risk management process. Our early risk identification system satisfies the legal requirements of the Corporate Sector Supervision and Transparency Act (Gesetz zur Kontrolle und Transparenz im Unternehmensbereich, KonTraG). In the reporting year, this process was one of the areas our auditors focused on.

Strategic risks discussed on a cross-sector basis

All cross-sector committees are required to periodically spotlight risks and opportunities from all angles. This applies, in particular, to non-quantifiable risks. Committees, such as our Program Management Teams, therefore, also focus especially on strategic risks and questions such as: Are we reacting appropriately to trends and changes on 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? What changes have there been in the key performance indicators (KPIs) and early-warning indicators? (We list some of these KPIs on page 33). Heidelberg’s reaction speed can be enhanced when these committees act together in making extensive decisions regarding the appropriate measures.

Uniform procedure for quantification throughout the Group

Our guidelines and organizational directives stipulate a strictly formal process, by means of which we systematically identify individual risks and the Group's overall risk and also detect, 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. The classification into risk categories is based on the potential impact on the annual net profit and the free cash flow of the individual units. Reporting thresholds are set on a uniform basis. All significant areas, such as human resources and personnel development, are assigned a risk catalog, which they fill out, partly in cooperation with the regions, and return to the Group. Risk Controlling summarizes these three times a year at 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 available to every employee.

Representatives of our affiliates are also members of our large Risk Committee, which draws up and updates the risk catalog with the 30 most significant risks. The small Risk Committee consists of selected senior executives from various divisions; among other things, they determine the materiality thresholds and the ranking of the risks. In addition, they continuously work on improving the risk management process.

Financial and liquidity risks systematically minimized

The central Corporate Treasury area manages the Group's financing activities and ensures its liquidity. We systematically minimize liquidity risks throughout the Group. We pinpoint potential funding needs of affiliates and the resulting potential liquidity risks early on with the help of our rolling liquidity planning system that is generated on a monthly basis. Corporate Treasury identifies risks arising from the change in interest rates or exchange rates, on the basis of which it introduces appropriate measures and strategies in order to counteract these risks. Some of these measures also include derivative financial instruments, specifically, forward exchange transactions, currency options, and interest-rate swaps. Details on these instruments and on the impact of hedging transactions can be found under note 32 in the Notes to the Consolidated Financial Statements. Both the functional and physical separation of trading, processing, and risk controlling in the Corporate Treasury area is ensured. 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 has made it possible for us to cut back considerably on financing arrangements taken on by Heidelberg in recent years. Moreover, we only make our own financing available following a comprehensive review that includes the customers' business model and credit rating. 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 with respect to accounting

Accidental or deliberate accounting errors could theoretically result in a view of the net assets, financial position, and results of operations that does 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 of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). By means of systematic controls and predetermined processes, which also require reviews based on random sampling, we undertake every conceivable measure to prevent errors in the consolidated financial statements and in the consolidated management report. For example, we adequately ensure:

- that the presentation of the consolidated financial statements is in accordance with the International Financial Reporting Standards (IFRS), as applied in the European Union, as well as with the provisions of Section 315a (1) of the German Commercial Code (HGB); 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 Financial Steering and Reporting (FR) on behalf of the entire Group – for example, consolidation of the financial figures and review of the recognized impairment of goodwill. FR also regularly monitors whether the account books are properly maintained and the Group-wide guidelines for accounting adhered to, thereby ensuring that the financial information complies with regulatory requirements. In addition, our Internal Audit, who have access to all data, examine individual areas and affiliates throughout the Group on the basis of random sampling. In doing so, they examine, among other things, whether the internal control system has been implemented in this regard or whether transactions have been controlled, and whether the four-eyes principle is adhered to in all areas. The latter is mandatory, for example, for every order that is placed, for every invoice that is issued, and for every investment decision that is made. Compliance with all other internal guidelines and directives that have an impact on accounting operations is also monitored.

Risks are also reduced by a number of automated controls. Authorization models have been implemented in the Group-wide IT system. 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 accuracy 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 carried out as well as controls on whether tax calculations are appropriate, 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 guidelines. The effectiveness of the internal accounting control system is regularly monitored by our Internal Audit.

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Please refer to the Risk and Opportunities Report for information on how risks developed compared to the previous year.

Remuneration Report – Management Board and Supervisory Board [1)]

> With the approval of the Supervisory Board, the Management Board waives a substantial part of its remuneration
> Structure of the Management Board's remuneration will be revised

The Supervisory Board discussed the appropriateness of Management Board remuneration as well as the structure of the remuneration system on several occasions during the financial year. This was discussed in connection with the reappointment of Management Board members Dirk Kaliebe and Marcel Kiessling, which was decided upon in the course of the reporting year, and as part of the agreement upon and monitoring of targets with the members of the Management Board. The parameters for measuring the variable components of remuneration were also discussed and, in respect of the long-term remuneration components extending over several years, adjusted for the future in line with the current loan agreement and its financial covenants.

In the reporting year, members of the Management Board relinquished 10 percent of their basic annual salary. A corresponding deduction was already made when the bonus for the previous year was paid out. As already announced in 2011, members of the Management Board have also relinquished 10 percent of their basic annual salary for the current financial year 2012/2013. This previously announced relinquishment now extends to the more comprehensive mutually agreed reduction in total remuneration for the reporting year.

The overall structure, as well as the amount of remuneration of the Management Board, is determined by the Committee on Arranging Personnel Matters of the Supervisory Board of Heidelberger Druckmaschinen Aktiengesellschaft and monitored periodically. In any event, the remuneration of the Management Board amounts to, at most, 280 percent of the fixed basic annual remuneration, i.e. 100 percent fixed basic remuneration and no more than 180 percent for the variable remuneration components.

The remuneration of the members of the Management Board comprises: a fixed annual salary paid out in equal monthly installments, 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 on the basis of defined parameters, as well as benefits in kind and a Company pension.

Payment of the annual Company bonus is dependent on the Group's success during the financial year. Free cash flow and the result of operating activities serve as benchmarks. In addition, each member of the Management Board is eligible to receive a personal, performance-based bonus that is determined by the Supervisory Board upon the recommendation of the Committee on Arranging Personnel Matters, taking into consideration the particular duties and areas of responsibility, and any agreed-upon individual targets. With full disbursement, the personal bonus could total up to 30 percent of the base salary, the Company bonus also up to 30 percent, in case of overfulfillment, up to 60 percent, and the multiyear long-term bonus up to 90 percent of the

[1)] The Remuneration Report is also part of the Corporate Governance Report base salary. Accordingly, the multiyear long-term bonus sets additional long-term incentives for good conduct and aligns the remuneration structure with sustainable Company development. Setting goals for the multiyear long-term bonus is linked to such benchmarks as EBITDA, the debt ratio combined with interest rate coverage, which also play an important role in the financial covenants. The Supervisory Board will lay down the goals for the multiyear long-term bonuses for the forthcoming financial years depending on the situation at the time. Goals will thus be set every financial year for the coming financial year and the long-term bonus for a three-year period. Following their introduction in financial year 2009/2010, the long-term components, if the relevant goals are met, are due to be measured and, if appropriate, paid out for the first time at the end of financial year 2011/2012. Two of the three agreed-upon parameters used for measuring these components were fulfilled, as the conditions required by the objectives set three years ago for the reporting year were fulfilled. On considering all the circumstances, however, the Management Board and Supervisory Board have agreed that the amount of Management Board remuneration in the reporting year should be aligned to that of the previous year. This means, in particular, that the long-term bonus will very largely not be paid and will be part of the relinquishment by the members of the Management Board. Following the adjustment to the remuneration structure for future years, which is explained in greater detail below, the multiyear long-term bonus for financial year 2012/2013 will not be paid either, although we assume that at least one of the agreed-upon long-term goals ought to be achieved. In any event, the remuneration of the Management Board amounts to, at most, 280 percent of the fixed basic annual remuneration; and the future structure will not change this.

Benefits in kind consist largely of the use of a Company car in accordance with tax guidelines. Bernhard Schreier did not make use of this right of use during the reporting period up to June 30, 2011. Until his family moved to join him at the beginning of the reporting year, Marcel Kiessling had received additional payments mainly for international tax advisory services.

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 have since ended and are no longer in effect; at no time were any payments made to the participants.

For additional information, please refer to notes 42 and 43 in the Notes to the Consolidated Financial Statements as of March 31, 2011.

The remuneration structure for the Management Board of Heidelberger Druckmaschinen Aktiengesellschaft will continue to comply with the statutory requirements (Stock Corporation Act and the Act on the Appropriateness of Management Board Remuneration), and those of the German Corporate Governance Code.

With effect from the current financial year 2012/2013, which started on April 1, 2012, there are a number of **CHANGES** to the remuneration structure of the Management Board. The annual Company bonus will still be determined using free cash flow and the result of operating activities as benchmarks. With respect to their personal annual bonuses, the Supervisory Board and the Management Board have agreed to give priority to the annual financial targets, at least until the restructuring has been completed. Until further notice, 30 percent of the personal bonus in future years will be allocated to the Company bonus and made subject to the financial targets that form the basis for the amount paid.

In addition, 10 percent of both the short-term annual bonus and the multiyear long-term gross bonus will be invested in the Company's shares that members of the Management Board may only sell after a holding period of 24 months has expired from the date when they were allocated. This means that, just like before, the multiyear long-term bonus, and now the short-term bonus, will also give long-term incentives for good conduct, and enhance the alignment of the remuneration structure with sustainable business development.

The Supervisory Board will set the goals for the multiyear long-term bonuses for the forthcoming financial years depending on the situation at the time. Goals will thus be set every financial year for the coming financial year, and the long-term bonus for a three-year period. The achievement of goals will also be checked and determined every year. The long-term bonus for goals achieved will, however, not be paid until the end of the respective three-year period.

The Management Board and the Supervisory Board have revised and adjusted the goals set for the forthcoming years. In addition, they have agreed to a temporary solution on giving members of the Management Board the opportunity, provided that specific goals, particularly compliance with the financial covenants, have been achieved, to earn at least a part of the future long-term bonus over the two subsequent years, considering that the long-term component of the bonus for the period to date has been partially earned but has not been/will not be paid out as a result of the voluntary relinquishment. The assessment period for this transitional phase will be two financial years, and the same goals will be set as for the first two financial years of the simultaneous first three-year period for the multiyear long-term bonus. Accordingly, in financial year 2012/2013, no long-term bonuses will disbursed, as was foreseen under the previous structure and would also probably have happened in part, at least with respect to one of the three long-term goals.

DETAILED REMUNERATION OF THE MEMBERS OF THE MANAGEMENT BOARD:

Figures in € thousands

		Non-performance-related components			Performance-related remuneration	Components with long-term incentive [3]		Cash remuneration [4]
		Base salary	Renunciation of salary [2]	Benefits in kind	Bonus during the reporting year	Multiyear long-term bonus	Renunciation of bonus	
Bernhard Schreier	2011/2012	500	– 50	14	270	300	– 177	857
	2010/2011	500	–	–	357	–	–	857
Dirk Kaliebe	2011/2012	350	– 35	16	259	210	– 182	618
	2010/2011	350	–	18	250	–	–	618
Marcel Kiessling	2011/2012	350	– 35	26	189	210	– 115	625 [5]
	2010/2011	313 [1]	–	33	223	–	–	569
Stephan Plenz	2011/2012	350	– 35	10	224	210	– 150	609
	2010/2011	350	–	9	250	–	–	609

[1] As of January 1, 2011, Marcel Kiessling's fixed annual salary increased from € 300,000 to € 350,000
[2] As a result of the Management Board's renunciation of 10 percent of the annual base salary for the reporting year, this percentage was deducted from the bonus payment for the previous year. As a result of the Management Board's remuneration of 10 percent of the annual base salary for the financial year 2012/2013, this percentage was deducted from the bonus payment for the financial year 2011/2012 and will be covered by the salary concession during the reporting year
[3] In the past, this remuneration component also included the Stock Option Plan and the Long-Term Incentive plan (LTI), both of which are no longer in effect
[4] Since the Stock Option Plan and the Long-Term Incentive plan (LTI) have become ineffetive in the meantime, the salary of the members of the Management Board still consist entirely of cash remuneration
[5] Marcel Kiessling's cash remuneration has been calculated based on his full annual salary in the amount of € 350,000

PENSION PLAN OF THE MEMBERS OF THE MANAGEMENT BOARD:

Figures in € thousands

					Pension Benefits
		Accrued pension funds as of the reporting date [1]	Pension contribution during the reporting year [2]	Defined benefit obligation	Pension benefits pursuant to IFRS [3]
Bernhard Schreier	2011/2012	–	–	5,054	354
	2010/2011	–	–	4,450	349
Dirk Kaliebe	2011/2012	625	123	817	141
	2010/2011	486	105	656	124
Marcel Kiessling	2011/2012	419	133	552	157
	2010/2011	277	119	409	130
Stephan Plenz	2011/2012	551	123	752	148
	2010/2011	415	116	596	128

[1] As a result of a performance-based commitment for pension benefits, Bernhard Schreier does not have any accrued pension funds as of the reporting date
[2] For Dirk Kaliebe, Marcel Kiessling and Stephan Plenz, the pension contribution is determined for the reporting year based on the pensionable income on March 31, without taking into account the not yet determined earnings-related contribution. As a result of a performance-based commitment for pension benefits, no pension contributions are owed by Bernhard Schreier. Based on this commitment, at the retirement age, he will receive an anticipated pension amount of € 371,000 p. a. (previous year: € 371,000). This is determined based on the pensionable income on March 31
[3] Service cost and interest cost

Finally, for the forthcoming years, it has been agreed that, in the event that an agreed-upon minimum goal is achieved, a minimum threshold of 25 percent will be set, so that the achievement of a goal will, in the future, be assessed within a corridor of 25 percent to 100 percent and no longer between 0 percent and 100 percent. The previous structure of remuneration for the Management Board will otherwise remain unchanged in the coming year.

That also means that the remuneration for the Management Board, in accordance with the previous regulation, will not exceed 280 percent of the annual fixed remuneration.

PAYMENTS FOLLOWING THE END OF EMPLOYMENT of the 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, therefore, depends on the number of years of service with the Company, with the increase in percentages 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 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 ratio 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 defined benefits under the Company's pension provisions remains in force in the amount vested by then, even in the case of an early termination. Furthermore, full statutory vesting periods are considered to have been met. The payment of the retirement pension is fully secured by a reinsurance policy, with the resulting claim against Bernhard Schreier pledged as collateral.

DIRK KALIEBE, STEPHAN PLENZ and MARCEL KIESSLING have each 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). On July 1 of each year, the Company pays a contribution, based on the relevant basic salary retroactively for the previous financial year, to an investment fund. In view of market practice and the structure of pension commitments based on defined benefits, the annual contribution as of April 1, 2011, was standardized and fixed at 35 percent of the basic salary. This resulted in an increase in annual contributions of 5 percent for Dirk Kaliebe and 2 percent for Stephan Plenz. As of the new financial year 2012/2013, a contribution of 35 percent will also apply to Marcel Kiessling, which is equivalent to a 3 percent reduction. The amount paid in may increase depending on the Company's financial success. The exact amount of the pension also 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 disability and survivors' benefits (60 percent of the disability payment or the pension) contingent on the amount of the last base remuneration. In the case of a disability benefit, the percentage depends, unlike the BVR, on the length of service with the Company, with a maximum pension percentage of 60 percent due to the attributable time for each of the three members of the Management Board. 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 of **PAYMENT 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 will 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 effective termination of a 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 overall remuneration, in accordance with the service agreement for two years, which, however, will not exceed the amount of the remuneration for the period of the originally agreed-upon residual term of the service agreement. The right to extraordinary notice of termination for good cause in accordance with Section 626 of the German Civil Code remains in effect. The severance payment is to be paid in quarterly installments in accordance with the originally agreed-upon residual term, at most, however, in eight quarterly installments. Other payments to a then former member of the Management Board, which are to be certified to the Company, during the originally agreed-upon residual term as is provided for under Sections 326 (2) 2 and 615 (2) of the German Civil Code, are subject to a setoff. Should a member of the Management Board be subject to an employment disability, the payments provided for under the respective pension contract will be made.

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 18,000.00, and a variable component that depends on the dividend. The variable remuneration amounts to € 750.00 for each € 0.05 in

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

Figures in €

			2010/2011 Total			**2011/2012 Total**
	Fixed remuneration	Variable remuneration		Fixed remuneration	Variable remuneration	
Dr. Mark Wössner [1) 4)]	39,000	0	39,000	13,500	0	13,500
Robert J. Koehler [2)]	20,500	0	20,500	56,666	0	56,666
Rainer Wagner [3)]	33,000	0	33,000	32,000	0	32,000
Dr. Werner Brandt [4)]	26,500	0	26,500	9,974	0	9,974
Edwin Eichler	20,500	0	20,500	20,012	0	20,012
Wolfgang Flörchinger	22,000	0	22,000	20,500	0	20,500
Martin Gauß	26,000	0	26,000	24,500	0	24,500
Mirko Geiger	28,500	0	28,500	27,000	0	27,000
Gunther Heller	22,000	0	22,000	20,500	0	20,500
Jörg Hofmann	21,000	0	21,000	20,500	0	20,500
Dr. Siegfried Jaschinski	20,500	0	20,500	20,012	0	20,012
Dr. Herbert Meyer [5)]	0	0	0	21,687	0	21,687
Dr. Gerhard Rupprecht	25,000	0	25,000	25,012	0	25,012
Beate Schmitt	24,375	0	24,375	25,500	0	25,500
Lone Fønss Schrøder [5)]	0	0	0	15,431	0	15,431
Prof. Dr.-Ing. Günther Schuh	20,500	0	20,500	20,012	0	20,012
Dr. Klaus Sturany	33,350	0	33,350	32,134	0	32,134
Peter Sudadse	21,500	0	21,500	20,500	0	20,500
Gesamt	404,225	0	404,225	425,440	0	**425,440**

1) Chairman of the Supervisory Board until July 28, 2011
2) Chairman of the Supervisory Board since July 28, 2011
3) Vice Chairman of the Supervisory Board
4) Member of the Supervisory Board until July 28, 2011
5) Member of the Supervisory Board since July 28, 2011

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, 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 and 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 Chairperson of the Supervisory Board receives double the normal Supervisory Board remuneration, with the Deputy Chairperson and the Committee Chairpersons 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 receives remuneration only 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 a pro rata remuneration. The same applies regarding 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 € 500.00 for each meeting day as reimbursement for expenses during the exercise of their responsibilities, unless proof for higher expenses is supplied. In addition, any sales tax levied against the remuneration of the members of the Supervisory Board will be reimbursed.

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

> Information on barriers to takeovers
> Other information, including information on conditional capital

In accordance with Section 315 (4) Nos. 1 – 9 of the German Commercial Code (HGB), in the Group management report we address all points that may be of significance should a public takeover bid for Heidelberg occur:

As of the balance sheet date of March 31, 2012, the **SUBSCRIBED CAPITAL** (share capital) of Heidelberger Druckmaschinen Aktiengesellschaft amounted to € 599,672,166.40 and is divided into 234,246,940 no-par bearer shares. The shares are not subject to any restriction on transferability. As of the balance sheet date, the Company held 142,919 treasury stocks and is not entitled to any rights to these in accordance with Section 71 b of the German Stock Corporation Act (AktG).

As of the balance sheet date, Allianz SE, Munich, Germany, maintained an **INDIRECT PARTICIPATION** in the Company's capital exceeding 10 percent of the voting rights.

The **APPOINTMENT AND DISMISSAL OF THE MEMBERS OF THE COMPANY'S MANAGEMENT BOARD** occur in accordance with Sections 84 et seqq. of the German Stock Corporation Act in conjunction with Sections 30 et seqq. of the German Codetermination Act.

AMENDMENTS OF THE ARTICLES OF ASSOCIATION occur in accordance with the provisions of Sections 179 et seqq. and 133 of the German Stock Corporation Act in conjunction with Article 19 (2) of the Company's Articles of Association. According to Article 19 (2) of the Articles of Association, unless otherwise provided by law, decisions by the Annual General Meeting are deemed to be approved by a simple majority of the submitted votes. If a majority of shareholdings, in addition to a majority of votes, is required by law, then decisions are deemed to be approved by a simple majority of the share capital represented at the decision-making. In accordance with Article 15 of the Articles of Association, the Supervisory Board is entitled to make amendments of and additions to the Articles of Association that only relate to their wording.

Heidelberg may only acquire its own shares in accordance with Section 71 (1) Nos. 1–6 of the German Stock Corporation Act. With the consent of the Supervisory Board, the Management Board is authorized to undertake the following actions regarding treasury stock held as of the reporting date under exclusion of the subscription right of the shareholders:

> to sell treasury stock, 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 share capital existing as of July 18, 2008, or, if this value is less, 10 percent of the share capital existing at the time the authorization is exercised;

> to offer and transfer treasury stock 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 treasury stock 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 authorized, with the consent of the Supervisory Board, to redeem treasury stock 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, the Management Board is authorized to increase the Company's share capital by July 27, 2016 by issuing new shares on one or more occasions against cash contributions by up to a total of € 119,934,433.28. The Management Board is authorized, with the consent of the Supervisory Board, to determine other details regarding subscription rights and the terms and conditions of the issue.

The Company's share capital has been conditionally increased, as follows:

> On July 18, 2008, the Annual General Meeting authorized the Management Board, with the consent of the Supervisory Board, to issue, by 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 term restriction in 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 to the Company's bearer shares 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 on "CONTINGENT CAPITAL 2008/I" can be found in Article 3 (5) of the Articles of Association.

> On July 18, 2008, the Annual General Meeting authorized the Management Board, with the consent of the Supervisory Board, to issue, by 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 term restriction in 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 to the Company's bearer shares 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 on "CONTINGENT CAPITAL 2008/II" can be found in Article 3 (6) of the Articles of Association.

The credit facility that came into force on April 7, 2011, contains standard **"CHANGE OF CONTROL" CLAUSES** that grant the contracting parties additional rights to information and cancellation, should a change occur in the Company's control or majority ownership structure. Standard provisions granting the contracting parties the right of cancellation or early repayment are provided for in the remaining borrower's note loan.

The conditions governing the high yield bond that was placed on March 31, 2011, and issued on April 7, 2011, include a Change of Control clause that obligates Heidelberger Druckmaschinen Aktiengesellschaft to buy back the respective debt instruments (or parts thereof) from bondholders, upon request, should certain conditions that are included in that clause materialize. 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 a 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 sale 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 notice 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 of 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.

www.heidelberg.com

We make all our Declarations of Compliance permanently available on our Web site at www.heidelberg.com under "Investor Relations/Corporate Governance." Here, you can also find our current Declaration of Compliance dated November 25, 2011, which is also described in the Corporate Governance Report on page 15 as well as in the current and comprehensive Corporate Governance Statement, where we list the main elements of our corporate governance structures.

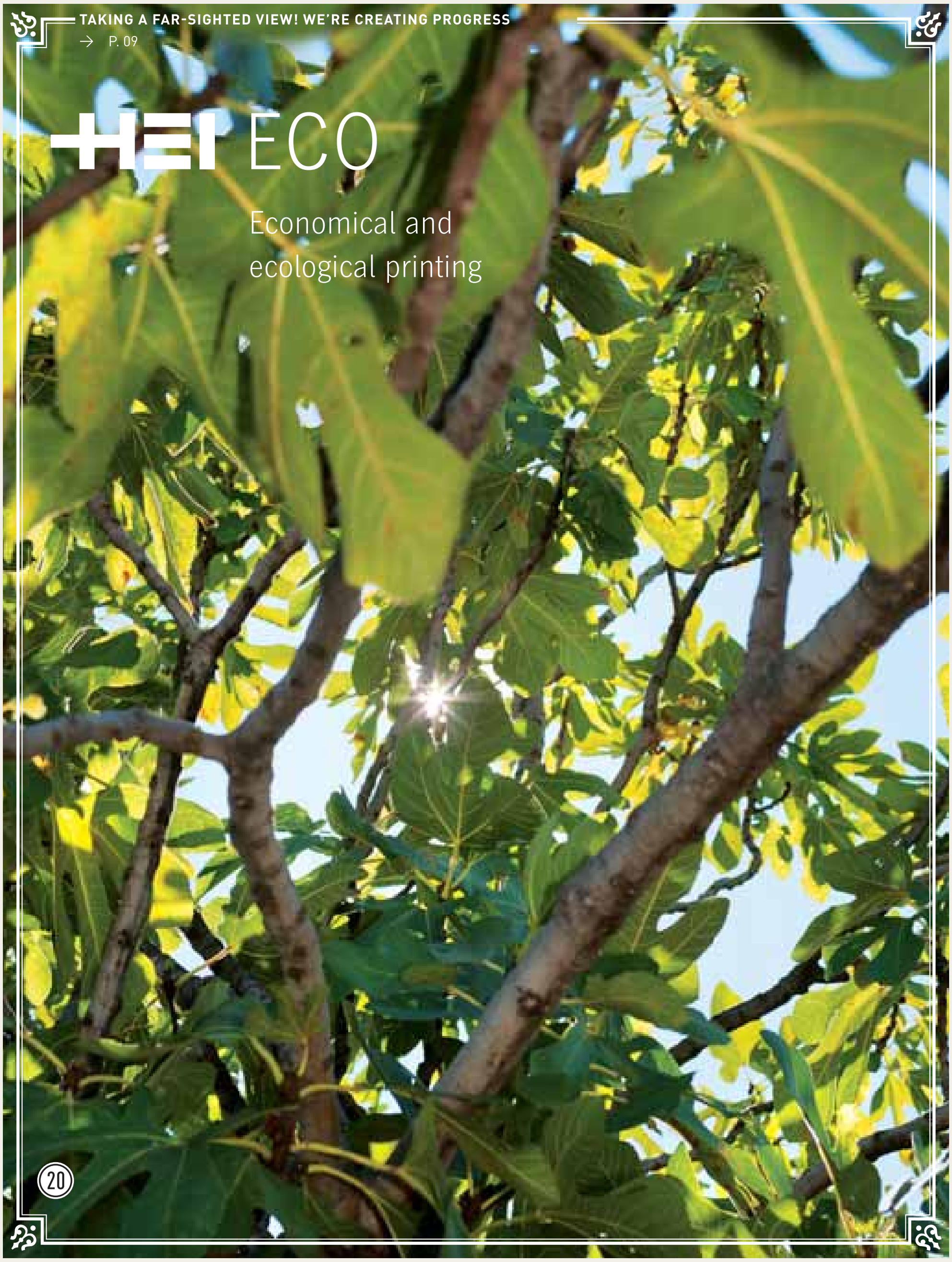
Corporate Governance Statement

The Corporate Governance Statement pursuant to Section 289a of the German Commercial Code is permanently available at www.heidelberg.com in the "Investor Relations" section under "Corporate Governance."

DISCOVER

HDM GB 2011/2012 – Image Pages HEI Eco
Black

Chemical-free printing plates and environmentally friendly coatings ...



HDM GB 2011/2012 – Image Pages HEI Eco
Process Cyan Magenta Yellow Black

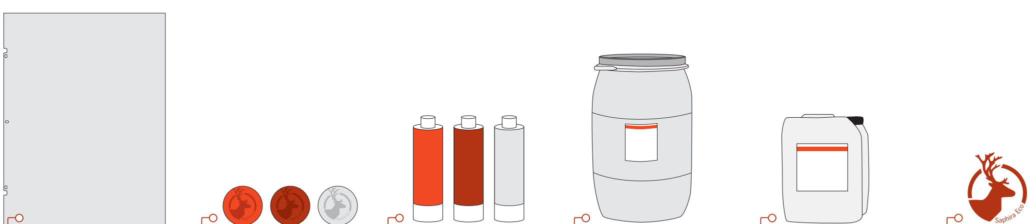
… for "greener" images in advertising brochures and annual reports.

“We expect our print service providers to have a well-thought-out concept for reducing environmental effects. This includes the use of energy generated in an environmentally friendly way and the use of consumables with the environment in mind.”

Katharina Meisel
Head of Branding & Publishing
METRO GROUP
Corporate Communications

Joachim Plutta
International Procurement
METRO GROUP
Advertising GmbH

Anyone wanting to reduce the CO_2 footprint of printing products has long had plenty of opportunities to do so with Heidelberg solutions, from the prepress stage, through actual printing, to finishing and peripheral equipment. Moreover, since mid-2011 Heidelberg has been offering Saphira Eco, because consumables meeting the highest environmental standards were the piece that was missing from the puzzle for a truly “green” printing production process. The annual report of METRO GROUP, which inspired the fig-tree motif on the previous page, was printed with zero net impact on the environment and entirely on recycled paper, and dispatched by using Deutsche Post’s GO GREEN service, again with zero net impact on the environment. And since Heidelberg Saphira Eco was used to print it, the report is the first annual report worldwide to carry the Heidelberg Saphira Eco Seal. More and more companies will follow METRO GROUP’s example. Keep an eye out for the deer …



1 PRINTING PLATES
Analog, CTP, aluminum, or polyester from XS to XXL: the Heidelberg Saphira portfolio adapts to any requirements.

2 INK CANS
Best green performance: our quick-setting, brand-new ink series is based on renewable resources.

3 INK CARTRIDGES
The InkStar automatic ink supply system is now also offered in recycled materials: with cardboard cylinders made from almost 100 percent wastepaper.

4 COATINGS
Saphira print coatings make for an impressive functional coating due to their unique strength, or as a matt or gloss finish.

5 CLEANERS
Cleaning and regenerating agents, free of chlorinated hydrocarbons and aromatic compounds.

6 SEAL
Products bearing the Heidelberg Saphira Eco seal not only meet industry environmental standards, they often exceed them.

BUSINESS DEVELOPMENT

General Statement by the Management Board on Economic Developments

> Economic prospects down during the year – rise in printing industry demand halted
> Original forecast adjusted in October 2011
> Capacities reduced due to Focus 2012 efficiency program

When the printing press industry was experiencing its worst crisis in 2008 and the market for new printing presses was in free fall, we expected, based on in-house and independent market studies, that the demand for sheetfed offset printing presses would bottom out in 2009 and that the market would recover to about 80 percent of the pre-crisis level by 2014.

We adjusted our capacities in line with these expectations and considerably reduced our overhead costs. Initially, the forecasts came true: investments for 2008 to mid-2011 were almost at the level forecast. Based on this, we expected a marked increase in orders in the reporting year and in the current financial year and maintained valuable capacities in order to meet the expected growth in demand. Once it became clear that the anticipated mild recovery in the print media industry would not continue, we reacted with comprehensive measures.

ⓘ

Based on the premise of strong development, we assumed in the last Annual Report that our sales in financial years 2011/2012 and 2012/2013 would gradually approach € 3 billion. For the reporting year we intended to achieve a significantly better result of operating activities and a balanced pre-tax result. Due to the changed underlying conditions, we did not achieve these goals.

Market assumptions reviewed, forecast adjusted, medium-term profitability goals maintained

As from the middle of the reporting year, print shops became less willing to invest as ongoing economic developments became ever more uncertain. We discuss the reasons for this in detail in the chapter on “Underlying Conditions”. In the prior year’s Annual Report we explained in detail the uncertainties that posed risks to Heidelberg’s planned business development. In August 2011, we pointed out that the risks had increased due to, among other things, the deepening of the sovereign debt crisis in some European countries and in the US.

In October 2011, we **ADJUSTED OUR FORECAST.** On October 26, 2011 we announced that the propensity to invest in the industry would probably be dampened again and that we did not expect to see a positive pre-tax result as originally planned. We held on to our **MEDIUM-TERM PROFITABILITY TARGETS**:

in October 2011 we reiterated that we were aiming for a result of operating activities of approximately € 150 million excluding special items in financial year 2013/2014, even if the planned sales increase to more than € 3 billion was further delayed due to the low demand.

Focus 2012 efficiency program announced and launched

We announced an efficiency program at the same time as we adjusted our forecast. In addition, we commissioned a new study on the ongoing development of the print media industry. Based on our assessments of the further development of the print media industry and on the results of this study, we introduced the Focus 2012 efficiency program, which is described in further detail on pages 28 and 29. Our aim is to reduce the cost basis to the current market volume and plan more conservatively in the future. The capacities of our Company and all the structures will be adjusted to the new market development. Regional differences will be taken into account. If the recovery noticeably exceeds the current market level, this would give Heidelberg additional earnings potential.

Against the background of the greater uncertainty, the new market study concluded that the remaining market recovery would be less than originally expected. At the same time, the study confirmed that
> print production volume would continue to increase globally
> the industry would again invest more in the future – although to different extents in the various regions.

Result for the reporting year burdened by higher risk provisions; important measures of the Focus 2012 efficiency program partly implemented

Our assessment in October 2011 that demand in the print media industry would be further dampened by weak economic prospects in the second half of the year proved to be true. In the short-term, the bankruptcy of a major competitor in November 2011 caused additional uncertainties in the industry. In the last quarter of the reporting year, incoming orders were shaped by the drupa trade show, as anticipated. Experience has shown that print shops in some markets hold back their orders in the run-up to the industry's leading trade show, which takes place every four years in Düsseldorf. Fortunately, we were able to implement important measures of the Focus 2012 efficiency program before drupa as planned.

We originally assumed that, on the one hand, the **SHARE OF SALES** during the reporting year would move further in favor of the Heidelberg Equipment Segment due to the expected market recovery, and, on the other hand, the share of sales of industrialized countries would increase again. We aimed to continue keeping the directly financed portfolio in the Heidelberg Financial Services Segment as small as possible. The market recovery was less than originally expected, however, particularly in the industrialized countries. The breakdown of sales revenue among the segments remained almost the same as the prior year. In addition, the share of the newly industrializing countries increased again slightly. We achieved our target for the Heidelberg Financial Services Segment.

The **RESULT OF OPERATING ACTIVITIES** excluding special items improved during the course of the year. However, we could not achieve the intended marked improvement over the prior year; it remained at the previous year's level of € 3 million. Primarily a higher risk provision in the lower double-digit million euro range had a negative effect. The provision became necessary following Eastman Kodak's Chapter 11 proceeding under American bankruptcy law. Special items for the financial year included expenses in the amount of € 142 million, in particular for the Focus 2012 efficiency program.

The **FINANCIAL RESULT** improved by € 59 million during the reporting year as expected and at € – 90 million it had substantially less of a negative effect than in the prior year. The reduced negative effect due to the successful refinancing substantially contributed to this; moreover, financing costs dropped due to successful asset management, which led to a lower capital commitment.

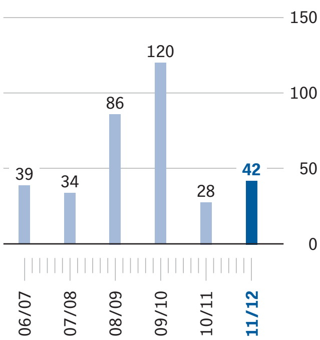
Despite the improvement in the financial result, the result before taxes was clearly negative due to the high non-recurring expenses for the Focus 2012 efficiency program. During the reporting year, tax expenses amounted to € 1 million, resulting in our recording a **NET LOSS** of € – 230 million.

Thanks to the success of our net working capital management and the reduced volume of receivables from sales financing, **FREE CASH FLOW** considerably exceeded our expectations at € 10 million.

NET FINANCIAL DEBT was held at the low level of € 243 million due to our consistent asset management. The debt ratio clearly shows Heidelberg's strong capital structure; it reached the pre-crisis levels in the reporting year as well. Financial liabilities increased just slightly compared to the prior year and remained low due to the reduced commitment of funds. It amounted to € 438 million in the reporting year.

DEBT RATIO

Net financial debt
with reference to equity in percent



Underlying Conditions

> Sovereign debt crises halt momentum of the global economy
> Recovery trend in the printing industry stagnates in the reporting year
> Significance of newly industrializing countries, particularly China, increases

GROSS DOMESTIC PRODUCT [1)]

Change from previous year in percent

	2009	2010	2011
World	–2.1	3.9	**2.7**
USA	–2.6	2.9	1.7
EU	–4.2	1.8	1.6
Germany	–4.7	3.5	3.1
UK	–4.9	1.3	0.8
Eastern Europe	–3.5	4.1	4.7
Russia	–7.8	3.6	4.3
Asia [2)]	4.8	8.3	6.4
China	9.2	10.3	9.2
India	6.8	8.5	6.8
Japan	–6.3	4.0	–0.7
Latin America	–0.5	6.2	4.6
Brazil	–0.6	7.5	2.7

1) Source: Global Insight: WMM; April 2012
2) Excluding Japan

Many national economies grew less than originally expected. In the prior year's Annual Report, we had explained that ongoing general economic developments were fraught with risk and that they represented the greatest risk for the Heidelberg Group.

The sovereign debt crisis, foreign currency uncertainties and volatile financial markets noticeably impacted the economy and the printing industry in 2011. The industry's recovery process initially came to a halt in the industrialized countries due to the high level of economic uncertainty. When one of our competitors filed for bankruptcy in November 2011, it added to the uncertainty on the market. For Heidelberg the change in the structure of competition means a higher potential for sales. In Heidelberg's view, the market position of the Group improved in the reporting year.

Overall economic development: momentum in industrialized countries stagnates

The majority of print shops worldwide are commercial print shops that depend strongly on the trends in advertising spending. Since advertising spending correlates strongly with the general economic outlook, we present the economic developments of the various regions of the world and detail the key economic data of our most important markets. On the left, we provide an overview of GDP growth rates for the 2011 calendar year.

After the global gross domestic product in 2010 increased by 3.9 percent, the disasters in Japan led to greater uncertainty and dampened the initially strong growth of the **GLOBAL ECONOMY** at the beginning of the year. During the course of the year, the economic engine started to sputter even more: in the first half of the year, GDP was still growing by 3 percent, but in the second half of the year GDP grew by only 2.5 percent. The sovereign debt crisis in the euro zone, the uncertainty regarding the state of the financial sector, financial policy debates in the US, the "Arab Spring" and weaker momentum in the newly industrializing countries all contributed to this development. The momentum of growth slowed in the industrialized countries in particular;

the newly industrializing countries managed to de-link from the weak growth of the industrialized countries. This is true of China above all, in part because the Chinese domestic market also became stronger.

Following a strong first quarter in 2011, the economy in **EUROPE** started to lose significant steam. The sovereign debt crises in Europe, the push for budget consolidation, lower domestic demand in the peripheral euro zone countries and more difficult financing conditions slowed the economy so much in the second half of the year that it temporarily entered into recession. The excellent growth in **GERMANY** partly compensated for this, although a high percentage of German exports go to the euro zone, which meant that growth in the German national economy was also dampened. The **UNITED KINGDOM** seemed more and more likely to slide into recession during the course of the year, with consumption stagnating due to the increased unemployment rate. In the end a low rate of growth was achieved.

In **EASTERN EUROPE** developments were very uneven: unlike countries such as Bulgaria and the Czech Republic, other national economies, such as Poland and the Baltic states, were able to achieve strong growth rates.

Despite high unemployment and uncertainty in Washington about fiscal policies, the **US ECONOMY** grew moderately by 1.7 percent in 2011 thanks to US monetary policy and revitalized consumption.

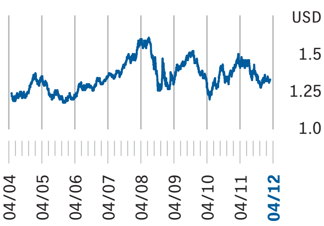
The newly industrializing countries in **SOUTH AMERICA** achieved an increase in GDP of approximately 4 percent in 2011. In the second half of the calendar year, the momentum slowed as prices for raw materials and food dropped and currencies were revalued.

The economy in **JAPAN** grew strongly from the third quarter onward, thus making up for part of the losses caused by the disasters in March 2011. Japan's exports declined, however, due to the strengthening of the yen and slower growth in many customer countries, due in part to the flood disaster in Thailand.

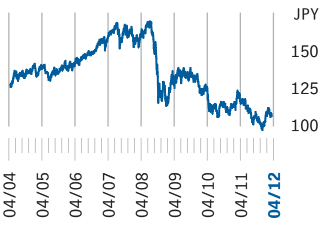
East Asia, excluding Japan, in turn achieved high growth rates in 2011: in **CHINA**, GDP rose by 9.2 percent. The export momentum diminished, however. Monetary policy became more restrictive and wages increased.

Because we generate 73 percent of our sales outside of the euro zone, exchange rate fluctuations play a major role in our business development – they also determine competitive relationships within the industry. We address the tax and legal regulations that affected our business development in the Report on the Regions. The US dollar, Japanese yen, Chinese renminbi, Swiss franc, and British pound are especially important for Heidelberg's international business.

EUR/USD EXCHANGE RATE



EUR/JPY EXCHANGE RATE



Source: Global Insight

Printing industry: Recovery delayed in industrialized countries, newly industrializing countries continue to grow

Due to the stable underlying economic conditions in the first half of the year, the business situation in the print media industry initially improved – even if it could not reach the growth of other industry branches. Why was the printing industry disconnected from the positive development of the overall economy in the past year? In economic upswings, the benefits to the printing industry come with significant delays, as advertising expenses are quickly reduced in times of crisis, but are only increased again during upswing phases if the economic situation appears to be stable. This was the case in only a few markets in the **INDUSTRIALIZED COUNTRIES** in 2011 due to the financial and sovereign debt crises and the resulting threat of recession. According to the German Printing and Media Industries Federation (Bundesverband Druck und Medien), industry sales in **GERMANY**, excluding packaging printing, stagnated at € 20.3 billion, which corresponds to an increase of 0.2 percent year over year. The Federal Reserve Board announced that production capacities in the printing industry in the **US** declined by another percentage point in 2011. However, according to the US Commerce Department, company profits in the print media industry ultimately saw significant increases again, which clearly improves the prospects for replacement investments in upcoming quarters.

In contrast, in the **NEWLY INDUSTRIALIZING COUNTRIES**, whose economic development is increasingly de-linked from the economic outlook in the industrialized countries, the printing industry achieved pleasing growth rates. The printing industry in **CHINA** benefited, on the one hand, from high demand in the domestic market and, on the other hand, from the fact that many non-time-critical printing orders from the industrialized countries are being produced by Chinese print shops. Chinese print shops purchase the latest technology to manufacture higher quality print products that are not only exported but also increasingly in demand domestically. Market analyses continue to expect strong growth of up to 9.5 percent in the printing industry in China. Packaging printing in particular has high growth potential. The printing industry in **BRAZIL** benefits from the continuing strong momentum of its national economy and continues to grow from year to year.

On pages 23 to 27 we describe the strategy that we use to respond to changes in the printing industry.

More on specific features of individual markets can be found in the Report on the Regions and the Risk Report. We address industry trends on pages 117 to 119, where we also explain the changes in the competitive situation and Heidelberg's market position.

Printing press industry: European providers with high global export share; exchange rate fluctuations favor European providers

In calendar year 2010, for the first time in two years, increases in incoming orders were again recorded by the industry and the beginning of calendar year 2011 appeared to be promising. Originally, further recovery was expected: the German Engineering Federation (VDMA) saw the industry at the start of an upswing at the beginning of the prior year. However, by the end of the reporting year the market volume of sheetfed offset printing presses sold reached only 60 percent of the pre-crisis level.

The restrained development in the printing industry in the industrialized countries, which did not bring a significant surge in demand for conventional printing presses, was only partly compensated for by the growth in the newly industrializing countries. In the first half of the year, the sales development of the German printing press manufacturers was slightly positive at 2 percent compared to the prior year, but the volume of incoming orders dropped. The VDMA recorded a decline of 4 percent in incoming orders in the industry for the year as a whole.

The uncertainty in the financial markets resulted in a high level of volatility for the US dollar against the euro. In contrast, the Chinese renminbi rose steadily against the US dollar. The Japanese yen weakened against the euro to an extent not seen since 2001. Due to these **EXCHANGE RATES**, the competitiveness of European providers improved.

The higher raw material prices on the procurement markets in the first half of the year affected all market participants.

Business Development

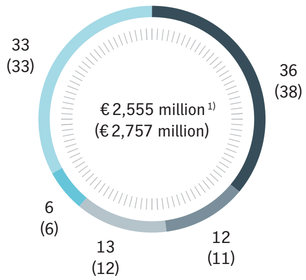
> Incoming orders stable in the first half of the year; industry recovery does not continue in the second half due to increasing economic uncertainty

> Newly industrializing countries' share of sales increased to 46 percent

> China by far the strongest market for sales

INCOMING ORDERS BY REGION

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



Figures in € millions

	2010/11	2011/12
EMEA	1,049	913
Eastern Europe	308	305
North America	331	326
South America	172	166
Asia/Pacific	897	845

[1] Includes negative exchange rate effects totaling € – 14 million

In the first half of the reporting year, the underlying economic conditions were still strong. For this reason, Heidelberg's incoming orders developed positively in this period – even if they did not reach the prior year's figures, for which successful trade shows were major factors. In the second half of the year, our customers' willingness to invest was dampened primarily by the economic uncertainties worldwide. In addition, the bankruptcy of a competitor in November 2011 unnerved the industry, although it actually provides opportunities for Heidelberg. In addition, print shops kept back their orders in the last quarter due to the upcoming drupa trade show in May 2012. On the whole, incoming orders declined in the reporting year. Our Heidelberg Equipment Segment was especially negatively affected by the underlying conditions, since its development depends more strongly on the economy. But growth declined in the consumables sector of the Heidelberg Services Segment as well, because market consolidation led to countervailing effects and the prices for printing plates dropped.

China, as of the prior year our single strongest market for sales, again generated the highest sales volume. Other newly industrializing countries also developed positively. Brazil is now one of our five largest markets. This proves our excellent position in the newly industrializing countries, which is due to the right product range for these markets and our considerable sales and services presence. In contrast, developments in the industrialized countries were still restrained. One silver lining was the market for printing presses in the US: our once strongest market for sales of equipment, which had completely collapsed in the prior years, showed a tendency toward recovery and recorded a marked increase in sales.

BUSINESS DEVELOPMENT BY SIX-MONTH PERIODS

Figures in € millions

	1 HY	2 HY	Total
Incoming orders	1,333	1,222	2,555
Net sales	1,180	1,416	2,596
Result of operating activities [1]	– 21	24	3

[1] Excluding special items

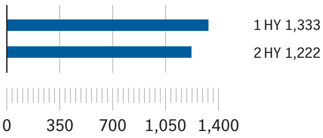
Incoming orders: Strong first half-year, slight decline in the second half-year

In the first half of the year, orders of € 1,333 million still slightly exceeded the level of the preceding half-year, but dropped in the second half to € 1,222 million. The effects from the sovereign debt crises in Europe and the high economic uncertainty in the industry became noticeable here, along with purchasing restraint in the fourth quarter ahead of drupa. On the whole, the order volume of € 2,555 million in the reporting year was 7 percent below the prior year's figure, which had been positively influenced by the ExpoPrint trade show in Brazil and IPEX in the UK.

The Heidelberg Equipment Segment is more dependent on the industry outlook and was therefore affected disproportionately by the decline in the second half of the year, with incoming orders at 10 percent less than the prior year. Underlying economic conditions did not impact demand in the Heidelberg Services Segment as strongly: the 3 percent decline in incoming orders resulted mainly from the remarketed equipment business, which is posted in this segment. In contrast, a slight increase was achieved in incoming orders for consumables. In the Heidelberg Financial Services Segment we continue to work closely with financing partners. Although sales volume remained almost the same, we again managed to largely externalize the financing requirements of our customers. As a result, the financing volume taken over directly by the Heidelberg Financial Services Segment dropped slightly again as planned.

INCOMING ORDERS BY SIX-MONTH PERIODS

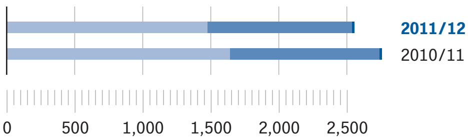
Figures in € millions



Orders for the Speedmaster CX 102 developed positively: although we first launched it only about two years ago at IPEX, 1,500 printing units have already been ordered so far.

INCOMING ORDERS BY SEGMENT

Figures in € millions



	10/11	11/12
HD Equipment	1,642	1,476
HD Services	1,099	1,064
HD Financial Services	16	15
Heidelberg Group	2,757	**2,555**

Because underlying conditions stabilized, incoming orders in North America slightly exceeded those of the prior year after adjustment for exchange rate effects. In the Eastern Europe region, they remained at the prior year's level after adjusting for exchange rate effects. In the other regions, incoming orders declined, particularly in the Europe, Middle East and Africa region. The "Arab Spring" was also a contributing factor. Despite the ongoing high demand, the order volume also dropped in China to significantly below the prior year's level due to, among other things, the restrictive financial policy and the lapse of stimulus programs.

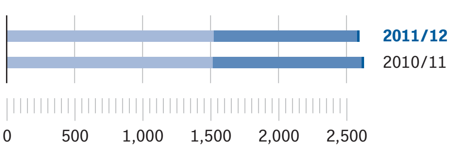
Sales: Share of newly industrializing countries continued to increase; China the largest single market

At a total of € 2,596 million, sales stood at the prior year's level after adjusting for exchange rate effects: in the first half-year they reached a volume of € 1,180 million, rising to € 1,416 million in the second half-year.

The Heidelberg Equipment Segment generated sales at the prior year's level during the reporting year. In the Heidelberg Services Segment, countervailing effects resulted in a 4 percent drop in sales: remarketed equipment sales declined more strongly, while sales in consumables increased in contrast as expected. In the Heidelberg Financial Services Segment, sales declined slightly as planned, because the smaller portfolio of direct financing led to lower interest income.

SALES BY SEGMENT

Figures in € millions

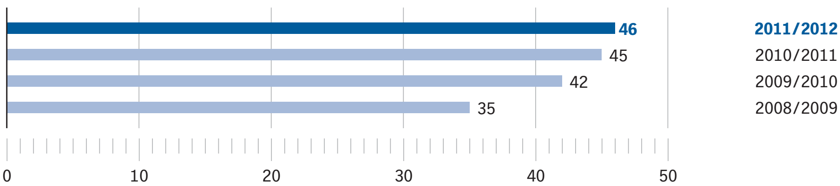


	10/11	11/12
HD Equipment	1,516	1,523
HD Services	1,097	1,058
HD Financial Services	16	15
Heidelberg Group	2,629	**2,596**

While sales declined in the industrialized countries, particularly in the major European sales markets of Germany and the UK, sales in the newly industrializing countries remained high. Thus, their share of sales increased slightly from 45 percent in the prior year to 46 percent in the reporting year. A contributing factor to this was, above all, the stable growth in China, Brazil, and Russia, which are among our strongest newly industrializing markets.

SALES PORTION NEWLY INDUSTRIALIZING COUNTRIES

in percent of Group sales



Order backlog: Length of order backlog 2.3 months

In the fourth quarter, incoming orders were noticeably impacted by purchasing restraint in the run-up to the drupa trade show. At the same time we achieved the highest quarterly sales revenue in three years. For this reason, the order backlog decreased to € 506 million. Group-wide, the length of order backlog dropped to 2.3 months. This figure is reduced, however, by the extremely short delivery times in the Heidelberg Services Segment. In the Heidelberg Equipment Segment, the length of order backlog was just under four months as at the end of the reporting year.

FIVE-YEAR OVERVIEW – BUSINESS DEVELOPMENT

Figures in € millions

	2007/2008	2008/2009	2009/2010	2010/2011	**2011/2012**
Incoming orders	3,649	2,906	2,371	2,757	2,555
Sales	3,670	2,999	2,306	2,629	2,596
Order backlog (31-Mar)	874	650	596	634	506
Length of the order backlog [1]	2.9	2.6	3.1	2.9	2.3

[1] Order backlog proportional to average monthly sales

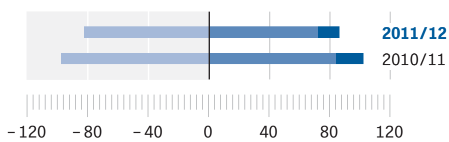
Results of Operations

- Operating result excluding special items at prior year's level despite non-recurring expense
- Focus 2012 efficiency program launched for further adjustment of capacity and cost
- Financial result improves significantly

After a negative operating result in the first quarter, we achieved slightly positive results in the second and third quarters of the reporting year; in the fourth quarter we achieved an operating result excluding special items of € 22 million due to the higher sales. On the whole, the operating result was at the prior year's level at € 3 million. Special items of € 142 million were incurred above all for the Focus 2012 efficiency program. The result of operating activities including special items thus stood at € – 139 million. The significantly improved financial result could only partly compensate for their impact, and we thus had to post a net loss of € – 230 million for the year.

RESULT OF OPERATING ACTIVITIES EXCLUDING SPECIAL ITEMS BY DIVISION

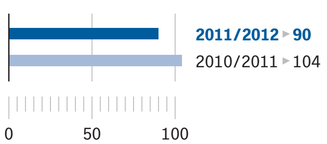
Figures in € millions



	10/11	11/12
HD Equipment	– 98	– 83
HD Services	84	72
HD Financial Services	18	14
Heidelberg Group	4	**3**

EBITDA [1)]

Figures in € millons



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

Income statement: result of operating activities excluding special items improved over the financial year

From the second quarter we achieved a positive operating result excluding special items that more than compensated for the first quarter loss. In total, the result of operating activities excluding special items in the reporting year amounted to € 3 million. It remained at the prior year's level despite non-recurring expenses. A higher risk provision in the low double-digit million euro range had a negative effect. The provision was necessary because of Eastman Kodak's Chapter 11 proceeding under US bankruptcy law. Due to the savings from our Heidelberg 2010 program we were able to almost compensate for the additional expenses. We did not, however, achieve the intended marked improvement in the result of operating activities excluding special items: EBITDA fell to € 90 million.

We were able to reduce the loss in the Heidelberg Equipment Segment by 15 percent compared to the prior year: the result of operating activities excluding special items improved from € – 98 million in the prior year to € – 83 million, although the higher risk provision was borne fully by this segment. In contrast, the operating result of the Heidelberg Services Segment saw a negative effect from lower service capacity utilization as well as slightly declining net sales, and decreased to € 72 million. Despite the lower financing volume, the result of the Heidelberg Financial Services Segment was positive in turn at € 14 million.

INCOME STATEMENT

Figures in € millions

	2010/2011	2011/2012
Net sales	2,629	**2,596**
Change in inventories/Other own work capitalized	– 31	26
Total operating performance	2,598	**2,622**
Result of operating activities excluding special items	4	**3**
Special items	2	– 142
Financial result	– 149	– 90
Income before taxes	– 143	**– 229**
Taxes on income	– 14	1
Net loss	– 129	**– 230**

Income statement: Financial result considerably improved

We were able to slightly increase Heidelberg's total operating performance compared to the prior year. COST OF MATERIALS dropped slightly year over year. The cost of materials ratio related to the total operating performance declined slightly, due mainly to lower sales of remarketed equipment, which dropped from 47.5 percent in the prior year to 47.0 percent. We continue to work on expanding our purchasing activities in foreign currencies in order to reduce risks from exchange rate fluctuations.

Both our absolute STAFF COSTS and the staff cost ratio in relation to total operating performance increased; the latter rose from 33.6 percent to 34.5 percent mainly due to the reduction in short-time work.

After investing until 2008 in the very large format and in the Speedmaster XL series as well as in manufacturing and installation at German locations, we managed to significantly reduce new investments in the last few years. During this period we mainly expanded our manufacturing operations in Qingpu and developed our Amstetten foundry into one of the most advanced facilities in Europe. Due to the lower investment level and the efficient use of our production facilities, we adjusted the depreciation in the reporting year to the industry-standard useful lives. In total, DEPRECIATION dropped from € 100 million to € 87 million year over year. When OTHER OPERATING EXPENSES are considered in relationship to the total operating performance, our sustained cost-cutting measures become noticeable, with this ratio slightly decreasing further from 20.2 percent in the prior year to 19.8 percent.

We booked expenses from SPECIAL ITEMS of € 142 million during the financial year. These primarily consisted of staff-related expenses as part of our Focus 2012 efficiency program as well as other structural measures.

Our FINANCIAL RESULT developed positively, as expected: after negatively affecting our result in the prior year to the tune of € –149 million, we were able to reduce the loss during the reporting year by more than one-third, to € –90 million, thanks to an improvement of our capital structure. In addition to the capital increase carried out in the prior year, we reduced our capital commitments significantly through active asset management, enabling us to repay our financial liabilities.

As anticipated in our adjusted forecast from October 2011, the result before taxes remained negative. A contributing factor were the high special-item expenditures on a non-recurring basis for the Focus 2012 efficiency program. Compared to the prior year, in which income from taxes on income amounted to approximately € 14 million, an expense of approximately € 1 million arose during the reporting year. Tax income from the reversal of tax provisions offset in the reporting year not only the ongoing tax expenses but also the impairment on deferred tax assets for loss carryforwards expensed and temporary differences. On the whole, a clear net loss for the year of € – 230 million arose for the reporting year. Earnings per share thus amounted to € – 0.98, compared with € – 0.83 for the prior year.

FIVE-YEAR OVERVIEW OF THE RESULTS OF OPERATIONS

Figures in € millions

	2007/2008	2008/2009	2009/2010	2010/2011	**2011/2012**
Sales	3,670	2,999	2,306	2,629	2,596
EBITDA [1]	391	51	– 25	104	90
Result of operating activities [2]	268	– 49	– 130	4	3
– in percent of sales	7.3	– 1.6	– 5.6	0.2	0.1
Special items	–	– 179	– 28	2	– 142
Financial result	– 69	– 119	– 127	– 149	– 90
Net profit/loss	142	– 249	– 229	– 129	– 230
– in percent of sales	3.9	– 8.3	– 9.9	– 4.9	– 8.9

[1] Result of operating activities excluding special items and before depreciation and amortization
[2] Excluding special items

Net Assets

> Net financial debt remains low
> Comprehensive asset management again reduces commitment of funds
> Sales financing: volume of financing arrangements taken on directly is reduced once again

We managed to keep financial liabilities down in the reporting year. Moreover, we once again reduced the commitment of funds through our asset management and net working capital management. Because of the significant net loss for the year, brought about by the substantial special items of Focus 2012, our shareholders' equity was reduced from the prior year.

ASSETS

Figures in € millions

	31.3.2011	**31.3.2012**
Fixed assets	869	835
Inventories	748	786
Trade receivables	377	361
Receivables from sales financing	178	156
Other assets	323	185
Cash and cash equivalents	148	195
	2,643	**2,518**

Assets: capital commitment down

The Heidelberg Group's **TOTAL ASSETS** amounted to € 2,518 million as of March 31, 2012, or € 125 million less than the previous year. **FIXED ASSETS** fell because we are deliberately using our resources for a longer time and so our investments are less than depreciation: as in the prior years, we mostly limited our investments to replacement investments. In addition, we made strategic investments. For example, we expanded the capacity of our Chinese location in Qingpu and supported our future consumables business for coatings in the United States by setting up our own production facility there. As in prior years, we use leasing as a form of financing when it makes economic sense – particularly in the areas of vehicle fleets, IT and real estate.

We are consistently continuing the measures by which we plan to lower our net working capital to under 35 percent of sales revenue. **INVENTORIES** at € 786 million were slightly above the prior year's low value. This increase mainly resulted from our preparations for the drupa trade show in May 2012.

Thanks to our active receivables management, we were again able to reduce **TRADE RECEIVABLES** slightly in comparison to the previous year; they stood at € 361 million as of March 31, 2012. We continue to pursue our successful strategy of externalizing financing arrangements in the Heidelberg Financial Services Segment. Due to the lower volume that we finance directly and to the high number of liquidations and repayments, **RECEIVABLES FROM SALES FINANCING** hit a new record low. At € 156 million, they again fell below the prior year's value – which was already the lowest value for the past ten years – by € 22 million. The decline in **OTHER ASSETS** largely resulted from the maturing of derivative financial instruments and the decline in deferred tax assets.

EQUITY AND LIABILITIES

Figures in € millions

	31-Mar-2011	31-Mar-2012
Equity	869	576
Provisions	815	933
Financial liabilities	395	438
Trade payables	130	165
Other liabilities	434	406
	2,643	**2,518**

Equity and liabilities: net financial debt remains low

Because of the high deficit for the year due to non-recurring special items for Focus 2012, our shareholders' equity as of March 31, 2012 fell to € 576 million. In addition, the change in interest parameters from the calculation of the pension assets led to a reduction in shareholders' equity and to higher pension provisions compared to the end of the prior financial year. The **EQUITY RATIO**, which is related to the total assets, also fell to just under 23 percent. With the help of the Focus 2012 measures, by which we aim to achieve an operating income, excluding special items, of around € 150 million in financial year 2013/2014, this key figure will improve again.

Non-recurring expenses were incurred for the Focus 2012 efficiency program. For this reason, **PROVISIONS** in the reporting year rose sharply: as of the balance sheet date, they stood at € 933 million.

The **TRADE LIABILITIES** show clearly that we have continued to pursue our net working capital program with success. As of March 31, 2012, they stood at € 165 million, thus exceeding the prior year value by € 35 million.

We managed to keep **NET FINANCIAL DEBT** low, at € 243 million, thanks to our consistent asset management – it is slightly under the prior year's value and significantly lower than in the year before the crisis. Our financial liabilities rose only slightly in the reporting year. As of the balance sheet date, they stood at € 438 million. At 42 percent, the debt ratio remains significantly lower than in the crisis years.

CONTINGENT LIABILITIES under guarantees and warranties remained at the level of the prior year with a volume of € 5 million. **OTHER FINANCIAL COMMITMENTS** include leasing and rental commitments as well as investments and other purchasing commitments. They are noticeably down from the prior year by € 28 million, and stood at € 300 million as of March 31, 2012.

FIVE-YEAR OVERVIEW – NET ASSETS

Figures in € millions

	2007/2008	2008/2009	2009/2010	2010/2011	**2011/2012**
Total assets	3,507	3,241	2,879	2,643	2,518
Net working capital	1,193	1,212	1,031	908	915
– in percent of sales	32.5 %	40.4 %	44.7 %	34.5 %	35.2 %
Shareholders' equity	1,193	796	579	869	576
– in percent of total assets	34.0 %	24.6 %	20.1 %	32.9 %	22.9 %
Net financial debt [1]	402	681	695	247	243
Debt ratio [2]	33.7 %	85.6 %	120.0 %	28.4 %	42.2 %

[1] Balance of financial liabilities and cash and cash equivalents
[2] Relationship of net debt to equity

Financial Position

> Liquidity assured in the medium term
> Diversified financing structure with maturities through 2014 and 2018
> Free cash flow in the reporting year was above our own expectations

On April 7, 2011 our new, diversified financing structure took effect. It mainly consists of a high-yield bond with a nominal value of € 304 million and a seven-year maturity, and a revolving credit facility of € 500 million that will be available until the end of 2014.

Statement of Cash Flows: Deficit for the year weighs on free cash flow

The high deficit for the year led to negative **CASH FLOW** of € –130 million. Adjusted for special items due to Focus 2012, cash flow improved considerably compared to the prior year.

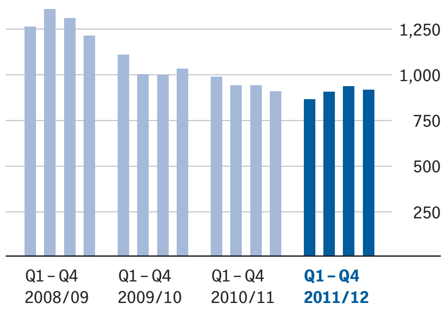
Cash inflows from **OTHER OPERATING CHANGES** more than made up for the negative cash flow: they reached a volume of just under € 186 million. This high value resulted in part from the fact that provisions for the non-recurring expenses of the Focus 2012 efficiency program were recognized in the reporting year. We continue to have success with our net working capital program, by which we achieved a cash inflow made up of different effects: a slight increase in inventories ahead of the drupa trade show, a reduction in prepayments received – because the order backlog for new machines was less in the last quarter – a rise in trade liabilities and a reduction of trade receivables. Since the last drupa four years ago, we achieved a release of working capital of over € 440 million in this area. The welcome trend in receivables from sales financing led to a cash inflow of € 29 million.

At € 46 million, **CASH USED IN INVESTING ACTIVITIES** in the reporting year was higher than the low level of the previous year, which had featured greater countervailing effects from disposals of assets. Investments in the reporting year fell slightly. We continue to make only limited investments in expansion. For the most part, the cash used in investing activities was attributable to the plant expansion in Qingpu.

Through consistent asset management, we once again achieved a positive **FREE CASH FLOW** in the reporting year; at € 10 million, it exceeded our expectations.

DEVELOPMENT OF NET WORKING CAPITAL

Figures in € millions



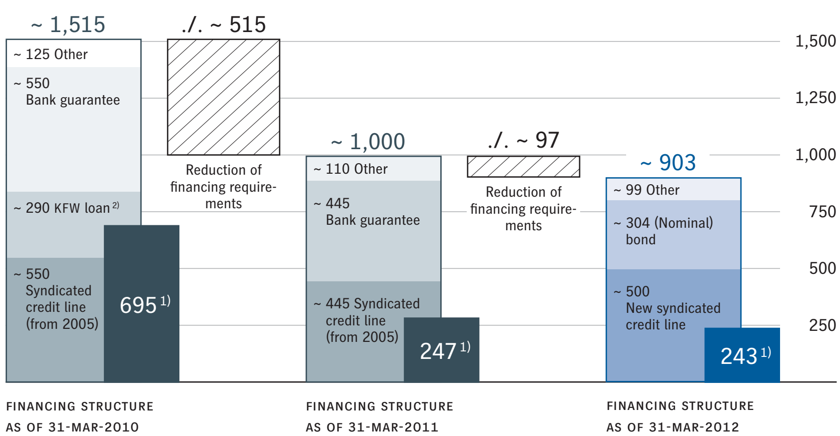
	2008/09	2009/10	2010/11	**2011/12**
Q1	1,261	1,107	987	862
Q2	1,360	1,000	940	904
Q3	1,308	999	940	935
Q4	1,212	1,031	908	915

Financing structure: Lines of credit and high-yield bond secure Heidelberg's medium-term liquidity

On April 7, 2011, we issued 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 described this in detail in our last annual report. At the same time, a new revolving credit facility for € 500 million with a term until the end of 2014 took effect, entered into with a consortium of banks. The financing contracts contain financial covenants with reference to the

DEVELOPMENT OF THE FINANCIAL STRUCTURE

Figures in € millions



[1] Net financial debt
[2] Initial credit line: € 300 million

financial condition of the Heidelberg Group, which are customary in the market. In addition, as of the end of March 2012, Heidelberg has a borrower's note loan at its disposal with a nominal value of € 50 million – payable in March 2013 – and another loan for a nominal value of € 49 million, which is secured by usufructuary rights to three developed plots of land with an amortizing progression until March 2018.

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

As part of the announced Focus 2012 efficiency program and the financial charges incurred by Heidelberg in association with it, we agreed to an adjustment of the credit terms and financial covenants with the banks of our credit consortium in March 2012. Because we reduced capital commitments through successful asset management in the reporting year, we were able to lower financing requirements; this made it possible to reduce the credit limit by € 25 million as from July 1, 2012.

Heidelberg's financing structure is appropriately diversified both in terms of sources of financing and maturity of instruments. Heidelberg has a stable liquidity framework with adequate room to act.

FIVE-YEAR OVERVIEW – FINANCIAL POSITION

Figures in € millions

	2007/2008	2008/2009	2009/2010	2010/2011	**2011/2012**
Cash flow	290	– 238	– 179	– 41	**– 130**[1]
Other operating changes	127	234	138	141	186
of which: net working capital	32	43	186	125	24
of which: receivables from sales financing	80	63	66	32	29
of which: other	15	128	– 114	– 16	133
Cash used in investing activities	– 202	– 197	– 22	– 25	– 46
Free cash flow	215	– 201	– 62	75	**10**
– in percent of sales	5.9	– 6.7	– 2.7	2.9	0.4

[1] Including special items for Focus 2012

ROCE and Value Added

> ROCE again slightly positive
> Cost of capital weighs on value added

We continue to use the key management indicators of ROCE and value added, along with other financial key figures such as EBITDA/EBIT and free cash flow for strategic planning. After negative ROCE values in the crisis years, we succeeded in carrying on the trend of the prior year by again generating a slightly positive ROCE in the reporting year. With our Focus 2012 efficiency program, by which we aim to achieve a result of operating activities excluding special items of around € 150 million in financial year 2013/2014, we plan again to generate positive value added.

ROCE stands for "return on capital employed". We calculate this ratio by correlating the result of operating activities excluding special items plus income from participations in relation to average operating assets. On the basis of a current weighted average cost of capital of 10.2 percent, which is calculated on the basis of the share of the capital components, we determine the cost of capital. For the capital cost estimate we use a no-risk interest rate of 2.5 percent, a market risk premium of 5.0 percent and a beta factor of 1.4.

ROCE again slightly positive at € 4 million

Thanks to the positive operating income, we again achieved a positive ROCE of € 4 million. Our active asset management contributed to our reducing operating assets in recent years by around 30 percent so far – despite the strategic investment in our location in China. Operating assets were reduced by more than € 150 million compared to the prior year. ROCE amounts to a 0.3 percent share of operating assets in the financial year. At € 130 million, the costs of capital were lower than in the prior year, and hit their lowest level of the past four yours. Nonetheless, value added at a negative € –126 million still showed a marked decline as anticipated.

FIVE-YEAR OVERVIEW – ROCE AND VALUE ADDED

Figures in € millions

	2007/2008	2008/2009	2009/2010	2010/2011	**2011/2012**
Operating assets (average)	1,887	1,771	1,564	1,429	1,272
ROCE [1]	254	–63	–138	10	**4**
– in percent of operating assets	13.5	–3.6	–8.8	0.7	0.3
Cost of capital	183	206	153	142	**130**
– in percent of operating assets	9.7	11.6	9.8	9.9	10.2
Value added	71	–269	–291	–132	**–126**
– in percent of operating assets	3.8	–15.2	–18.6	–9.2	–9.9

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

Segment Report

> Heidelberg Equipment shows net income improvement with stable sales revenue; 60 innovations at drupa
> Heidelberg Services holds steady; growth in the consumables area
> Strategy of the Heidelberg Financial Services Segment remains successful

Our customers mostly do business in commercial printing, a sector that is very sensitive to economic trends. That means our business development is greatly affected by the economic outlook. Uncertainty in the printing sector regarding coming economic developments in the euro zone, North Africa, and the United States manifested in the reporting year particularly in the Heidelberg Equipment Segment. Under "Strategy" starting on page 23, we describe how we are pursuing the goal of making Heidelberg's business development more independent of economic trends.

Greater independence from economic trends is thus one of the major goals of the **STRATEGY FOR OUR SEGMENTS**. In the Heidelberg Equipment Segment, which contributed a 59 percent share of Group sales in the reporting year, we are pushing the packaging printing business above all, which responds less closely to economic fluctuations than does advertising printing. Sales of the Heidelberg Services Segment are also less dependent on the economic outlook. Our Services address the installed basis, and thus are dependent mainly on the capacity utilization of print shops; this fluctuates much less than investment behavior. We will continue to expand our sales revenue from consumables worldwide and to markedly increase our market share. In the area of maintenance agreements, we have expanded our offering so we can provide our customers with comparable service both for older and for new machines. A core component of our strategy in the Heidelberg Financial Services Segment, which has been successful for years, is to support our customers with financing solutions from long-standing financing partners. With our service, we contribute substantially to the ability of print shops to make investments in state-of-the-art technologies from Heidelberg that are appropriate from the point of view of business management – 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.

Private consumption does not slump as severely in economic crises as does advertising printing. That makes packaging printing significantly more independent of economic fluctuations. Moreover, it will achieve relatively high growth rates worldwide in the next few years, especially in newly industrializing countries.

We will further expand our market share in this field. The optimization potential from our comprehensive solutions is particularly effective in packaging printing, in part because this area is very material-intensive.

This QR code provides a look at the packaging printing solutions presented on our Web site.

Product portfolio provides competitive advantages to print shops; these advantages are even more important in packaging printing

Our solutions are more than the sum of their parts. With our thoroughly integrated solutions, our customers can optimize all process steps, from administration and data collection, to printing, finishing and processing, all the way to logistics. In the field of packaging printing, our integrated solutions have a particularly strong impact on production costs and the quality of the end products – this can be crucial to packaging printers for winning contracts in international competition.

At the DRUPA trade show in May 2012, under the motto "HEI END", we presented innovations for print shops that want to manufacture even the most complicated folding boxes with perfect quality and at competitive prices. Customers were excited about our Speedmaster XL 106 with double-coating printing unit, integrated inkjet mechanism and Prinect Inspection Control. We presented a Speedmaster CX 102-6+L with logistics and heat recovery from the dryers for the first time. Our Diana X 115 folding box gluing machine is now also available with a stack turner at the feeder, Inspection Control and a Braille module. We also presented a new entry-level machine for economical embossing and die-cutting, the Varimatrix 82 CS.

Prinect Inspection Control enables additional inline quality testing, in which print errors are identified and marked in the coating unit despite operation at top speed. The code reader of the downstream Diana X detects this marking and the ejector station of the folding carton gluing machine only ejects incorrect multiple-ups – which reduces spoilage considerably. Diana X 115 can also handle the testing of blanks by itself, thanks to having its own Diana Inspection Control Module. Using the Diana Braille module enables customers, among other things, to access the packaging printing market in the pharmaceutical industry.

The packaging printing solution presented included not only the matching machines but also the packaging workflow by Prinect, as well as our automated color measurement and control systems. Print shops well know that success requires perfectly serviced machinery and an appropriate business model. For good reason, we have significantly expanded our performance services – including with online-assisted condition monitoring. The operating condition of the printing machine is regularly communicated to Heidelberg via Internet or the Remote Service Tool. The corresponding data are analyzed by

We look for new applications in the packaging field in part through cooperative agreements in the research and development area. Read more about this on page 110.

We talk about other innovations under Research and Development, both on pages 91 to 92 and under the individual segments.

Heidelberg experts and supplemented by information from on-site machinery inspections. If the analysis reveals that a problem is developing, it can be fixed before it actually occurs. We also support print shops with comprehensive consulting and financing services, for example with regard to "Green Printing".

At the drupa trade show, we also presented a Saphira consumables package with ISEGA certificate, specifically adapted to food packaging. Special hygiene regulations are applicable for packaging of all types of food products. Inks, coatings and other process components may not come in contact with the food products – even after printing and during storage. With our consumables set, our customers can produce everything from chocolate candy boxes, to cornflakes cartons, to frozen food packages.

Heidelberg Equipment Segment: New customers gained among packaging printing conglomerates; net result improved despite additional burdens

While the Heidelberg Equipment Segment gained new conglomerates as customers in the packaging field, **INCOMING ORDERS** remained lower than in the prior year overall due to restrained investment by commercial print shops. The first quarter of the prior year was dominated by the IPEX 2010 trade show in Birmingham and the ExpoPrint trade show in São Paulo – as a result, incoming orders in the first quarter failed to meet the figure for the prior year. In the second quarter, orders increased over the prior year, as expected. However, uncertainty about the further progress of the sovereign debt crises, in particular, caused a distinct drop in orders in the second half of the year. In the fourth quarter, willingness to invest was also dampened by the approaching drupa trade show, since many customers took the soon-to-be-seen innovations at drupa into account when considering their investment decisions. Overall, with an order volume of € 1,476 million, the segment recorded a 10 percent decline in incoming orders compared to the prior year.

On the other hand, **NET SALES** in the segment rose in the second half of the year and reached the prior year's value at € 1,523 million for the year as a whole. Despite the difficult economic environment, we recorded growth for

HEIDELBERG EQUIPMENT

Figures in € millions

	10/11	11/12
Incoming orders	1,642	1,476
Net sales	1,516	1,523
Order backlog	583	460
Result of operating activities [1]	– 98	– 83
Special items	10	– 117
Research and development costs	104	110
Investments	68	60
Employees	10,254	10,052

[1] Excluding special items

sheetfed offset machines in the very large format. We further widened our leading market position in the Web-to-Print area, because our Speedmaster XL 162 gives customers a clear edge over competing products – we generated sales growth of 71 percent in this area compared to the prior year.

Some packaging conglomerates that placed orders in the reporting year:
> Cartoneo, France
> Rock Tenn, USA and Canada
> Mayr-Melnhof Packaging, France

The ORDER BACKLOG decreased in the course of the year to a final figure of € 460 million. As of March 31, 2012, the forward order book was at just under four months. The time between order placement and the delivery of a printing press, 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 are systematically reducing delivery times for standard machines, particularly in China.

We originally expected demand to markedly accelerate in the reporting year and the current year, and therefore we maintained flexibility in our production capacity. As soon as it was clear that the recovery of the sector would be delayed, we set up the Focus 2012 project by which we reduced capacity by around 15 percent and oriented it toward the present level of investment in the industry. Through consistent cost management and inventory optimization measures, we managed to improve the RESULT OF OPERATING ACTIVITIES EXCLUDING SPECIAL ITEMS by € 15 million during the reporting year while maintaining the same level of sales as in the prior year – although a higher provision for risks was formed in this segment due to Kodak's Chapter 11 reorganization proceedings. Expenses of € 117 million were incurred in the segment in connection with the measures for the Focus 2012 efficiency program; through the efficiency program, we will significantly reduce the structural costs of the segment in the next two years.

Overall, we reduced the number of EMPLOYEES in the segment by 202 persons in the reporting year. While we cut jobs in Germany, North America and Southeast Asia, we hired over 60 employees in China. The total number of employees in the segment stood at 10,052; we will cut additional jobs as part of Focus 2012 in the current financial year.

Our INVESTMENTS totaled € 60 million. In September 2011, we completed the capacity expansion at our Qingpu site; the expansion of this site had accounted for most of our expansion investments in prior years as well. We invested a total of € 46 million here in the last five years, 34 percent of which was invested in the reporting year. Moreover, we finished the hand-molding plant in Amstetten, where we will increasingly produce large castings for other companies as well. With an investment volume of € 14 million over the last four years, we have turned our foundry into one of Europe's most advanced facilities. Another € 6 million is to be invested by financial year 2016/2017. Also in the reporting year, we took over CSAT-GmbH; you can find out more about the company on page 128. Around € 21 million was invested in replacement investments, which makes 35 percent of the total investment volume.

In RESEARCH AND DEVELOPMENT we have not only been working toward the 2012 drupa trade show, but have also invested in the application of new technologies. The R&D investments in the segment have risen only slightly by € 6 million. We developed innovations in all product lines. The most significant R&D products in the printing press area include: the Speedmaster XL 106 for printing a sheet format of 75×106 cm with an increased speed of 18,000 sheets per hour in perfecting mode, the Speedmaster SX series, which we describe on pages 91 and 90, and the Speedmaster XL 75, which we introduced with the unique Anicolor color technology. With Anicolor technology, marketable product quality is achieved even for print runs as low as ten copies – similar to a digital printing press. In the finishing area, we expanded the Diana X series to a small box format and introduced the Diana X 80. We continued to present the Stitchmaster ST 500 and the Stahlfolder TH 82, which we furnished with the feeder technology of the printing press model series, resulting in a 50 percent productivity increase. We report on the exact design of the machines and their competitive advantages on the Internet at www.heidelberg.com. Here we also show the productivity increases and cost reductions that are possible when the machines are integrated into complete Heidelberg solutions.

"With our international customer base, we have a strong position in the pharmaceutical manufacturing sector. By integrating into the global Heidelberg Group, we can expand the great potential of the digital printing technologies we employ and extend it beyond the sector that we have focused on so far."

Hans Mathea,
Managing Director of CSAT GmbH

i

The CSAT's offerings include the successful DTS 1200 printing system with 1,200 dpi resolution, based on dry-toner technology; it is used in the pharmaceuticals industry for online or offline printing of blister foils or package inserts. The new ITS 600 system works with a new drop-on-demand inkjet technology. At a resolution of 600 dpi, it is ideally suited for high-quality, variable full-color printing of labels.

Heidelberg Services: Increased market share in the consumables area

The absence of a sustained recovery in the print media industry in the industrialized countries also impaired the growth of the Heidelberg Services Segment. Overall, INCOMING ORDERS in the segment reached € 1,064 million and SALES REVENUE reached € 1,058 million – which represents a decline of 3 and 4 percent, respectively, from the prior year's figures. Demand for remarketed equipment and service parts was down because of the situation in the industry. Because fewer new machines are in demand, the number of service agreements entered into also fell. The CONSUMABLES AREA showed a positive development, however. In this area we achieved a gain of 2 percent, even though the economic crisis led to less utilization of print shop capacities in some coun-

HEIDELBERG SERVICES

Figures in € millions

	10/11	11/12
Incoming orders	1,099	1,064
Net sales	1,097	1,058
Order backlog	51	46
Result of operating activities[1]	84	72
Special items	– 8	– 25
Research and development costs	17	19
Investments	11	10
Employees	5,522	5,309

[1] Excluding special items

The offerings of the Heidelberg Services Segment include Technical Services and Performance Services, as well as our wide assortment of consumables, our Prinect print shop workflow and the service parts business. The marketing of remarketed equipment is likewise reflected in the segment. You will find an animated overview on our Web site under "Products and Services".

tries and thus to lower demand. We managed to make up for this through growth in China and some Eastern European markets, where our forecasts were exceeded. On the product side, the 10 percent increase in sales for inks and coatings merits special emphasis. Overall, we expanded our market share in the consumables area to around 4.5 percent in our estimation. This value only partially reflects the actual growth in quantities, since it is measured by the sales revenue generated. In the area of printing plates, which still make up a very large proportion of our business, prices in the reporting year fell noticeably; therefore the growth in quantities was more than offset by the price reduction. It was encouraging that we found success in our participation in contract award competitions held by transregional packaging printers during the reporting period. Our key account managers maintain close contact with the buyers and technicians of this customer group – read more about this on page 85. In the middle of the reporting year, we began marketing our Saphira Eco consumables, which meet the highest standards of environmental protection and which were very well received around the world. Since the time spans between order and delivery are generally quite short in the Heidelberg Services Segment, "**ORDER BACKLOG**" is not a very relevant key figure in this case.

The **RESULT OF OPERATING ACTIVITIES**, excluding special items, declined by 14 percent in the segment to € 72 million. A fall in profit contributions due to the reduced sales volume was reflected in this case. Moreover, the lower utilization of service capacities dampened the result. Costs in the R&D area also rose compared to the prior year due to the preparations for the drupa trade show. The costs for the expansion of sales activities for consumables also went up. As a result, we began to adjust service capacities worldwide as part of Focus 2012; special expenditures of € 25 million in the segment were recorded for the efficiency program.

The number of **EMPLOYEES** in the segment fell by 213 over the reporting period to 5,309 persons, as a result of unfavorable trends. The job cuts began as part of Focus 2012, although with some targeted exceptions: in the consumables area, we hired employees. On the other hand, employees were let go in Technical Service in areas with lower capacity utilization.

To ensure expert advising by our sales and services employees, they are given product training for all our product lines. Moreover, they are assisted by application specialists – these are trained printers who have mastered not only the materials but also the entire combination of machinery, materials and paper. That enables them to develop solutions for specific orders.

The **INVESTMENTS** in the segment hovered around the level of the prior year, at € 10 million. One major investment was the expansion of our in-house production of coatings in Detroit, USA, which we describe in detail on page 88.

We spent € 19 million for **RESEARCH AND DEVELOPMENT** in this segment. These funds mainly went into further development of our Prinect print shop workflow. Cost-efficiency and optimal productivity are in demand more than ever in industrial advertising printing. We presented a number of innovations and expansions at the drupa trade show. With the Prinect Business Manager (management information system), all workflows in production and administration can be managed with particular efficiency. The Web-to-Print Manager and the intelligent link to the production workflow using the gang form assistant enable customers to efficiently and profitably produce the large number of smallest orders coming in over the Internet. At the trade show, we also presented the Suprasetter 106 with a new cleaning unit and fully automatic auto cassette loader or dual cassette loader. This platesetter not only represents the top-of-the-line of our prepress automation technology, it has also been made more compact despite its higher performance. Its smaller processor helps to cut chemicals and power consumption. This lowers operating costs and is better for the environment – as is the cleaning unit, which provides an excellent combination of quality and eco-friendliness with our Saphira Chemfree plates.

In the final weeks of the prior year, we acquired the Belgian software manufacturer CERM, thereby expanding our offerings in management information systems (MIS). The company specializes in the development, sales and marketing, and implementation of MIS for advertising and label printing. The world-wide market volume of MIS in the printing industry is estimated at approximately € 200 million.

www.heidelberg.com

Read more about our comprehensive Prinect workflow solutions and the Digital Print Manager at www.heidelberg.com

HEIDELBERG FINANCIAL SERVICES

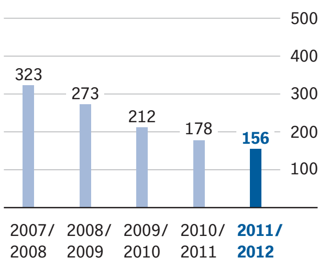
Figures in € millions

	10/11	11/12
Net sales	16	15
Result of operating activities [1]	18	14
Employees	52	53

[1] Excluding special items

RECEIVABLES FROM SALES FINANCING

Figures in € millions



Heidelberg Financial Services: Once again a finalist for Captive Finance Provider of the Year in 2011

Through the Heidelberg Financial Services Segment, we support investments in our solutions. For some years now, we have worked closely with financial service providers: we primarily broker financing solutions for our customers. Moreover, we have built up a network of Group-owned print finance companies in various currency zones so we can also offer direct financing, if necessary. In the reporting year, we once again managed to externalize financing arrangements to a large extent and thus to reduce **RECEIVABLES FROM SALES FINANCING** by another 12 percent to € 156 million. The **ACQUIRED COUNTER-LIABILITIES** were slightly below the low level of the prior years.

The reduction of receivables from sales financing went along with a corresponding drop in interest income. Nonetheless, the **RESULT OF OPERATING ACTIVITIES** for the segment, excluding special items, came to € 14 million and thus continued at a good level. There were also fewer payment problems in our portfolio in the reporting year; this again had a positive effect on our risk provision result, even if the effect was less than in the prior year.

The number of our **EMPLOYEES** in the segment remained virtually the same at 53. Because they have special expertise regarding the opportunities and risks in the area of sales financing, they are able to consistently implement our strategy. Thus our employees contributed decisively to our being recognized by the specialty journal “Leasing Life” last year as the “Captive Finance Provider of the Year in 2010”; the international jury again placed us among the finalists in the reporting year.

DISCOVER

HEI END

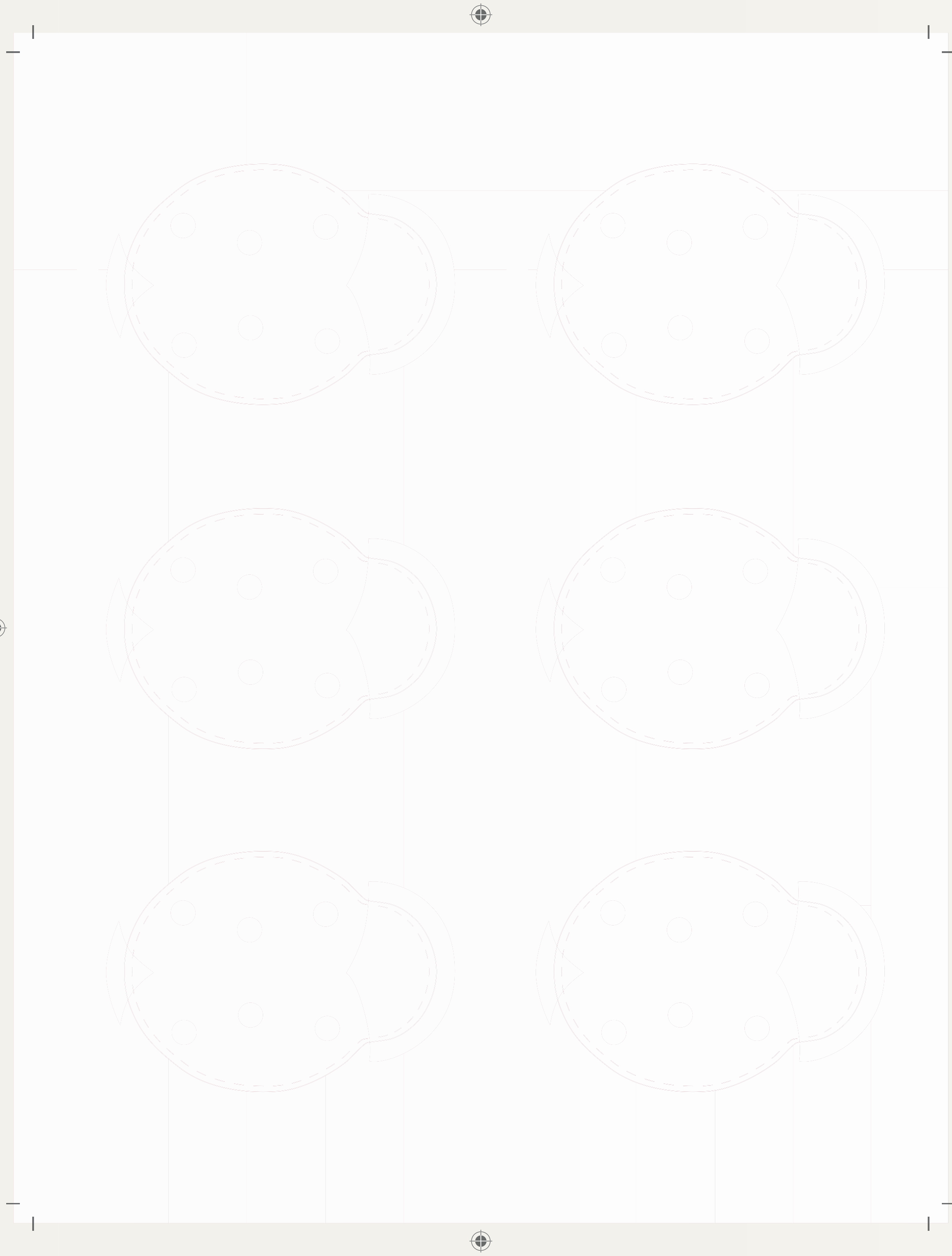
Packaging – Art and Promise

HDM GB 2011/2012 – Image Pages HEI End
Special ink: Käfer Red

What appears one-dimensional at first sight ...

HEI END

Packaging – Art and Promise



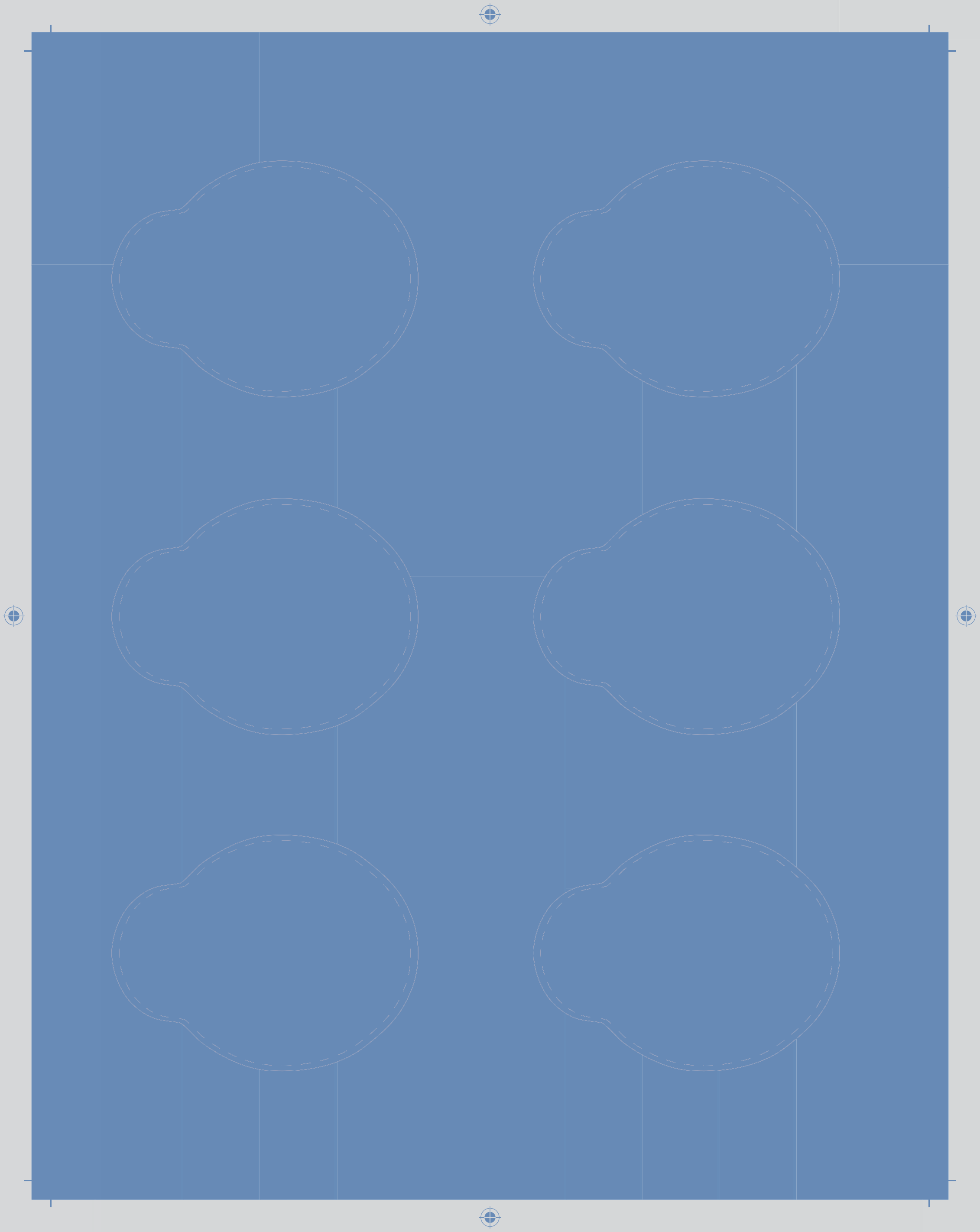
HDM GB 2011/2012 – Image Pages HEI End

Special ink: Käfer Red

... through the efficient use of print sheet and die-cutter unfolds ... ... a multi-dimensional shape as a package.

HEI END

Packaging – Art and Promise

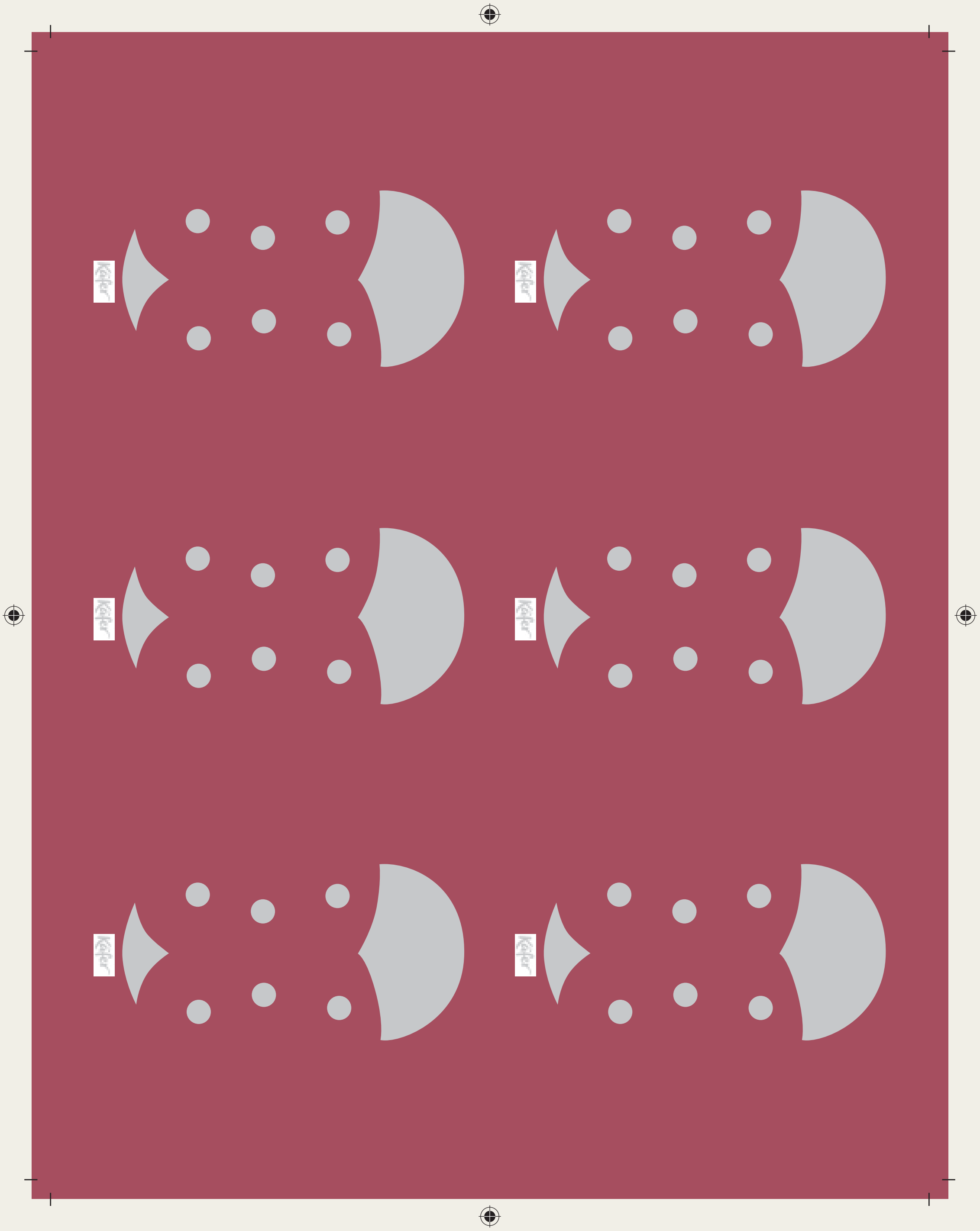


HDM GB 2011/2012 – Image Pages HEI End
Special ink: Käfer Red

What appears one-dimensional at first sight ...

HEI END

Packaging – Art and Promise



HDM GB 2011/2012 – Image Pages HEI End
Special ink: Käfer Red

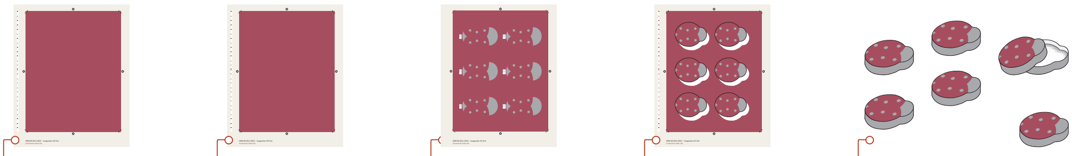
... a multi-dimensional shape as a package.

"At our company, we value tradition very highly. Quality as a passion – this has always been an important concept to us. After all, we want to present our customers with something special: delicacies from around the world. I think everyone who knows us looks forward to enjoying the content just from looking at our unique packaging. And that's exactly the point, isn't it?"

Michael Käfer

Managing director of the Käfer Group

When shopping, do you often decide what to buy on impulse – based on the foretaste that you get from the packaging? If so, you are not unlike most people … Providers of premium products, who set the highest demands on the quality of their goods, also highly value an ideal and unmistakable presentation of their offering – and for good reason. However, it's about more than just an outer shell that is good enough to eat. To ensure that the contents also remain appetizing, the packaging has work to do: even after shipping, it should still be in perfect condition. For print shops, packaging represents a particular challenge: the inks used must not "migrate," i. e. they must not seep into the food. Each lot must have exactly the same color tone, and, of course, print shop customers want a unique wrapping for their special tidbits – creative applications and boxes are in demand.



1 SHEET
The first step for Käfer chocolates packaging: full-sheet, space-saving printing of the sheets.

2 LAMINATING
A matt film is applied to protect the content from moisture and dirt.

3 COATING
The logo and the ladybug spots are applied with UV coating.

4 DIE-CUTTING
Cutting and die-cutting give the packaging its form.

5 PACKAGING
The print sheet is laminated onto the cardboard, then the packaging is assembled and made ready for shipping.

REGIONS AND PRIORITIES

Sales and Services, and Regions

> Global printing volumes develop differently in different regions
> Adaptation of the sales and services organization to structural changes in the markets
> Growth strategy in Asia consistently implemented

In the reporting year, the delayed recovery of the industry impeded our business development in many regions. Due to the economic and political uncertainties in the Europe, Middle East and Africa region, its share in Heidelberg's sales volume declined, while other regions were able to hold or improve the sales level of the preceding year.

We are adapting our sales and services organization to the changed market circumstances and to the anticipated developments in the markets and various market segments. We are substantially reducing structural costs. We will combine functions in both the sales and services companies as well as in our headquarters and will further standardize processes. We will restructure our sales and services organization in the individual markets. In addition, we will, in the future, cooperate more with partners in small markets instead of operating our own branches.

Specifically in the newly industrializing countries, Heidelberg has the most tightly meshed sales and services network in the industry. We have a presence in 170 countries, with our own sales and services branches or through partners. In the industrialized countries, the structural changes in the printing industry are making great demands on our customers. We are continuing to support them through the best on-site service and through our range of offerings of products and consumables tailored to their needs. For printing enterprises active on a worldwide basis, specifically in the packaging printing area, we have built a global sales and services support system which cooperates closely with our local branches. In Europe, we have intensified our key account management in the reporting year.

Printing volume in the newly industrializing countries continues to grow; higher level, in absolute terms, in industrialized countries

In the newly industrializing countries, we will further expand our already strong presence and market coverage, as the volume of printing production will continue to increase in the emerging economies; packaging printing, in particular, will grow. Print shops will invest correspondingly heavily in their machinery and equipment.

In industrialized countries, we will adjust the number of employees for the equipment area to match the demand. We intend to continue benefitting from the high level of printing production volume in the developed markets, which continues to make up around two-thirds of the worldwide volume. Therefore, in the realignment of the sales and services organization, one of our priorities will be to vigorously promote business in the areas of consumables and services.

On page 33, we describe how we manage our sales and services companies. Even though we have strengthened the responsibility of the divisions, the employees in the local sales and services units will continue to be the initial contact point for our customers and will ensure that Heidelberg, with its offerings of solutions, will continue to be the best partner for print shops. Part and parcel of this is our consultancy competence in terms of sales and services and our support of customers through the largest service organization in the industry.

Optimizing internal sales and services processes with the support of IT

We examined all of the business processes at Heidelberg so that we could realize optimization potentials to the fullest. We thus analyzed and documented all relevant processes, from order processing all the way to the installation of a piece of equipment at the premises of the customer. We intend to optimize our structures while at the same time ensuring that customers will be able to put equipment they have ordered into service even more quickly.

In regions where the printing industry has grown historically over a long period of time, such as in Europe, the differences between individual countries were originally very great, for example with respect to preference for particular machines and configurations. On the whole, there has been an intensification of the trend in the industrialized countries toward fewer printing enterprises, which, as a result, produce a large number of print jobs. We consistently utilize synergy effects resulting from the markets drawing closer together: as described, our management is now on a more centralized basis. In addition, in the preceding year we further standardized and intensified our Customer Relationship Management worldwide. We therefore developed a new CRM system which we will introduce in stages in all markets. By increasing transparency with respect to customers and sales and services processes, we are able to recognize and utilize market trends earlier. In addition, we can thus appropriately apply strategies which were successful on a local basis to other markets and consistently utilize cross-selling potentials between the segments.

Feedback from our employees and sales and services partners worldwide is an important source of information for us, enabling us to respond to market trends at an early stage. It flows, among other things, into the development and further development of products and impacts our consumables program.

Europe, Middle East and Africa (EMEA): Course of business developments characterized by financial and sovereign debt crises

From May 3 through 16, 2012, the drupa trade show in Düsseldorf provided a positive start into the current financial year in the region. In Hall 1, more than 300,000 visitors were able to experience the responses Heidelberg is providing to the various trends in the industry. In the run-up to the leading trade

Restrained investment in the run-up to the drupa trade show could be clearly felt not only in the adjacent markets, but also in Brazil, for example.

show of the industry, investments in the fourth quarter of the reporting year were restrained. With a few exceptions, among which were Germany and Switzerland, the markets in the region were characterized by very difficult conditions in the reporting year. In southern Europe, the investment restraint in the industry was especially pronounced. Particularly in Spain, Italy, Greece, and Portugal, the sovereign debt crises resulted in weak incoming orders. There was also little investment in the Middle East as a result of the political situation. The African markets were below the weak level of the preceding years. Overall, incoming orders and sales in the region therefore fell by 13 percent and 6 percent, respectively; fortunately in the area of consumables, it was possible to maintain the preceding year's level.

In Germany, incoming orders remained nearly stable over the reporting period and flattened out especially in the fourth quarter, in the run-up to drupa. Within the framework of Focus 2012, we are combining functions of our sales and services company in Germany with those of the parent company; in this way, we are significantly improving processes. In the coming years, we will integrate sales and services structures in other markets of the region. In the reporting year, we saw a significantly lower number of orders in Great Britain than in the preceding year, which had benefited from the very successful IPEX trade show; the high level of interest of British print shops at drupa gives cause to hope for a recovery.

Eastern Europe: Good development of the consumables area

In the Eastern Europe region, we were able to achieve a notable growth of 5 percent in the consumables area in the reporting year with Poland, among others, contributing to this. In addition, the Polygraphinter trade show in Moscow in October, 2011 was very successful. Business development in Turkey, by contrast, declined following two exceptionally good years. In the reporting year, both incoming orders and sales in the region reached the level of the preceding year on an overall basis. We trimmed down our sales and services structures in the region. Finland is now serviced together with the Baltic States. In some smaller markets in the region, we have additionally been cooperating with external sales and services partners since the beginning of the current financial year.

INCOMING ORDERS AND SALES BY REGION

Figures in € millions

	10/11	**11/12**
EMEA		
Incoming orders	1,049	913
Sales volume	1,011	953
Eastern Europe		
Incoming orders	308	305
Sales volume	299	296
North America		
Incoming orders	331	326
Sales volume	301	329
South America		
Incoming orders	172	166
Sales volume	162	164
Asia/Pacific		
Incoming orders	897	845
Sales volume	856	854

We assume that when print shops purchase all of their consumables from one supplier, they will have, on average, around 30 percent lower inventories, and thus a significantly lower capital commitment; in addition, their processing cost in administration and bookkeeping will drop perceptibly.

As a matter of principle, we offer complete consumables packages when we sell a new printing press. With the aid of these so-called “Starter Kits,” customers can easily satisfy the requirements for ISO 12647-2 printing press certification and the PSO standard.

North America: Printing industry in the US begins to invest again; production for coatings is expanded

In the second half of the year, the long-awaited recovery of the printing industry in the United States began: fears of recession in the United States appear to have been averted. Therefore, the restraint with respect to investment let up somewhat, and orders for our equipment began to increase, albeit at a slow pace. Another piece of positive news from the region: in December 2011, we started production of coatings in our new factory in Detroit; by summer 2012, we will have completed the ramp-up. The outlook is very promising, because the coatings we produce in Europe have already been very well received in the United States and Canada. We assume that local production will win over additional customers. For many customers, this provides assurance that product expertise is available; this can be necessary for product adaptations or special applications.

The print media industry in Canada suffered substantially under unfavorable exchange rates. Canadian printers are traditionally geared toward the United States market as purchasers. In the Mexican market, orders continued to be below the very strong level of the preceding year. Overall, in the region, we achieved a slight improvement of 2 percent in incoming orders after adjusting for exchange rate effects; sales volume increased by 14 percent after adjusting for exchange rate effects!

South America: Investment restraint between trade shows

In the South America region, which is one of the largest growth markets, the strong sales volume of the preceding year was matched; in the reporting year, Brazil advanced to become one of our five top sales markets. In the consumables business, we have not yet reached our goals for the region, particularly in Brazil, which is the most important market. We are developing appropriate measures to generate more sales volume in future in the less cyclical business, and will implement them in the current year.

In the reporting year, our incoming orders fell slightly for three reasons: First, the ExpoPrint trade show in Brazil in the preceding year resulted in very high incoming orders. Second, in the fourth quarter, drupa led to perceptible restraint in purchasing, particularly in Brazil. And third, investment behavior in the region was influenced by economic and tax uncertainties as well as by exchange rate fluctuations.

Asia/Pacific: China again shows a high sales level but somewhat less vigor

Print shops in China are investing almost exclusively in expansion and hardly at all in replacement. Therefore, anticipated economic growth has an immediate impact on incoming orders. Although the Chinese government was applying the brakes to the economy, a GDP growth of 9.2 percent was achieved. The expectations for future economic growth are at 8.2 percent and thus, while somewhat lower than in the preceding years, the demand for printing presses continues at a high level. The China Print trade show at the beginning of the reporting year was very successful. In the preceding year, economic programs had created additional investment incentive; combined with the restrictive credit policy. On balance, this led to China's contributing as well to the 6 percent drop in orders in the region. In addition, the disasters in Japan had a strong dampening effect on the economic development of the region; Japanese exports were increasingly negatively impacted by a further strengthening of the yen. At the Japan Graphic Arts Show in September, 2011, incoming orders for Heidelberg were gratifyingly high. We plan to significantly increase the new printing press business in Japan.

Our factory in Qingpu, the expansion of which we began in the year 2006, contributed to our managing to maintain sales at a high level in China in the reporting year. In total, the sales of the region at € 854 million reached the level of the preceding year. The fact that China contributed just under half of this, and thus continued to be our market with the highest sales volume, demonstrates how important this market has become.

To benefit even more in the future from growth in China and in other newly industrializing countries, we expanded the factory still further in the reporting year and now produce sheetfed printing presses there in the 35×50 to 70×100 format classes. In Australia, the printing industry continues to struggle with structural problems. Due to continuing uncertainty in Japan and Australia, we will restructure the local sales and services companies during the current financial year and adapt sales and services activities such that more sales in the services and consumables area can be realized.

PAGE 108

Sustainability is a global trend that perceptibly influences consumer behavior.

As anticipated, Saphira Eco is being met with interest, especially in Central Europe, but demand is increasingly growing in Asia and North America as well. You can read more about Saphira Eco in the Environmental Report.

Research and Development

> 60 innovations presented at drupa
> R&D rate continues at up to 5 percent
> Solutions developed for digital printing technologies

www.heidelberg.com

We can offer **INNOVATIONS IN ALL PRODUCT LINES**. For cost reasons, we showed only a portion of our innovations at drupa. You will find complete information on our Web site at www.heidelberg.com. We also present several examples on the image pages of this Report – please use the QR codes inside the front cover flap for information on important innovations.

Through our research and development, we are solidifying Heidelberg's position in the print media industry. Our innovations are the basis for Heidelberg's market and technology leadership. Even during the crisis, we consciously made large investments in research and development. At drupa, we were able to again demonstrate the technological leadership of our products and underscore our pioneering role in ecological printing. A high point in our presentation of innovations was our completely new Speedmaster SX sheetfed offset printing model series which combines state-of-the-art technologies of existing product lines in a new, high-performance class, mainly for advertising printing. The target group are print shops in newly industrializing countries that want to achieve the next level of productivity, but the press is also suitable for print shops in industrialized countries experiencing rising cost pressure. At IPEX 2010, we had presented the Speedmaster CX 102, which we had developed under the same concept for packaging printing and which, thanks to its energy efficiency and its conservation of resources, is the most environmentally friendly press of its class. To date, we have already sold 1,500 printing units. For the Speedmaster SX series, which we are offering in three different format classes, we see an even greater market potential worldwide.

R&D rate still at up to 5 percent in coming years, basic research primarily through cooperation agreements

PAGES 125 TO 129

For information on **FUTURE R&D ACTIVITIES** at Heidelberg, please refer to Future Prospects.

PAGES 110 TO 111

On these pages we discuss, in detail, our **COOPERATION AGREEMENTS** in the R&D area including in the digital, Web-to-Print, and organic electronics fields.

In order to be able to profitably strengthen our market position, we have focused our R&D activities in recent years on strategic growth fields and new products. In line with Focus 2012, we will simplify processes.

In the reporting year, we invested just under 5 percent of sales into research and development, primarily in new and further developments which we presented at drupa, and in preparations for serial production. Just under 4 percent flowed into basic research; in addition, we continued to work on research programs promoted by the German Federal Ministry for Education and Research. Cooperation agreements with suppliers, universities and other enterprises, such as our close cooperation with Ricoh and our new strategic partnership with Landa Corporation, remain an essential component of our R&D activities. With CSAT GmbH, we have acquired additional know-how in the field of digital printing technologies (EP and inkjet).

Priorities and results of R&D in the reporting year

We again gave clear proof of our market and technology leadership at the drupa trade show. **FOR EVERY INDUSTRY TREND** we showed the **APPROPRIATE OVERALL SOLUTION** with which promising business models can be implemented, for relatively small as well as industrial print shops, and for packaging print shops as well as commercial print shops. Our solutions comprise equipment for all printing steps as well as software, consumables and services. With our innovations, we respond to our customers' questions which extend far beyond technical aspects: What business models will be successful in the long run? With which new ideas and strategies can money be earned in the future as a print media service provider or in the print media industry? Throughout our trade show offering, we featured environmentally friendly solutions. Due to space limitations, we will describe here only a few of the innovations presented:

At the trade show, our new **SPEEDMASTER XL 106** impressively demonstrated our technological edge. Our unique sheet travel is one of Heidelberg's significant, unique selling points, because with it, our presses achieve the highest printing quality, even in perfecting mode at a maximum production speed of 18,000 sheets per hour. Thus, the Speedmaster XL 106 offers the highest productivity in perfecting mode, and in addition makes it possible for customers to utilize a broad spectrum of paper qualities. The first presses installed are running excellently; we will start serial production in July, 2012.

The new sheetfed offset series **SPEEDMASTER SX 102** combines the Speedmaster XL series with the successful platform of the Speedmaster SM 102 and thus brings the world's most successful perfecting press with XL technology to a new performance level. Like the Speedmaster CX 102, it impresses with high productivity and shortened makeready and throughput times, and achieves a constant high production speed of up to 14,000 sheets per hour.

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Given the structural changes in the printing industry, the competitive advantages of our solutions carry even more weight. In the **SEGMENT REPORT**, we provide information on additional innovations and on our particularly environmentally friendly inks and coatings, and how our customers benefit from our being the only manufacturer in the industry to have fully integrated digital printing presses.

"Research and development has made a significant contribution to the market success of Heidelberg and will continue to do so. We will not only ensure market leadership in our core business but also move forward to open up new areas of business related to our core competences."

Frank Kropp, Head of Research and Development since April 2012

Modern printing presses are high-tech systems comprising tens of thousands of parts and components. In addition, high-performance software is utilized to control up to 600 individual drive shafts and as many as 300 pneumatic parts.

One of the special features of the **SPEEDMASTER SX 52-5+L ANICOLOR** is that we have made the entire manufacturing and transport chain to the customer climate-neutral as a standard feature; we have reported on the outstanding environmental features of the press in the Internet. In addition, Anicolor substantially lowers the cost of offset printing for small jobs and thus guarantees optimal offset quality at attractive prices.

We have completely integrated the presses of our cooperation partner Ricoh into our Prinect print shop workflow. Beginning with drupa, these presses have been marketed under the names **LINOPRINT C 901 AND LINOPRINT C 751** and thus clearly as Heidelberg presses. This integration creates important benefits for our customers such as consistency of quality, production security, as well as cost and planning transparency. Thus, depending on the application, for example in the areas of short-run color or variable data printing, our customers are able to produce at optimal costs and thus to achieve maximum flexibility at the lowest costs and highest quality.

Reducing the complexity and number of parts; R&D costs fall as a result of optimization of processes

Heidelberg's research and development area continues to be organized in a matrix, though we have significantly strengthened the **FUNCTIONAL AXIS** and will realign the area under new leadership. The development of digital printing for advertising and packaging printing will be expanded and bundled.

We bundle similar functions, for example the development of all printing and inking units, in one place. In this way, we ensure that similar solutions and similar parts will be used for similar functions. The ramifications on the entire added-value chain are apparent when one considers the complexity of our mechatronic systems. The text box to the left gives an idea. You can read more about complexity management at Heidelberg on page 100. Thanks to our product platform strategy, which we had fully implemented in the previous years, we can easily bring together functions beyond management, software development, product safety, and product environment. In previous years, we were also able to quickly transfer innovations in one format class to other format classes. Overall responsibility for each product line, however, continues to be clearly defined. This ensures that customer benefit is the primary consideration in development.

In **PRODUCT DEVELOPMENT**, we continue to work closely with concept customers and thus increase the customer benefit of our new products through our close connection to the market. We integrate our system partners into projects at an early stage; we describe our development partnerships in greater detail in the chapter on Cooperation Agreements. Throughout the Group, we work with a so-called Quality Gate process which integrates all participating areas into the product development process. We use this process among other things in order to optimize product life cycles and to consider environmental aspects systematically at all levels. You can learn more about this in the Glossary.

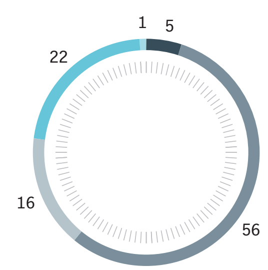
We announced 96 new patents during the reporting year. Heidelberg now holds nearly 4,800 registered and granted patents worldwide.

Employees: high qualifications

Around 7 percent of our staff worked in R&D at the end of the reporting year: a total of 1,103 R&D employees, of which 84 percent worked for the Heidelberg Equipment Segment and 16 percent for the Heidelberg Services Segment. As part of Focus 2012, the number of our R&D employees is expected to drop by around 12 percent, but their percentage share with respect to the entire staff will remain the same. Their distribution among the segments will not change, either. We also intend to retain the current qualifications structure, which we show on the right. In order to have better opportunities for a favorable mix of experienced personnel and junior researchers in the future, we are participating in events for first-semester students in order to kindle their interest in our Company. In addition, we are developing approaches with which we can expose students in bachelor's and master's degree programs to the development of technologically demanding products at an early stage.

QUALIFICATIONS OF R&D EMPLOYEES

Figures in percent



Doctoral degree	5
Master's degree/ state graduate exam	56
Master craftsman/technician	16
Vocational training	22
Other training	1

FIVE-YEAR OVERVIEW – RESEARCH AND DEVELOPMENT

	2007/2008	2008/2009	2009/2010	2010/2011	**2011/2012**
Research and development costs in € millions	222	186	121	121	129
– in percent of sales	6.0	6.2	5.2	4.6	5.0
R&D employees	1,582	1,511	1,265	1,135	1,103
Patent applications	158	148	80	92	96

We absorbed overcapacities through the application of short-time work during the reporting year; in addition our employees relinquished provisions of collective bargaining agreements, among other things.

EMPLOYEES BY SEGMENT

Number of employees

	2010/11	**2011/12**
Heidelberg Equipment	10,254	10,052
Heidelberg Services	5,522	5,309
Heidelberg Financial Services	52	53
Heidelberg Group	15,828	15,414

EMPLOYEES BY REGION

Number of employees

	31.3.11	**31.3.12**
EMEA	11,156	10,833
Eastern Europe	631	615
North America	1,000	882
South America	250	262
Asia/Pacific	2,160	2,221
	15,197	14,813
Trainees	631	601
Heidelberg Group	15,828	**15,414**

Employees

> Job cutbacks to less than 14,000 jobs worldwide by the middle of 2014
> Counteracting the impact of demographic developments
> Flexibility of working times significantly increased

Beginning on page 53, we describe in detail on what basis we originally assumed that the demand for our products would significantly increase over the reporting year and in the current financial year. Therefore, we continued to employ our highly trained technical specialists in order to benefit from the expected sustainable increase in business volume. In the framework of our Focus 2012 efficiency program, we adjusted our capacities in the areas of service, sales, development and production to the current level of sales. In the service and sales area, we are relying primarily on a bundling of functions; in administration, we will additionally change processes and cut back on positions. Another emphasis of Focus 2012 is to adapt the sales and services structures to business expectations in the various countries.

Results of negotiations with the Works Council: Severance agreements, organization of transfer companies, permanent reductions in working hours, increased flexibility of working time

In January 2012, we entered into negotiations with employee representatives concerning reconciliation of interests and the social plan; at the end of the reporting year we had already **SIGNED A CONTRACT WITH RESULTS** which, on the one hand, are socially responsible, and on the other, make the necessary adjustments possible. The contract provides severance agreements, the organization of transfer companies, permanent reductions in working hours for the entire staff and an increased flexibility of working time. With this innovative model, we will realize an immediate capacity reduction of around 15 percent and, in addition, will ensure that we achieve a more balanced age structure in the Company.

Overall, we will **REDUCE THE NUMBER OF EMPLOYEES IN THE GROUP TO LESS THAN 14,000 BY THE MIDDLE OF 2014**. Domestically, the bulk of the reduction is to be implemented through voluntary severance agreements, including an age structure model for older employees. As a result, we will be able to avoid qualified employees having to leave the Company based on social criteria. Employees whose function is done away with on the basis of structure and flexibilization projects can switch into a transfer and employment training company. We have been cutting jobs abroad since the announcement of the efficiency program in November, 2011.

With a collective reduction of working hours to 31.5 hours a week, beginning May, 2012, with corresponding reduction of the remuneration curve, a permanent collective bargaining arrangement was created in order to reduce staff costs sustainably and to **REDUCE CAPACITIES AT THE GERMAN LOCATIONS BY 15 PERCENT IMMEDIATELY**. Starting with the lowered weekly working hours, the individual working hours can be adjusted, if needed, to the particular capacity utilization situation through time accounts. Thus, we increase the flexibility of working hours significantly and can react globally, if demands of the market require a higher or lower utilization of capacity, in particular in the year of drupa, the world's largest printing press trade show.

We have introduced measures in our worldwide sales and services activities in order to **ADAPT THE SALES AND SERVICES ORGANIZATION TO THE ALTERED MARKET SITUATION**: In order to lower structural costs, sales and services activities will be bundled, and individual markets will be restructured. At the same time, customer care will continue to be ensured worldwide.

In the preceding year, we restructured the management levels in the Group and introduced an altered management and remuneration system. Among other things, alongside the management career, there has been an equivalent specialist career since then. In the framework of Focus 2012, we have also further adapted our management structure to the new employee numbers.

Communications and change management

In order to provide prompt and timely communications, make processes transparent, and actively integrate employees, we rely on uniform communications and change management throughout the Group. An important component is a dialog-oriented platform that we use in order to systematically obtain feedback from the organization on centralized change and communications measures. In the form of workshops, participating employees from the most diverse areas regularly give feedback to this sounding board on communications and topics involving change in the organization. Questions concerning the success and the effect of communications and change management measures are also asked, as well as questions concerning motivation in the teams and divisions. The employees are asked to review measures qualitatively and to identify centralized change topics and needs. On this basis, we examine planned communications and change measures and develop an appropriate approach.

"Human resources work at HEIDELBERG should make a contribution to the success of the enterprise. Even in times of staff reductions, we must not neglect matters such as strategic personnel development, responses to the demographic challenge, or targeted tools for creating employee loyalty."

Dr. Rupert Felder, Head of Human Resources since February 2012

Priorities of human resources work

In the current financial year, the focus of our human resources work is on implementation of the measures of the Focus 2012 efficiency program in a sustainable, socially responsible and efficient manner. In addition, we are supporting the implementation of the new organization, which will guarantee smooth processes and flexibility. It is especially important that our IT processes be adapted for this; reduction of complexity will be a priority in the personnel area as well. We are continuously analyzing topics which will be of great significance, primarily in the longer term, demographic change and the large role which the compatibility of family life and professional life will play in competing for highly qualified staff, among other things. Thanks to our outstanding training program, which is increasingly taking place in the dual system, we will continue to find qualified young employees in the future.

Personnel development: training of sales and services staff for new products, qualification assures quality in production

In view of the difficult economic conditions, we have perceptibly reduced external advanced training expenses in the reporting year and have used internal training and extensive e-learning programs that are available to our employees. With the help of our Print Media Academies worldwide, we keep our sales and services staff up-to-date. Beyond this, we maintain an expert platform and database as well as round-the-clock support from our sales and services team.

The focus of our advanced training programs was primarily on training our sales and services employees for the new products that we presented at drupa, including the products of our partner, Ricoh, which we market under the brand Linoprint. In addition, sales and services employees were brought up-to-date especially in the area of consumables and application technology. In conjunction with the significant expansion of capacity of our production site in China, we carried out many qualification measures in China.

In assembly, all employees and managers involved in the production process, as well as the employees in planning, production control and quality control, complete a continuous learning and qualification process, in which 16 different specialty topics are prepared and continuously updated by Heidelberg experts. Qualification networks generate individual training materials and ensure the qualification process. Due to the large number of affected employees and executive staff, we have developed a professional learning architecture. The foreman as a member of the executive staff assumes the role of the personnel developer for his or her employees.

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.

We pay special attention to ensuring the competitiveness and innovativeness of Heidelberg. For several years, an analysis of potential has been performed once a year in order to cover the need for qualified specialists and executives from within the Company. Key positions are made transparent in dialog sessions across divisions, and the employees can be systematically advanced regardless of whether they are pursuing a specialist, executive or project career.

Demography: Counteracting the aging of the staff

Heidelberg is watching the challenges resulting from the demographic development and is actively taking countermeasures. The measures of the Focus 2012 efficiency program will prevent a dramatic increase in the average age. In addition, we decided upon further measures as part of our demographic program, with a focus on ongoing advanced training and qualification and topics such as division-spanning networking and in-depth knowledge of process chains and systems.

A high level of training

We have retained our high training rate of around 6 percent. Throughout Germany, 170 teenagers and young adults began as trainees at Heidelberger Druckmaschinen Aktiengesellschaft on September 1, 2011. Around 100 are at the Wiesloch-Walldorf location; other training locations are Amstetten, Brandenburg, Leipzig and Ludwigsburg. We provide training in 13 occupations, mechatronics technicians, industrial mechanics, and industrial clerks, among others, as well as several bachelor programs. The emphasis is in the area of technology with various engineering programs.

Heidelberg is rooted in engineering, which means the share of female employees has traditionally been considerably lower than in other industries. Women continue to be strongly underrepresented in technical and scientifically-oriented professions. We intend to increase the proportion of women in the medium term.

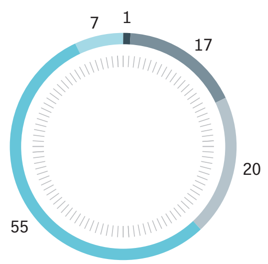
For many years, we have held presentations on so-called Girls' Day. 130 schoolgirls came to our events in April 2011 and the same number in April 2012. Currently, 13.4 percent of our trainees are women, as in the prior year.

The dropout rate from our trainee programs has been held to below 1 percent for a number of years. This speaks for the quality of our training, since the dropout rate among all companies throughout Germany is approximately 25 percent on average.

For many years, Heidelberg has systematically supported young people who have only limited job prospects. Since 2007, 31 young people have taken advantage of this opportunity at Heidelberg. In the warehouseman career, we fill around 50 percent of the training slots in this way.

EMPLOYEE QUALIFICATION

Figures in percent



Doctoral degree	1
Master's degree/ state graduate examination	17
Master craftsman/technician or equivalent vocational school diploma	20
Graduation from accredited vocational training	55
Other training	7

On-the-job accidents: Low rate again in the reporting year, guidelines for occupational safety apply worldwide

We credit, among other things, the high level of qualification of our employees for the fact that the number of on-the-job accidents at our locations is comparably low. Clearly defined guidelines, applicable throughout the Group, and our investments in on-the-job safety also contribute to this. The trend of the absolute figures for on-the-job accidents at Heidelberg, viewed over several years, is clearly falling and is at an extremely low level.

Idea Management: Very successful year despite difficult underlying conditions

Our employees' know-how and experience give us considerable opportunities in the form of ideas for improvement. We systematically use these opportunities through our well-established Idea Management system. Approximately 5,700 ideas were submitted during the reporting year, compared with 5,000 and 2,300 ideas, respectively, in the two previous years. The implementation quota of 58 percent again significantly surpassed the very high previous year's quota of 47 percent. Thanks to our employees, we were able to realize savings of € 3.8 million, as was the case in the previous year.

FIVE-YEAR OVERVIEW – SOCIAL KEY FIGURES

	2007/2008	2008/2009	2009/2010	2010/2011	**2011/2012**
Number of employees	19,596	18,926	16,496	15,828	15,414
of which: trainees	657	707	700	631	601
Specialized training days	52,432	34,146	43,968	24,313	17,819
Turnover rate in percent [1]	2.3	3.4	14.1	6.4	5.0
Average seniority (in years)	13.2	13.7	15.2	15.7	16.1
Percentage of female employees	14.3	14.5	14.1	14.1	14.4
Percentage of part-time employees (excluding partial retirement)	2.7	2.8	2.7	3.9	3.7

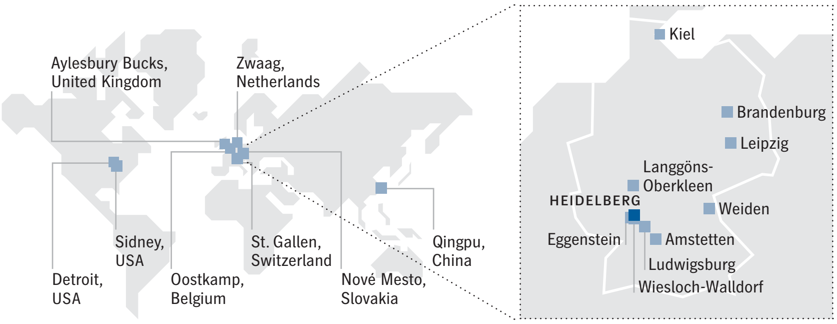
[1] Departures excluding expiration of time-limited employment relationships, excluding departures due to corporate transitions, and including transition to partial retirement dormant phase at Heidelberger Druckmaschinen Aktiengesellschaft

Sites, Production, Processes

- > Complexity management in all areas
- > Successful procurement strategy
- > Optimization of business processes using information technology

We have not planned for any further site closures as part of the Focus 2012 efficiency program. In previous years, we consolidated production capacities in Germany and centralized the development activities of high-tech areas in Heidelberg. In addition, we consolidated the production sites abroad: during the year under review, we completed the capacity expansion of our site in Qingpu. We now have a total production area of about 45,000 sqm so we can meet a larger part of the demand from China with locally manufactured products. During the year under review, we established our own coating production facility in the USA. In previous years, we closed down some less profitable sites or completely relinquished them through divestitures. We will continue to make consistent use of the cost advantages of the Brandenburg and Nové Mesto sites and will focus more on utilizing their available production capacities. All the existing production sites are part of our production network. Organized by families of components, it ensures cost advantages through interaction.

DEVELOPMENT AND PRODUCTION SITES



www.heidelberg.com

Specialized factories work jointly as part of a production network to produce our printing machines. For more information on our sites please see our Web site.

The extreme precision with which our mechatronic systems function is decisive for our customers' success and presents a challenge for our manufacturing and production processes. We meet these challenges through tolerances in the range of thousandths of a millimeter. After all, the production process must end with up to 50 tons of cast iron and electronics running more precisely than a Swiss watch, and all this at a production speed of up to 18,000 sheets per hour.

Complexity management across the board

We adapt all the structures so that Heidelberg's strategic objectives can be achieved quickly under the anticipated prevailing conditions. At the same time, we aim to tap additional potentials for increased profitability. In previous years, we systematically increased efficiency and effectiveness in various central areas, including the production area. Under the Research and Development section of the previous year's Annual Report, we described the comprehensive BiRD program (Best in Research and Development), for example. Our integrated Heidelberg production system is described in detail below.

The **COMPLEXITY MANAGEMENT SYSTEM**, which we are now implementing, taps into further potentials for increasing profitability by cutting across divisional boundaries. It involves the entire value chain and thus follows the so-called end-to-end approach. We consider complexity management to be an important component for adjusting Heidelberg's structures and processes to the changed underlying conditions. Therefore, we will make it one of our highest priorities in the coming years.

Heidelberg Production System: ensuring quality

In order to ensure top quality, and at the same time lower manufacturing costs, we systematically exploit avenues for process optimization. Our integrated Heidelberg Production System (HPS) helps us in this process. We have fully implemented it at our production sites. HPS has helped us save about € 12 million in costs in the production areas, both in the year under review and in the previous year.

Structure and space optimization; HPS in administration

Large rentable areas have been vacated and leasing agreements have been terminated at the Heidelberg site in the last several years. In the medium term, we will continue to reduce facility management costs by means of structure and space optimization. We have never stopped implementing measures at our sites to sustainably reduce operating costs.

As a result of our positive experiences in production with the Heidelberg Production System, in the year under review, we have started to carry the principles over to our administration. Thanks to “HPS in the Office,” the Quality, Product Marketing and Procurement divisions were also able to contribute to the overall savings during the year under review. We are moving forward consistently on this path and carrying the production system over to other areas.

Information technology and networking

In the past several years, the information technology area has contributed substantially to reducing costs. The infrastructure has been successfully consolidated and standardized. At the same time, since 2008, the IT area has achieved a more than 40 percent reduction in budget and almost 50 percent in personnel.

After having prioritized infrastructure standardization for a long time, the IT area is taking significantly more responsibility for the beneficial use of information technology. The area is shifting from a pure service provider to an active participant in optimized value chains and supports the adjustment of business processes. The focus here is on sales and services processes and effective information management, especially in the area of product information.

During the year under review, we have switched the sales and services company Heidelberg Deutschland in Germany, one of our largest markets, over to our new Customer Relationship Management system (CRM). Brazil’s switchover was started at the beginning of March 2012, to be followed by Asia and North America.

In addition, Heidelberg’s IT area is an active participant on the external market as an advisor and solutions provider. Under the name “Heidelberg Engineering Consulting,” Engineering IT advises international companies on the use of Siemens’ CAD system NX. During the period between April 2010 and March 2012, we managed to impress several distinguished customers with our effectiveness.

“The HEIDELBERG brand is associated with quality in engineering. Our many highly qualified employees have an astonishingly wide experience in methods and approaches to superior, complex engineering. Heidelberg IT plays a significant role in designing changes in processes and in providing support for the use of this productive force in established business sectors and for new strong-growth areas with clear profitability goals.”

Uwe Herold, Head of Information Technology since July 2011

We have implemented all the measures that are necessary to maintain reliable operation of the existing IT environment, such as WLAN/LAN networks, client/server systems and applications, and to counteract the aging of the equipment and programming technology.

With respect to the existing applications, we are paying special attention to the SAP systems for finance, product management, production and logistics. We will further consolidate and optimize these in the following two to three years. One of our investment focuses will be on replacements and software updates.

Successful strategy in purchasing and procurement

In the first half of the year under review, above-average increases in the price of raw materials posed particular challenges to us in the procurement area. We succeeded in keeping the changes in material prices at Heidelberg below the rise of comparable commodity-based sector indices. How? By means of sustainable cost management, by more closely integrating strategic purchasing with our supplier management and by working together more intensively with various departments and across functional boundaries. Overall, we have been able to slightly lower the ratio of materials costs during the year under review.

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

We continuously improve our supply methods, create efficient procurement processes with our key suppliers and thereby ensure the reliable supply of parts and components of the highest quality. A flexible material supply at the optimal inventory level is essential, especially in case of fluctuating demand. In order to keep capital commitment as low as possible, we continuously optimize inventories along the entire value chain.

We have also continued our purchasing activities in foreign currencies during the year under review in order to lower risks associated with exchange rate fluctuations. Since we generate approximately 73 percent of our sales beyond the euro zone borders, we continue to expand our global procurement, thereby making the Group less dependent on exchange rate effects. Additionally, we take advantage of differences in wage levels. During the year under review, we were once again able to increase the local procurement share at our plant in China and further strengthen synergies with the German purchasing departments.

In the consumables area of the Heidelberg Services Segment, we generally pursue a "dual vendor" strategy. In doing so, we prevent one-sided dependencies. We deviate from this only in cases where mutual exclusivity is ensured, and then, under appropriate market and competitive conditions, we also assume the sale of our partners' entire product range.

i

In the "Indirect Material" and "Services" areas, we have issued new tenders for the most important need groups and have achieved noticeable success in purchasing.

"Green Procurement" will be more involved with decisions regarding the selection of our suppliers. In light of this, we have negotiated new contracts especially in the energy procurement area during the year under review.

Vertical integration: reducing it to just under 36 percent as part of further optimization

In manufacturing, our focus is on parts for which quality is a key factor and on products that provide us competitive advantages through our specialization. In-house manufacturing versus external procurement analyses are conducted prior to every new investment. If it brings about financial benefits, we will further reduce the vertical integration. Based on total cost analyses, we expanded the share of external procurement in the areas of prepress and printing from approximately 50 percent to over 65 percent. Depending on the product types, the share in this segment was considerably higher in the finishing area.

Investments: production reliability ensured

In order to ensure that the most important investments worldwide are undertaken, we plan for investments promptly and continuously. The process is defined by guidelines on investment planning and implementation applicable to the entire Group and is coordinated by the central Investment Controlling. The target value for the Group's investment volume in the coming financial years is initially set by the Investment Advisory Board. This target value is allocated by Investment Controlling to the Company's departments, taking into account special project requirements. The departments then plan specific measures. The Investment Advisory Board makes decisions about large projects.

Replacement investments that help us ensure production reliability were given priority during the year under review. Beginning in financial year 2008/2009, the foundry in Amstetten has been modernized. At the end of the year under review, we invested a total of about € 19 million there and thus turned the foundry into one of the most modern plants in Europe with optimized processes. In addition, during the year under review, we completed the renovation of the central warehouse at the Wiesloch-Walldorf site. We started this project in financial year 2007/2008.

We implement projects to acquire know-how and ensure Heidelberg's leadership in quality. One example is our development of screen roller manufacturing. To counteract the risk of rising energy prices, we will, among other things, start operation of a combined heating and power station at the Wiesloch-Walldorf site during the current financial year.

Global logistics concept reliably supplies customers

High machine availability, guaranteed quality and adherence to delivery dates are essential for print shops worldwide. We are able to immediately supply our customers all over the world with service parts in over 95 percent of cases. The core of our globally integrated logistics network is our World Logistics

PAGES 109 TO 112

Cooperation agreements are an integral part of our logistics concept. In this way, we significantly contribute to lowering our net working capital.

Center (WLC) at the Wiesloch-Walldorf site, where we have about 130,000 different categories of parts in stock. In addition, we have logistics centers in the USA, Japan, and Hong Kong. We also use the network to sell our consumables.

Our global logistics network is also an important part of our system service concept, which is geared toward the customers' entire value chain. Customers increasingly use our Internet-based remote services or the eCall service, by means of which a defective printing press is automatically reported to the Heidelberg service team. The network ensures that the necessary service parts are already available by the time a technician arrives.

Corporate communications: information and appeals aimed at all target groups; transparent marketing

Our worldwide communications are aimed at increasing brand awareness and brand loyalty. We want our customers and contacts to experience our brand values of "proximity, excellence, confidence" every time they contact Heidelberg.

Upheavals in the sector and the bankruptcy of one of our competitors have led to uneasiness among our customers. Therefore, as part of our **PUBLIC RELATIONS** we put particular emphasis on transparent and timely information of all external target groups. In addition, all Management Board members have been active participants in associations and panel discussions. The Management Board has described the market trend in many interviews and briefing sessions with the business press and explained the background of the actions taken and the objectives of the Focus 2012 efficiency program. On a press tour to Shanghai, the major representatives of the trade and business press got an insight into how Heidelberg opens up the growing Chinese market. At the opening of the third construction phase of the Qingpu site, the Management Board explained the Company's strategy for the newly industrializing countries.

Our solutions show convincing competitive advantages that are proven in practice on a daily basis. Our **TRADE PRESS ACTIVITIES**, similarly to our marketing communications, are targeted towards illustrating, as clearly as possible, the advantages and customer benefits offered by our solutions. During the year under review, the focus was on the growth areas of consumables, packaging printing, and large format. At the end of 2011, in anticipation of drupa, we launched our integrated communications campaign under the trade show

Various media are available to our **EMPLOYEES** to keep them up to date. They include the Intranet, a staff newsletter, letters from the CEO, and databases. Our change management is described in detail in the chapter "Employees" on page 95.

We offer targeted information for our **SHAREHOLDERS AND INVESTORS** as part of our investor relations activities; please see pages 21 and 22 for more detail.

slogan "Discover HEI" with an international trade press conference. In February 2012, we took the next step at a drupa press conference in Düsseldorf, where we presented our new SX platform and introduced our digital products under the name of Linoprint. Our goal was to inform our customers worldwide about Heidelberg's innovations in the trade media prior to the trade show. The preparations were concluded by the press conference on May 2 at the Heidelberg booth in Düsseldorf with over 150 journalists and impressive live presentations. In mid-2011, just when we introduced our Saphira Eco consumables to the market, we invited trade journalists to a press tour and joined them on a visit to printing facilities that work with our consumables. Thus, the benefits were illustrated in practice on this occasion as well. In addition, the question "What makes Saphira Eco consumables stand out?" was answered in a way that made clear that Heidelberg is setting new standards in the sector with this line of products. For more details, please see page 108.

In the past several years, we have standardized Heidelberg's **MARKETING ACTIVITIES** worldwide. We provide the market with a comprehensive selection of marketing instruments which can be adjusted to regional demand. Therefore, in the past several years, we have significantly reduced the marketing outlays. The expenses associated with this year's drupa were also significantly lower than for the previous trade shows. One reason is that we concentrated our solutions in one hall. Our partner companies exhibited in the adjacent hall. Between May 3 and May 16, we once again addressed marketing decision-makers, in addition to our usual target groups, and emphasized the effectiveness of high-quality print communications in a sensible marketing mix. We also invited customers from various target groups and marketing decision-makers to "in-house" events. At our Print Media Centers in Heidelberg and Wiesloch-Walldorf, we presented over 1,500 individual sample print applications, just as in the previous year. We again invited commercial offset printing and packaging printing participants to numerous events.

Heidelberg's appearance at the trade show was designed to be climate-neutral.

For a look at the design of the booth, please visit the following QR code:

Environmental Protection

> Global megatrend ECO
> Challenge for the sector
> Comprehensive solutions for customers, including consumables
> Conservation of resources at the Heidelberg production facility

We see sustainability as a long-term balance between ecology, economy, and social responsibility. We are committed to being a sustainable partner with our products, services, and sites to customers of the print media industry and also to the customers of other industries that we serve. Our products and services help to improve the energy and environmental management of print shops and to promote ecological printing.

Environmental protection has been one of the corporate objectives of the Heidelberg Group since 1992. Furthering this objective is a declared goal of our strategic agenda. As with all strategic objectives, we work closely together across regions and segments to promote environmental protection. Our so-called ECO Council is responsible for defining and implementing measures. The Council has laid out Heidelberg's commitment in a vision statement, excerpts of which can be read on the left.

Heidelberg's objectives by 2014; investments in environmental protection and sustainable production

In July 2011, the ECO Council established new group-wide objectives to be achieved by 2014. The main objectives of the adopted environmental program include, among other things, reducing CO_2 emissions, increasing material and energy efficiency, and saving energy. In order to achieve the defined targets, projects and actions have been initiated in all areas of the Company. They include energy concepts for our sites and the certification of our site in Amstetten based on the energy management standard ISO 50001. An environmental management system has been certified according to ISO 14001 for over ten years at our German sites. Our sites in Nove Mesto and Qingpu are also expected to be certified by the end of 2013. We will significantly reduce both electricity and water consumption through investments at our German sites.

In order to continue to reduce environmental pollution systematically in our production, in September 2012 we will put into operation a combined heat and power station at our **LARGEST PRODUCTION AND ASSEMBLY SITE** in **WIESLOCH-WALLDORF**. With two aggregates, it will cover 20 percent of the current demand for electricity and about 40 percent of the site's required heat energy. Combined heat and power stations are a particularly efficient form of energy supply. Up to 40 percent of the primary energy used can be saved with the principle of combined heat and power. By investing € 2.4 million, we will save € 1.2 million per year. During the year under review, the partial renovation of the lighting in Hall 5 alone, along with the adjustment of the illumination level and timing in the halls overall has resulted in about 650 tons less CO_2 being emitted per year at the Wiesloch-Walldorf site. After the completion of the reorganization and renovation of the central warehouse in Hall 40, the energy consumption of the entire hall was analyzed. As part of a "green warehousing" project, we implemented quick savings measures, such as time controls on conveyor and ventilation systems. We expect to lower annual electricity consumption by 18 percent of the original value.

Environmental protection an integral part of our drupa trade show appearance

For print shops, resource-conserving production processes have always been an important criterion for efficiency. The trend towards higher environmental awareness, which plays an increasingly important role in the strategy of many companies, poses a challenge to the printing sector and offers opportunities for Heidelberg and for our customers. Print shop customers have increasingly demanded "green printing" for the past several years. **ECOLOGICAL PRINTING IS ONE OF THE SEVEN GLOBAL MARKET TRENDS**, for which we exhibited solutions at the drupa trade show. But environmental topics played a role not only under the "HEI Eco" slogan. They were integrated into all the solutions that we presented for various trends, whether it was for packaging printing or solutions for the Web-to-Print area. By making the entire **EXHIBITION COMPLETELY CLIMATE-NEUTRAL**, we again underlined our Company-wide environmental commitment. The main parameters taken into account included, among other things: the manufacturing of the equipment exhibited, energy consumption, setup and dismantling, trade show construction, demos, logistics and employee transportation. During printing demonstrations at all of our solutions centers and all trade show appearances we use only FSC-certified paper from responsible forestry. At the trade show, we presented the **"HEIDELBERG ECO PRINTING AWARD"** for the third time. The award is the only international environmental award in our industry. With this award, we promote the commitment to ecological printing and offer print shops the opportunity to exchange ideas about these topics on an international level.

In the industry, Heidelberg is considered an exemplary sustainable company with environmentally friendly solutions. And for good reason, since we **HAVE FOR A LONG TIME SYSTEMATICALLY INCREASED SUSTAINABILITY IN THE PRESSROOM**, ranging from the reduction of spoilage to our extensive range of products for alcohol-free printing and the reduction of noise pollution, to our energy-efficient Star peripheral equipment. We apply all the innovations that improve the overall environmental balance of printing processes to all

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In terms of sustainability, we have high standards for all of our products. **FUNDAMENTALLY, WE ARE MAKING IMPROVEMENTS IN ALL THE PRODUCT LINES.**

What is crucial for the **ENVIRONMENTAL CREDENTIALS OF THE PRINTING PROCESS** is, first, paper consumption, and second, the printing press' energy consumption. Process emissions and waste are also important.

Our efforts are focused on reducing the **ENERGY CONSUMPTION OF THE ENTIRE PRINTING PROCESS**. In order to ensure that print shops are able to print within the energy-efficient range, new Heidelberg machines will display the level of the current **ENERGY CONSUMPTION FOR 1,000 SHEETS/HOUR.**

We are the **FIRST MANUFACTURER** to offer our customers **CLIMATE-NEUTRAL PRINTING PRESSES EX WORKS** – the Speedmaster SX 52 Anicolor and XL 75 Anicolor are CO_2-neutral. Our Anicolor technology boasts outstanding environmental features, including reduces spoilage to a minimum.

other product lines as well. For example, we have installed Sinussynchron main drives in all Speedmaster models since 1998, while our competitors still use direct current motors, which are less efficient.

As of the year under review, we also offer our particularly environmentally friendly **SAPHIRA ECO LINE**, which ranges from chemical-free printing plates, inks and coatings that are based on renewable resources, to washing agents and dampening solutions with significantly reduced VOC content, to dispersion adhesive for the manufacture of folding boxes. Since sustainability is especially about transparency and confidence, we have obtained a certificate from an independent institute for the selection, purchasing and marketing processes of the Saphira Eco products.

With respect to the products of the Saphira Eco line, we have undertaken to adhere to a catalogue of criteria, which is in conformity with the strictest regional and international environmental certification programs in the print media industry, such as Nordic Swan or the EU EcoLabel. We are continuously reviewing and developing it. For more details, please visit www.heidelberg.com/saphira-eco.

Adherence to **ENVIRONMENTAL AND SOCIAL STANDARDS** is mandatory throughout the Group. The product development process is designed in such a way that safe and environmentally sound solutions are found for the entire product life cycle. Our suppliers and contracting parties are also included in our targets at all our sites and are obligated to adhere to standards similar to those that Heidelberg does.

Cooperation with environmental organizations and associations

By supporting the Forest Stewardship Council (FSC), we also promote sustainable forestry. We work with the Bundesverband Druck und Medien (Federal Print and Media Association, BVDM) and ClimatePartner to calculate the CO_2 footprint of printed products at our print media centers and their climate neutrality.

www.heidelberg.com/eco

For our detailed current **SUSTAINABILITY REPORT** with key data on all our production sites and extensive information on our products, please visit our Web site.

FIVE-YEAR OVERVIEW – KEY DATA ECOLOGY

	2007	2008	2009	2010	**2011**
Output emissions in thousands of metric tons of CO_2 [1)5)]	141.0	127.6	87.7	117.9	91.5
CO_2 (in metric tons) per produced ton of output [2)3)]	–	–	2.0	2.1	1.5
SO_2 [1)]	0.1	0.1	0.1	0.1	0.1
No_x [1)]	0.1	0.1	0.1	0.2	0.2
Output emissions in metric tons of VOCs	173.0	135.9	66.5	76.6	74.1
Output emissions in metric tons of dust [4)]	10.3	7.2	3.6	9.7	24.7
Input energy in GWh / a	431.4	408.1	286.2	365.0	347.0
Energy consumption (MWh / a) per produced metric ton of output [3)]	4.7	5.9	6.8	6.2	5.8

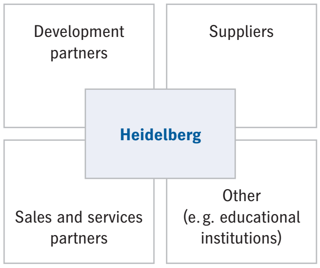
1) Since 2007, CO_2 emissions resulting from energy consumption have been based on information from the respective electric utility at the particular production site; other emissions are based on GEMIS
2) Excluding the production sites in St. Gallen, Langgoens, Weiden, and Eggenstein, whose output is not recorded in metric tons, and excluding the local units of Hi-Tech Coatings
3) Data cannot be meaningfully calculated for 2007 and 2008
4) The figures relate to dust emissions at the Amstetten foundry (particularly relevant here)
5) In calendar year 2011, the Amstetten site drew energy exclusively from renewable sources, with half coming from hydroelectric power. This above all led to marked reductions in CO_2 emissions

Cooperation Agreements

> Collaboration along the entire value chain
> New cooperation agreements in important future-oriented technologies
> Both local partnerships and worldwide cooperation agreements

We consider cooperation agreements along our value chain to be an important strategic success factor. We have been successfully working together with selected companies and institutes for a number of years. We have also formed new cooperation partnerships during the year under review. For example, we have formed a strategic partnership with Papier Union GmbH, a subsidiary of the international Inapa Group headquartered in Portugal, for the sales and marketing of Saphira consumables in Germany. In the previous year, we gained USA Unisource as a logistics partner. During the year under review, we strengthened our cooperation agreement with Ricoh in the area of toner-based digital printing systems. At the beginning of the current financial year, we decided to form a global strategic partnership with Landa Corporation from Rehovot, Israel. Our common goal is to develop printing machines based on Landa's Nanographic-Printing™ technology. Our objective is a useful expansion of our digital printing portfolio for "short-run printing."

HEIDELBERG COOPERATION AGREEMENTS



Partnership with Ricoh: now selling digital solutions worldwide

In Ricoh, Heidelberg has found a qualified partner in digital printing, which enables us to successfully serve the graphic market. We had our first joint exhibit with our partner at digi:media in April, 2011. Heidelberg's sales and services department launched the sale of digital printing machines in more than 20 countries during the year under review. The anticipated sales figures were exceeded for the first year. As announced, since the drupa trade show in May, 2012, we have been offering our fully integrated and combined digital and offset solutions worldwide. With the addition of the Heidelberg Prinect Digital Print Manager, customers have the option to use the same workflow for both digital printing machines and our offset machines. Since the trade show, the printing systems are available for the digital printing of smaller print runs for commercial printers under the name Heidelberg Linoprint C 901 and Heidelberg Linoprint C 751. C stands for commercial. Both are standardly equipped with the new Prinect Digital Print Manager. Even without integration in the entire workflow, this provides customers with a highly efficient, transparent digital printing workflow.

As a result of our partnership with Ricoh, we are able to offer our customers a hybrid workflow of offset and digital printing, which is unique in the industry. Should a customer opt for the full integration of its digital printing machines with our Prinect print shop workflow, it can manage and calculate both offset and digital print jobs from a workflow. This includes project planning and calculation, uniform color management, the continuous management and production control of the printing process with all the upstream and downstream steps.

The Inapa Group, the parent company of Papier Union GmbH, is a leading group in the paper industry in Europe and sells about one million tons of paper a year. It offers, among other things, products for the graphic arts industry, office materials, packaging, and large-format print products, such as banners and screens.

New partnership with Papier Union GmbH in Germany

As of November 2011, Papier Union GmbH's customers can purchase Heidelberg's comprehensive Saphira product portfolio via their usual order channels. The strategic partnership offers benefits for all parties involved. As a result of its sales partnership with Heidelberg, Papier Union significantly expanded its product portfolio. Its customers benefit from the premium quality of our products without having to deal with any additional interfaces when purchasing their consumables. As a result of our sales partnership with Papier Union, we have access to a much larger customer base for our Saphira portfolio than before. The first tangible results of the partnership are in line with our expectations. The business performance is on track as planned.

Cooperation agreements in logistics

With respect to our so-called hubs, the four centrally managed service parts warehouses that we maintain all over the world, we are working with DHL and Schenker. As part of an innovative logistics concept, we work closely with LGI in Hall 11 at the Wiesloch-Walldorf site. LGI handles the vast majority of the production logistics tasks at this site. Thus, we are able to supply our customers worldwide with service parts as quickly as possible. Secondly, thanks to these measures, we are reducing inventory and increasing cost flexibility.

Of particular importance is our cooperation agreement with the paper distributor, Unisource, in the US, which handles the storage and transport of consumables for us. Thanks to Unisource's extensive network of warehouses, large fleet of trucks and logistical expertise, we were able to significantly increase logistics efficiency for our consumables in the US.

Partnerships in research and development

In the research and development area, we exchange expert knowledge with a number of partners. For example, as part of our cooperation agreement with Landa, we will work together on the development of printing machines based on Nanographic-Printing™ technology. With our partners, we are able to bring about innovation more quickly. Partnerships with universities and institutes supplement our in-house basic research. We test new developments before market introduction in cooperation with our selected customers. Our concept customers support us by working with us closely. With this customer group, we discuss requirements and new trends in the printing industry. For competitive reasons, our partners and Heidelberg have generally agreed not to disclose any details concerning the current status and exact contents of joint projects.

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 activities. Innovative power is an important criterion in the selection of our suppliers. We have further strengthened our collaboration with our most important suppliers and have improved our information processes.

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. Together with companies such as BASF SE, Merck KGaA, and the Universities of Karlsruhe and Darmstadt, we have been working on the development of future-oriented products in organic electronics. The long-term goal is to develop printing machines for printed electronics. In the previous year, we were able to successfully manufacture organic electronics for the first time. We presented the first O-LEDs at drupa.

We have extended our collaboration with the **TECHNICAL UNIVERSITY OF DARMSTADT** for an additional two years. The University focuses on the printing of functional materials that can set print shops apart from their competition. We continue to work together on putting into practice the basic knowledge acquired by print shops, such as special effects for packaging. Our predevelopment projects include decorative elements and simple display elements, so-called demonstrators, which are based, for example, on electroluminescence and thermochromic colors. We have also discovered new effects through textured coating and special optical effects in 3D.

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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. The 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.

Partnership program in Prinect workflow

Online ordering and order processing of printed products, the so-called Web-to-Print business, has gained great importance in the print media industry in the past few years. More and more standard printed products are ordered online. Accordingly, more and more print shops have invested in Web-to-Print solutions. We work on an international scale in a partnership program with four providers of Web-to-Print software solutions: MS-Visucom, Neo-7even, RedTie and EFI. For the partner products, we guarantee access to our print shop workflow Prinect. Heidelberg customers of any size thus benefit from convenient offers for various business options in the Web-to-Print sector, ranging from open business-to-consumer Web shops for standardized printed products for print shop customers, to sophisticated Web-publishing systems for the professional business-to-business area, to Web-to-Print applications as part of the workflow in the marketing departments of companies. The functionality of the systems varies from simple solutions to systems with a very wide range of functions, depending on the areas of application.

DISCOVER

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HEI INTEGRATION

Innovative Web-to-Print applications

ABB

ABB

ABB

ABB

ABB

ABB

HDM GB 2011/2012 – Image Pages HEI Integration
Special ink: ABB-Red

Business cards mostly end up on printing plates via the Internet ...

HEI INTEGRATION

Innovative Web-to-Print applications

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HDM GB 2011/2012 – Image Pages HEI Integration
Black Special ink: ABB-Red

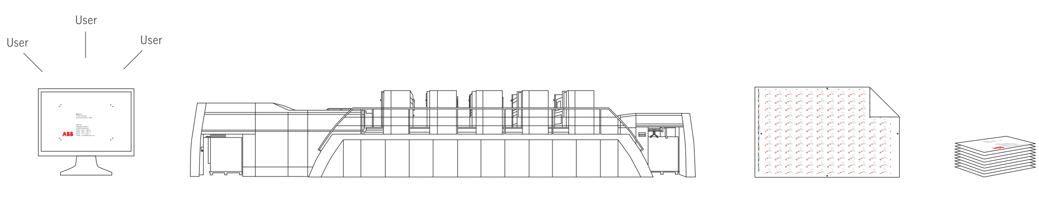
… and small print jobs are frequently printed on very large sheets.

“ABB stands for high quality standards that must also be reflected in a consistently high print quality in order to strengthen the brand and image.”

Gabriel Striebel

Corporate Communications ABB AG
Head of Fairs, Events & Corporate Publishing

There is no standard definition for Web-to-Print – possibly because the offering changes so rapidly. Broadly speaking, print shops collect various print orders via the Internet, print them cost-effectively and send them to their customers. What seems to be so simple requires complex software solutions so that no mistakes happen. In addition, print shops need highly automated printing presses with short set-up times that can be used with enormous flexibility. Large sheets are often the best – our Speedmaster XL 162 is therefore hugely popular with Web-to-Print print shops; but our hybrid solutions of offset and digital printing are also very much in demand. Irrespective of which product combination Web-to-Print print shops use and what their business model is: integrated processes are an absolute must for them, including solutions for online approval with so-called soft proofing, by which digital print data is displayed with the correct colorimetric rendering on a monitor.



1 COMPUTER
Customers upload their print jobs via form-based templates to the print shop’s Web site as a PDF file. Print shops ...

2 PRINT
... enter all the relevant data before printing using Prinect Prinance; the data is then processed by the Speedmaster XL 162: The Speedmaster is ...

3 PRINTED PRODUCT
... a high-performance printing press, economical and successful and prints up to 15,000 sheets per hour. The brilliant printing results are ...

4 PRODUCT
... cut to size and promptly sent to the customer. An efficient service that strengthens customer loyalty and benefits both partners.

OUTLOOK

Expected Underlying Conditions

> Economic development very different worldwide
> drupa has revived the industry but uncertainty about further industry development still high
> Heidelberg in a very strong competitive position

drupa has a major influence on the printing press industry and thus contributes to its special position in engineering. The leading trade show that takes place every four years in Düsseldorf has always given the print media industry an important momentum and has noticeably spurred new developments. The results of the trade show in May, 2012 give reason to hope that the investment restraint seen in the sector in the industrialized countries will now ease. As the market leader in the industry, we would, in particular, benefit from these developments. The trade show, however, took place under economically uncertain underlying conditions: the sovereign debt crises in Europe and the US have still not been overcome. The economy, as a whole, is stabilizing in Asia, however the extent and duration of the downturn in China are unclear. The further overall economic development is difficult to assess. For this reason, it remains to be seen whether drupa and the post-trade show business will revive the industry in the long term. Whereas the economic growth in some important markets is dampened by various influencing factors, the economy in other markets is again gaining momentum. It can, therefore, be assumed that the recovery in the market for sheetfed offset printing presses will, on the whole, continue. For this reason, Heidelberg's Management Board assesses the underlying conditions for the printing industry in the current and in the next financial year as cautiously positive. Opportunities for Heidelberg arise, on the one hand, due to the fact that in-house capacities and the capacities of competitors have been reduced and, on the other hand, due to market consolidation. We expect to gain further market shares – also because our solutions are exactly tailored to market trends.

Further overall economic development: stabilization in Asia and the US; downturn expected in Europe

In Underlying Conditions on pages 56 to 59, we describe the extent to which the increase in GDP determines the demand patterns of commercial print shops. Private consumption is particularly critical for the development of the packaging printing sector.

EXPECTED GROSS DOMESTIC PRODUCT [1)]

Change from previous year in percent

	2010	2011	2012
World	3.9	2.7	**2.4**
USA	2.9	1.7	2.1
EU	1.8	1.6	– 0.1
Germany	3.5	3.1	0.7
UK	1.3	0.8	0.8
Eastern Europe	4.1	4.7	1.2
Russia	3.6	4.3	3.7
Asia [2)]	8.3	6.4	6.1
China	10.3	9.2	8.2
India	8.5	6.8	7.2
Japan	4.0	– 0.7	1.4
Latin America	6.2	4.6	3.8
Brazil	7.5	2.7	3.2

1) Source: Global Insight: WMM; April 2012
2) Excluding Japan

NO STANDARD EXPECTATIONS: After the economy in Europe shrunk in the winter of 2011/2012, some banks and economic research institutions are again expecting weaker growth, with others expecting a decline in GDP. Export activities could revive the economy in the euro zone, as the economies in the US and Asia are stabilizing, and the proportionately weaker euro increases sales opportunities for European companies. On the other hand, the restrictive financial policies and the high degree of uncertainty regarding the continuation of the European state debt crisis could paralyze the domestic economy. In addition, the situation of the labor markets of individual countries is becoming tougher.

The consolidation of the national budgets in EUROPE has not yet been completed and, among others, a final solution for the financing of Greece has not yet been found. Nevertheless, various early indicators stabilized at the beginning of the calendar year.

Low growth is expected for GERMANY – German exports will benefit from growth in Asia and the US as well as from a weaker euro. In the UNITED KINGDOM, the economic outlook is deteriorating, among other things, as unemployment is rising, and the government is pursuing austerity measures.

In EASTERN EUROPE, a deterioration of the situation is expected during the current year due to the euro debt crisis and a possible state bankruptcy in Hungary. This could also affect the markets that were still growing in 2011, such as Poland, Romania and the Baltic states.

In contrast, the US economy is on its way out of the crisis: employment figures are again rising, and profits and the liquidity situation of companies have improved. However, a strong recovery cannot be expected. The high level of private household debt and overcapacities on the real estate market are exerting a dampening effect.

In LATIN AMERICA, economic growth is expected to weaken as the prices of raw materials are dropping, and the monetary policy is aligned to preventing rising inflation. The economy in BRAZIL is also affected by this.

On the whole, the economy in ASIA will stabilize. Economic research institutions and banks expect growth in CHINA to cool down in a controlled manner. For companies, financing will continue to be difficult to obtain due to the requirements of the central bank and a stricter monetary policy. Rising wages may support consumption but reduce the competitive advantages in export. JAPAN'S domestic demand is robust, and the state-controlled redevelopment program supports growth with capital investments. Exports in the neighboring countries should also increase again in 2012.

PAGE 23 TO 27

In the "Strategy" section, we describe the future development in packaging printing, digital printing and the development of the consumables sector. We detail the effects that the increasing use of digital media for information supply has on various print segments as well as on the market volumes and market potentials of individual segments in the printing sector.

Development of the printing industry remains volatile and very uneven

The uncertainty concerning the further development of the economy also affects the expectations for industries that are sensitive to the economic climate. In February, the German Engineering Federation (VDMA) reduced its prognosis for the engineering sector for the current year from 4 to 0 percent.

In publications by professional associations, it can be seen that the development of the print media industry in some markets is extremely difficult to assess. The PRINTING AND PAPER TECHNOLOGY ASSOCIATION therefore expects to see growth of between 0 and 5 percent in the current year. No other branch in the German Engineering Federation (VDMA) has been given such a large margin.

Market analyses assume that the **PRINTING INDUSTRY** in our most important market, **CHINA**, will continue to experience stable growth in the future.

According to the US Commerce Department, company profits in the print media industry in the US will again rise in the reporting year. In light of the improving economic situation, it can be expected that replacement investments will continue to rise in the industry.

On the whole, a further **MARKET RECOVERY** is expected in the manufacture of printing presses. A consistently high, global print production volume should ease the reluctance to invest and lead to higher demand.

Solutions for worldwide market trends developed; Heidelberg's competitive position improved

Heidelberg's Management Board is convinced that Heidelberg's competitive position in the reporting year has improved in relation to competitors in several aspects and that we, therefore, are in a very good starting position for the coming years. During the reporting year, we expanded our market shares both in packaging printing as well as in Web-to-Print and consumables. Further details can be found in the Segment Report.

Particularly in light of the structural changes in the industry and the high cost pressure that print shops are subject to, the **COMPETITIVE ADVANTAGES OF OUR SOLUTIONS** become even more important. During times of crisis, we have, to a large extent, invested in R&D, thus again impressively proving our leadership in technology at drupa 2012. Under the slogan "Discover HEI" we showed comprehensive overall solutions for the **SEVEN GLOBAL MARKET TRENDS** in the industry **AT DRUPA**:

> HEI Productivity – Lean Production
> HEI Eco – Ecological Printing
> HEI Integration – Web-to-Print
> HEI Flexibility – Print-on-Demand, Short-Run and Hybrid Production
> HEI Emotions – Finishing
> HEI End – Packaging Printing
> HEI School – Competitive Edge through Up-to-Date Industry Knowledge

www.heidelberg.com

The presentation of our solutions such as "HEI Flexibility" and "HEI Productivity" would go far beyond the scope of this report. For further information, please visit our Web site.

Heidelberg is the only provider in the industry that offers print shops a **COMPREHENSIVE ECOLOGICAL PRODUCT RANGE**. In addition, we provide them with **INTEGRATED SOLUTIONS FOR DIGITAL AND OFFSET PRINTING**, which gives customers the required flexibility. With respect to **NETWORKING**, our print shop workflow, Prinect, reduces order costs and turnaround times. Our remote services also quantifiably reduce the costs of print shops as well as our service costs.

We are the undisputed market leader in sheetfed offset printing. Our **MAIN COMPETITOR**, König & Bauer, primarily produces in Germany, just like manroland sheetfed. The former sheetfed sector of manroland has a new owner in the Langley Group. In addition, there are several Japanese competitors such as Komori, Ryobi and Mitsubishi. The foreign exchange rate situation currently favors providers from the euro zone. In accordance with our assessment, the **MARKET CONSOLIDATION** in the area of sheetfed offset printing presses, together with the slow recovery in the print media industry, will result in the competitive situation relaxing and the price competition easing.

In the **FINISHING AREA**, in contrast, the competitive structure will be characterized by, in addition to Heidelberg, some large providers and several small competitors. Contrary to the sheetfed printing area, Asian and, in particular, Chinese providers play an important role in the global market. The competitive pressure is high in the cutting and folding segments above all. In the most wide-spread industrial binding processes of saddle-stitching and adhesive binding, our productive printing presses are placed in countries with low wage costs. Furthermore, they are in competition with manual labor and the use of a number of non-automated machines. In addition to finishing in the commercial printing area, we increasingly strengthen our involvement in finishing for the packaging printing market. In this area, we are serving the market for folding-box gluing and die-cutting machines with increasing success.

The competitive structure in the **CONSUMABLES AND SERVICE SECTOR** that has a significantly higher volume than the machine market is very heterogeneous: there is no other global retailer. The regional markets are, as a rule, not dominated by individual providers. Typical competitors are smaller, medium-sized companies that are active in their local market. In addition, some manufacturers distribute their products themselves. Heidelberg successfully offers coatings produced in-house and, since December 2011, has produced these not only in Europe, but also in Detroit in the US. Our portfolio is broader than that of other manufacturers and includes, among others, plates, inks,

Heidelberg has a very large installed base of approximately 400,000 printing presses worldwide. This is a good condition for expanding the market share in the consumables business (currently below 5 percent) and increasing the percentage of customers that procure their services directly from Heidelberg.

coatings, and printing chemicals. Other positive points: we have more applications expertise than retailers, and our tested consumables work optimally with our machines and also make specialized applications possible. We expanded our portfolio with Saphira Eco during the reporting year. We expect that purchasers of printing materials and print shops will make more use of the option to highlight their environmental image with Saphira Eco. In addition, we offer tested inks and coatings specifically for food packaging.

Risk and Opportunities Report

> Overall risk stable
> Further industry development entails risks and opportunities
> Investment restraints could ease earlier than expected

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. As we place our focus clearly on key financial figures in our management, we carefully observe early-warning indicators that indicate an increase of non-quantifiable risks, for instance risks in the human resources area.

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 are planning or have already introduced.

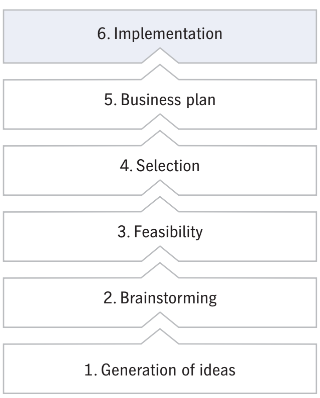
In order to determine our **OVERALL RISK**, we focus on individual risks that belong together contextually. We do not offset them against opportunities. The overall risk situation of the Heidelberg Group has hardly changed compared to the previous year. Even the risks that we face in the various risk groups are largely the same. The greatest risk for us not to achieve our objectives is that the global economy will, contrary to expectations, not grow moderately. Even where there is great uncertainty with respect to further economic development, the economy of the print media industry could also be affected.

Our planning assumptions are stated in Future Prospects on pages 126 and 127.

Our method for determining, managing and bundling risks is described in detail in the section Risk and Opportunity Management System on pages 36 to 39, 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 on pages 37 to 38.

We regard our **STRATEGIC RISKS** as minimal. It can be assumed that sheetfed offset printing will remain the leading printing process. The market for printing products in this segment is increasing worldwide. For further information, please see our Strategy section on pages 23 to 29. Due to the ongoing trend for ever shorter print runs, digital printing will gain in market share. Due to their high degree of flexibility at high speeds, our printing presses are superior to digital presses, except at very small print runs, even in terms of cost, in particular because of our zoneless Anicolor short inking unit. In addition, we reacted to the trend by offering hybrid applications of digital and offset printing in cooperation with Ricoh. Furthermore, we test new technologies and integrate these where needed. Likewise, under Strategy we describe that we are strongly pursuing our goal of reducing our sensitivity to economic conditions and discuss how we approach new trends in the print media industry. Potential new areas of business are assessed in a strictly defined process, which is presented schematically on the left. We have a solid financial planning certainty to implement our strategy and the changes and adjustments in the context of our Focus 2012 efficiency program. In all our adjustments, we make sure to protect the **HEIDELBERG** brand. We counter the risk of a loss of image through transparent public relations and targeted marketing activities, which we discuss on pages 104 and 105. The Management Board and the Supervisory Board deal with risks that could arise from the organization and management as well as from planned changes. For further information, please see our detailed Corporate Governance Statement on the Internet.

IDEA-FINDING PROCESS FOR NEW AREAS OF BUSINESS



We currently see the greatest **OPPORTUNITY** for the Group in the demand for our products recovering more extensively and faster than expected due to positive developments in the economy. The competitive situation in the industry could, in addition, improve due to the improvement of capacities and consolidation as well as a possible market recovery. In addition, the development of the exchange rate could lead to lasting advantages with respect to our Japanese competitors.

We do not want to benefit only from **OPPORTUNITIES** in new business areas. Our strategy also includes acquisitions of companies in the future in order to take advantage of external growth opportunities. In doing so, we carefully weigh risks and opportunities. In addition, opportunities arise as a result of our partnerships.

Economic and market risks at the same level

In our planning, we assume moderate growth in the global economy. Should the global economy grow less than expected, for example due to an escalation in the state debt crisis in the euro zone, or should important markets, for example China, suffer an unexpected economic collapse, we may not reach the planned sales figures in our Heidelberg Services and Heidelberg Equipment segments. In addition, a weakening of the economy in the print media industry could again intensify competition. We discuss this under “Market and

Competition Risks." 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. For this reason, the effects of various country risks on our sales figures have increased. Due to our expanded production capacities in China, we have further reduced the risk that import duties or stronger market regulation would compromise our local business.

We minimize sales risks, in general, in the 170 countries that we are present in 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 and political changes, government intervention, customs regulations, and changes in legislation could impact our business development in several countries. In some developing countries, such as North Africa, risks arise from economic or political instability. In the medium term, the changes also harbor opportunities for us.

Industry and competition risks: planned reduction of competitive pressure and further exchange rate advantages expected

In our view, the reduction in capacities of the manufacturers of sheetfed offset printing presses, together with the recovery of the print media industry, will lead to the competitive situation relaxing and the price competition easing, as capacities are reduced to a significant extent in the entire industry. The remaining capacities should be significantly better utilized during a recovery. An economic downturn could, nevertheless, lead to fiercer competition with an associated price pressure. In this case, it is possible that we may not reach our sales goals in the Heidelberg Equipment and Heidelberg Services segments.

The exchange rate situation was again largely favorable for European manufacturers during the reporting year. Should the exchange rate situation again move in the favor of Japanese manufacturers, this could, in particular in the 70×100 format, intensify the competition with our Japanese competitors and weaken our market position. By expanding our purchasing and production outside of the euro zone, we reduce the effects of exchange rate fluctuations in the medium term. In addition, we also produce printing presses in the 70×100 format in China.

As the only competitor in the industry, Heidelberg has an extensive offering for ecological printing. Demand for very-high-quality printed products is further increasing worldwide. The significance of environmentally friendly manufacturing is simultaneously rising rapidly worldwide.

With a brand awareness level of more than 99 percent worldwide and an excellent evaluation by its target groups, HEIDELBERG is one of the leading brands. When implementing the measures of the Focus 2012 efficiency program, we make sure to protect the brand.

Product risks down again compared to the previous year

Our new products and solutions that we presented at drupa follow the trends that determine the further development of the print media industry worldwide and offer print shops quantifiable cost and competitive advantages. We have, therefore, been very successful with our new products since the trade show, for instance with the Speedmaster CX 102.

In order to avoid undesirable developments, our priority in all R&D projects is focused strictly on customer benefits. We work closely with concept customers in all phases of product development. A panel of experts from R&D, Product Management, Control, Manufacturing, and Services determines 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 activities with the Group's own proprietary rights.

The risk of not being able to complete our major R&D projects during the planned period decreased from the previous year. Our partnership with Ricoh and the acquisition of CSAT GmbH opens the door to considerable R&D opportunities. The same applies to government-supported partnership with regional firms in organic electronics.

Cumulative risk for the Group Financial and Legal Risk at the previous year's level

The Group's funding, and thus its **LIQUIDITY**, is secured for the medium term. There are currently hardly any more interest rate risks. We describe the details of the financing structure in the Financial Position section on page 72. There, we also discuss that financing is linked to standard financial key figures (financial covenants), adherence to which we have obligated ourselves over the financing period. A deterioration in the Group's income and financial condition to such a degree that we fail to meet these financial covenants and are unable to adjust them would have an adverse financial impact on the Group. There are currently no indications of such a development.

As in the past, there is a risk that losses could occur in the area of **SALES FINANCING** due to industry, customer, residual value, and country risks. Compared to last year, this risk has, however, further decreased. Our policy of forming provisions for risks from sales financing is generally conservative. We formed an appropriate risk provision to cover recognizable risks early on. Fortunately, we were able to further reduce the volume of past due items in receivables arising from our sales financing during the financial year. The risks arising from the counter-liabilities that we have assumed have decreased. The majority of our portfolio consists of receivables from customers from developing countries. The exchange rate continues to facilitate our customers' repayments in US dollars and euros. A potential change in the exchange rate situation could therefore pose a risk in this area.

For the future declining volumes of foreign currencies, we have hedged against the risk of fluctuating **EXCHANGE RATES** of our principal foreign currencies, especially the highly volatile US dollar and Japanese yen. Nevertheless, exchange rate risks remain, in particular in light of the state debt crisis in the euro zone. We continuously monitor and assess these risks. We currently regard risks from fluctuations in the Swiss franc as low, as the Swiss central bank appears to be successful in keeping the exchange rate stable at 1.20 Swiss francs per euro.

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 on page 38 et seqq.

Our process for managing credit risks in sales financing has paid off: the risks associated with financing are prepared transparently for the decision-making process and controlled centrally and globally. In addition to a uniform and, for several years, continuously further developed industry-specific ratings system, we intensified our receivables management in the last few years. We systematically monitor currency and default risks.

Performance risks on the whole at the previous year's level

The risks in **PROCUREMENT** have decreased significantly compared to the previous year. Risk management is a fixed component of our supplier management. We work closely with our systems suppliers on a contractual basis and reduce risks relating to supplier defaults and late deliveries of components or low-quality components by monitoring our suppliers on a key-figures basis, systematically observing all relevant markets and a material planning system with a rolling 12-month prognosis. Further details on our procurement strategy can be found on page 102.

The recognition of the fire department at our Amstetten foundry as a plant fire department contributed to reducing the overall risk volume in the “Performance” risk group. Early warning of fire is ensured, and the expected loss in the event of a fire has thus significantly decreased.

We do not see any noteworthy risks in the environmental area, as we minimize risks through our high-performance environmental management as well as in product design and production.

Based on our assessment, the risks in the **HUMAN RESOURCES** area have increased. On the one hand, it could be that risks arise from a possible delay in the agreed-upon Focus 2012 efficiency program. Even if we have essentially agreed upon a socially responsible redundancy plan with the measures of Focus 2012, any adjustments and changes in processes harbor not only opportunities, but risks as well. We cannot rule out the fact that, as part of the implementation of our Focus 2012 efficiency program, there could also be a loss of expertise in some areas. On pages 94 and 97, we describe that the measures that we have agreed upon with the works council contribute to an improvement in our age structure.

The other performance risks remain unchanged. We make efficient use of our existing installations and can thereby keep our **INVESTMENTS** low. We have also made strategically important investments, necessary replacement investments and investments for improving environmental protection in previous years. We have **ENSURED PRODUCTION SECURITY** through replacement investments.

We do not see any serious risks of failure in our systems in the IT area. The probability that losses could result from viruses was significantly reduced through extensive preventative measures. We will invest in our IT infrastructure to a greater degree in the current financial year and thereby increase system security on the whole.

Future Prospects

> Print production volume is increasing worldwide – Heidelberg has the best solutions for print shops in industrialized and newly industrializing countries
> Medium-term goals confirmed: aiming for operating profit, excluding special items, of around € 150 million in financial year 2013/2014
> Realignment of sales and services and focus on growth regions

It is hard, at present, to make specific forecasts about future business trends, since uncertainties continue to impact overall economic conditions. On page 115, we outline that banks and economic research institutes have come to a range of different conclusions about the way the economy will develop. During the reporting year, our original assumptions about the progress of the market recovery proved to be too optimistic, mainly because of increasing economic uncertainties and their effects on our customers. Therefore, to provide an additional assessment, and thus a solid basis for our planning, we commissioned another independent study of the industry. This study reached the same conclusion as Heidelberg's Management Board, namely that forecasts about the progress of the market recovery would have to be revised downward somewhat.

The chart on the right shows that trends in the global volume of offset printing have differed from region to region since 2000. While the share of industrialized countries in the total volume declined from 85 percent to 70 percent between 2000 and 2010, volume rose steadily in the newly industrializing countries. We address this trend under Strategy on page 25. In the future we expect:

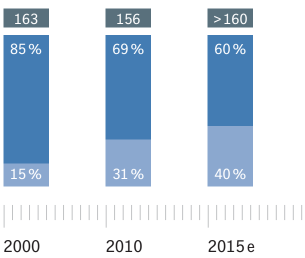
> that the volume of print production will continue to rise in the newly industrializing countries, and their share of the total volume will continue to increase,
> and that developments in the newly industrializing countries will lead to an overall increase in the global production of printed products.

As a result, experts assume that the investment ratio will continue to rise. In the past, it stood at 3 percent; in the crisis year it dropped to 1.6 percent and currently stands at 1.8 percent. The drupa trade show already made clear that the industry is once again investing in new solutions.

It is still difficult to estimate how the economies of our most important markets will develop. Forecasts are made all the harder by the consolidation underway in the print media industry, the increased productivity generated by print shop equipment, and the ever-growing usage of communication and advertising platforms on the Internet.

NEWLY INDUSTRIALIZING COUNTRIES DRIVE GROWTH IN THE PRINT MEDIA INDUSTRY

Sheetfed offset printing volume in € billion



Source: Heidelberg estimate – April 2012, Industry statistics, PIRA, Jakkoo Pöyry, Primir (GAMIS), Global Insight

■ Industrialized countries (share of printing volume)
■ Newly industrializing countries (share of printing volume)
■ Sheetfed offset (printing volume in € billion)
e estimate

Planning assumptions and overall picture from the Management Board regarding prospects

The following **ASSUMPTIONS** underlie our prospects as we see them: We expect the sovereign debt crises in Europe to be successfully resolved and that there will not be any major distortions in the real economy. We also assume that developments in Asia, especially China, will continue to be stable, so that the global economy, as a whole, will largely remain steady and grow, as forecast by Global Insight, by around 2.4 percent. Our calculations also rely on our ability to implement our Focus 2012 efficiency program on schedule. We succeeded in completing important measures, as planned, before the drupa trade show. Thus, we believe that we are well-equipped for the future. In shaping the measures that were needed to be taken, we started from an assumption that sales would be at the lower end of the scale determined by the independent study. In addition, we expect competition in sheetfed offset printing to ease as a result of capacity adjustments and consolidation. Wherever possible, our planning has included hedging against exchange rate fluctuations.

Due to the downturn in the market, we clearly fell short of our original goal for the **REPORTING YEAR**, a balanced pre-tax profit. And we will likely achieve our medium-term annual sales target of € 3 billion later than planned.

PAGES 28 TO 29

As part of Focus 2012, we have adjusted our capacities to the current market level. The lower break-even point provides opportunities to benefit from a strong market recovery, not least because we retained flexibility in production – for more information on this, see page 94.

The **CURRENT FINANCIAL YEAR** will probably receive a positive boost from drupa. A larger number of new orders in the first half of the financial year should lead to higher sales in the second half, and we expect the market to recover slightly. With constant print production volume, the current restraint on investment should continue to ease, and drupa should have a positive effect on sales. Excluding special items, the result of operating activities should be clearly positive; however, the costs incurred for the major drupa trade show and product start-up costs will likely have a negative impact, especially in the first half of the year. As a result of the trade show, we expect sales to show a distinct shift to the second half of the financial year with a corresponding improvement in profit contributions. The Focus 2012 efficiency program will already result in pro rata savings in the current financial year: we expect up to a third of the planned total savings of € 180 million to be made in the current financial year. But first, the costs of the efficiency program must be financed, which will burden the financial result. The financial result will lead to a negative pre-tax result. Free cash flow will take a substantial hit in the

2012/2013 financial year as a result of the pro rata costs of Focus 2012, with net financial debt temporarily increasing. As soon as we can better foresee future trends and the volume of post-trade-show business, we will refine our forecasts.

In the SUBSEQUENT YEAR, the post-drupa year 2013/2014, we expect the market to continue to recover, but our sales could fall slightly against the current financial year, if the economy does not grow, or if the investment ratio does not increase as much as expected. Even in such a case, we would still expect the result of operating activities, excluding special items, to improve, because the cost savings arising from the Focus 2012 efficiency program will be in full effect by then. As outlined above, this program was conceived with the goal of achieving a result of operating activities excluding special items of around € 150 million in financial year 2013/2014, meaning that we are once again aiming for a net profit this year.

Developments in the various segments: preconditions for growth are there

By focusing Heidelberg on the growth regions and realigning our sales and services organization, we are strengthening Heidelberg's already excellent position in the newly industrializing countries. Expanding the production space in our Qingpu plant was part of our consistent growth strategy in Asia.

In the HEIDELBERG EQUIPMENT Segment, we shall be focusing on expanding our market shares in packaging printing. We shall also benefit from the new SX machine class with its various format categories. Our Peak Performance Speedmaster XL 106 printing press was already a success at the drupa trade show. It impressed buyers primarily with its high efficiency and speed, as well as its reduced spoilage.

The HEIDELBERG SERVICES Segment will take advantage of the increase in print production volume in the industrialized countries – demand for automation solutions will rise here, for example – and should also grow more and more in the newly industrializing countries. Our medium-term goal is to raise market share in consumables to more than 7 percent, from 4.5 percent currently. Sales growth and improved results for the segment will expand our relatively non-cyclical business over the medium term.

We are sticking to our proven strategy in the HEIDELBERG FINANCIAL SERVICES Segment. Financing capital goods will become harder in some markets – partly in view of the new Basel III rules; as a result, we expect to have to take on direct financing to a somewhat greater degree, at least temporarily.

R&D: R&D rate still at approximately 5 percent

A large part of our R&D expenditures in the current financial year will go into the start of series production of our new products. Trends within the market segments, particularly in packaging, will continue to play a major role in our R&D strategy.

We have bundled together DIGITAL PRINTING DEVELOPMENT for advertising and packaging printing and plan to expand it. By acquiring CSAT GmbH in July 2011, we gained access to new technologies and forward-looking expertise. CSAT specializes in the development, manufacture, and international sales and servicing of digital printing systems, including consumables for the packaging sector. It has approximately 70 employees. The company is a market leader in industrial digital printing systems that can be integrated into production lines. Together, we promote TECHNOLOGY DEVELOPMENT and jointly develop new products.

In addition to our basic research, which we shall maintain at its current level, we are expanding overall our EXPERTISE IN POTENTIAL KEY TECHNOLOGIES; we are collaborating closely with our partners to this end. We are constantly reviewing which results of our joint research projects can be converted into marketable products.

Our research and development also seeks lucrative BUSINESS AREAS outside the print media industry. Areas of opportunity that we see for Heidelberg include power electronics applications and mechatronic systems. We are expanding our development work in cross-sector technology for hybrid lightweight construction and are slightly increasing investment in this new market segment.

Investment ratio at around 2 percent

We plan an investment ratio of around 2 percent annually over the next few financial years. One focus of our investing activities in the current financial year will be on implementing series production of the products that we showed at drupa. We launched a number of IT projects in the reporting year, which we address among others in our Report on the Regions.

From now through financial year 2016/2017, we will replace a large number of processing centers at our German manufacturing facilities and invest in maintaining our infrastructure.

Our investing activities support our strategy. Take one example: the expansion of our manufacturing facility in Qingpu, where a total of € 46 million has been spent over the last five years. We will provide the funds needed for targeted corporate acquisitions, expanding the consumables business, and establishing new areas of business.

Medium-term goals; dividend policy

We have stuck to our medium-term earnings goal and intend to achieve it even with lower sales. At the same time, we aim to lower our net working capital to below 35 percent of sales. We shall continue to concentrate steadily on strengthening our capital structure over the next few years. These considerations will also determine our dividend policy. Therefore, we will only propose payment of a dividend to the Annual General Meeting if such a step appears reasonable, given the Group's financial position and outlook. We will not propose to the Annual General Meeting the payment of a dividend for the reporting year.

At drupa, we again forcefully demonstrated our position as a market leader, innovator and integrator. The feedback from our customers at the trade show made clear to us that we have developed the right solutions for the sector's global trends and have integrated the appropriate solutions from partners. Print shops can implement successful business models with our integrated solutions. We have an impressive range of products and services, regardless of whether they are for the prepress stage, for printing or finishing, and whether they are presses, consumables or services. Under Strategy on page 24, we discuss, in more detail, the way our range of products addresses the whole sheet-fed offset printing market which has a current global volume of around € 14.5 billion, a great potential that we aim to take advantage of on a wide scale.

We describe our **FINANCING STRUCTURE** for the next few years in detail on pages 72 to 73.

We have not planned any changes to our **LEGAL CORPORATE STRUCTURE**.

For our **ORGANIZATIONAL CHANGES**, please refer to page 31.

Planned changes in the **NUMBER OF EMPLOYEES** are shown on page 94 et seqq.

Supplementary Report

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 overall economic situation, in exchange rates, in 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.

Financial Section

2011/2012

CONSOLIDATED INCOME STATEMENT 2011/2012

Figures in € thousands

	Note	1-Apr-2010 to 31-Mar-2011	**1-Apr-2011 to 31-Mar-2012**
Net sales	8	2,628,921	2,595,670
Change in inventories		– 45,613	15,888
Other own work capitalized		14,757	10,710
Total operating performance		2,598,065	2,622,268
Other operating income	9	136,462	123,084
Cost of materials	10	1,234,047	1,231,719
Staff costs	11	872,711	904,530
Depreciation and amortization	12	99,600	87,050
Other operating expenses	13	524,245	519,540
Special items	14	– 2,233	142,274
Result of operating activities		6,157	– 139,761
Financial income	16	22,690	20,475
Financial expenses	17	171,724	110,029
Financial result	15	– 149,034	– 89,554
Income before taxes		– 142,877	– 229,315
Taxes on income	18	– 13,987	778
Consolidated net loss		– 128,890	**– 230,093**
Basic earnings per share according to IAS 33 (in € per share)	35	– 0.83	**– 0.98**
Diluted earnings per share according to IAS 33 (in € per share)	35	– 0.83	**– 0.98**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 2011/2012

Figures in € thousands

	Note	1-Apr-2010 to 31-Mar-2011	**1-Apr-2011 to 31-Mar-2012**
Consolidated net loss		– 128,890	– 230,093
Pension obligations [1]		16,761	– 94,841
Currency translation			
Change in other comprehensive income		4,257	35,448
Change in profit or loss		0	0
		4,257	35,448
Available-for-sale financial assets			
Change in other comprehensive income		– 362	– 292
Change in profit or loss		0	0
		– 362	– 292
Cash flow hedges			
Change in other comprehensive income		904	– 9,631
Change in profit or loss		16,625	– 101
		17,529	– 9,732
Deferred income taxes	23	– 14,279	174
Total other comprehensive income		23,906	– 69,243
Total comprehensive income		– 104,984	**– 299,336**

[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, 2012

> ASSETS

Figures in € thousands

	Note	31-Mar-2011	31-Mar-2012
Non-current assets			
Intangible assets	19	266,667	245,832
Property, plant, and equipment	20	569,972	547,660
Investment property	20	5,664	7,358
Financial assets	21	19,547	27,488
Receivables from sales financing	22	90,419	85,830
Other receivables and other assets [1]	22	42,920	16,598
Income tax assets		499	422
Deferred tax assets	23	118,927	38,646
		1,114,615	969,834
Current assets			
Inventories	24	747,680	785,726
Receivables from sales financing	22	87,582	70,460
Trade receivables	22	376,928	360,958
Other receivables and other assets [2]	22	153,523	116,418
Income tax assets		13,862	17,428
Cash and cash equivalents	25	147,934	194,556
		1,527,509	1,545,546
Assets held for sale	20	908	2,694
Total assets		2,643,032	**2,518,074**

[1] Of which € 8,721 thousand (previous year: € 19,501) account for financial assets and € 7,877 thousand (previous year: € 23,419 thousand) for non-financial assets

[2] Of which € 54,892 thousand (previous year: € 83,730 thousand) account for financial assets and € 61,526 thousand (previous year: € 69,793 thousand) for non-financial assets

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF MARCH 31, 2012

> EQUITY AND LIABILITIES

Figures in € thousands

	Note	31-Mar-2011	31-Mar-2012
Equity	26		
Issued capital		596,302	599,308
Capital reserves and retained earnings		401,180	206,482
Consolidated net loss		– 128,890	– 230,093
		868,592	575,697
Non-current liabilities			
Provisions for pensions and similar obligations	27	221,011	326,080
Other provisions	28	303,014	284,209
Financial liabilities	29	105,256	339,137
Other liabilities [3]	31	127,670	124,998
Deferred tax liabilities	23	6,298	7,987
		763,249	1,082,411
Current liabilities			
Other provisions	28	291,239	322,740
Financial liabilities	29	289,361	98,559
Trade payables	30	129,726	165,051
Income tax liabilities		1,842	2,372
Other liabilities [4]	31	299,023	271,244
		1,011,191	859,966
Total equity and liabilities		2,643,032	**2,518,074**

[3] Of which € 84,483 thousand (previous year: € 87,184 thousand) account for financial liabilities and € 40,515 thousand (previous year: € 40,486 thousand) for non-financial liabilities

[4] Of which € 117,620 thousand (previous year: € 126,104 thousand) account for financial liabilities and € 153,624 thousand (previous year: € 172,919 thousand) for non-financial liabilities

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY [1)]

Figures in € thousands

	Issued capital	Capital reserves	Pension obligations	Currency translation	Fair value of other financial assets
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
April 1, 2011	596,302	27,694	–106,874	–196,284	–893
Capital increase	2,347	325	0	0	0
Loss carryforward	0	0	0	0	0
Total comprehensive income	0	0	–96,527	35,448	–265
Consolidation adjustments/ other changes	659	–921	0	0	0
March 31, 2012	**599,308**	**27,098**	**–203,401**	**–160,836**	**–1,158**

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			
– 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
5,840	671,697	373,486	401,180	– 128,890	868,592
0	0	0	325	0	2,672
0	– 128,890	– 128,890	– 128,890	128,890	0
– 7,899	0	– 69,243	– 69,243	– 230,093	– 299,336
0	4,031	4,031	3,110	0	3,769
– 2,059	**546,838**	**179,384**	**206,482**	**– 230,093**	**575,697**

CONSOLIDATED STATEMENT OF CASH FLOWS 2011/2012 [1]

Figures in € thousands

	1-Apr-2010 to 31-Mar-2011	1-Apr-2011 to 31-Mar-2012
Consolidated net loss	– 128,890	– 230,093
Depreciation and amortization, write-downs and reversals [2]	101,716	90,801
Change in pension provisions	13,619	14,467
Change in deferred tax assets/ deferred tax liabilities/tax provisions	– 17,313	– 4,380
Result from disposals [2]	– 9,813	– 712
Cash flow	– 40,681	**– 129,917**
Change in inventories	80,662	– 25,223
Change in sales financing	31,988	29,385
Change in trade receivables/payables	18,064	73,005
Change in other provisions	– 79,507	89,250
Change in other items of the statement of financial position	88,869	19,485
Other operating changes	140,076	**185,902**
Cash generated by operating activities [3]	99,395	**55,985**
Intangible assets/property, plant, and equipment/ investment property		
Investments	– 73,348	– 65,931
Proceeds from disposals	37,875	28,492
Business acquisitions	– 900	– 6,676
Financial assets		
Investments	– 2,470	– 2,145
Income from disposals	14,316	87
Cash used in investing activities	– 24,527	**– 46,173**
Income from capital increase	397,787	0
Borrowing of financial liabilities	34,221	410,186
Repayment of financial liabilities	– 482,047	– 380,922
Cash generated by/used in financing activities	– 50,039	**29,264**
Net change in cash and cash equivalents	24,829	**39,076**
Cash and cash equivalents at the beginning of the year	120,696	**147,934**
Currency adjustments	2,409	7,546
Net change in cash and cash equivalents	24,829	39,076
Cash and cash equivalents at year-end	147,934	**194,556**

Cash generated by operating activities	99,395	55,985
Cash used in investing activities	– 24,527	– 46,173
Free cash flow	74,868	**9,812**

[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 € 12,048 thousand (previous year: € 11,912 thousand) and € 4,185 thousand (previous year: € 5,271 thousand) respectively. Interest expenses and interest income amount to € 41,268 thousand (previous year: € 85,469 thousand) and € 27,699 thousand (previous year: € 23,027 thousand) respectively

Financial Section

2011/2012

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR APRIL 1, 2011 TO MARCH 31, 2012

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

Figures in € thousands

	Cost					
	As of start of financial year	Additions	Reclassifications [1]	Currency adjustments	Disposals	**As of end of financial year**
2010/2011						
Intangible assets						
Goodwill	122,554	207	0	140	0	122,901
Development costs	290,511	19	0	0	7,038	283,492
Software/other rights	126,070	2,116	20	322	2,027	126,501
Advance payments	0	1,250	0	0	0	1,250
	539,135	3,592	20	462	9,065	534,144
Property, plant, and equipment						
Land and buildings	665,524	8,642	– 8,221	3,600	1,800	667,745
Technical equipment and machinery	631,297	12,227	9,096	2,456	30,297	624,779
Other equipment, operating and office equipment	745,770	34,307	5,516	142	54,126	731,609
Advance payments and assets under construction	18,059	19,976	– 14,997	– 518	1,343	21,177
	2,060,650	75,152	– 8,606	5,680	87,566	2,045,310
Investment property	6,650	0	7,192	14	5,631	8,225
2011/2012						
Intangible assets						
Goodwill	122,901	0	0	339	0	123,240
Development costs	283,492	1,085	0	0	8,013	276,564
Software/other rights	126,501	1,749	0	613	28,865	99,998
Advance payments	1,250	1,466	0	0	0	2,716
	534,144	**4,300**	**0**	**952**	**36,878**	**502,518**
Property, plant, and equipment						
Land and buildings	667,745	13,718	9,599	7,797	693	698,166
Technical equipment and machinery	624,779	5,672	2,244	2,252	21,302	613,645
Other equipment, operating and office equipment	731,609	37,644	4,135	3,860	66,891	710,357
Advance payments and assets under construction	21,177	8,326	– 19,786	556	1,047	9,226
	2,045,310	**65,360**	**– 3,808**	**14,465**	**89,933**	**2,031,394**
Investment property	**8,225**	**5**	**1,863**	**– 134**	**0**	**9,959**

[1] Includes reclassifications to “Assets held for sale” of € 775 thousand (previous year: € 791 thousand)
[2] Including impairment loss of € 3,285 thousand (previous year: € 3,964 thousand), see note 12
[3] Including special items of € 3,131 thousand (previous year: € 1,921 thousand)

Cumulative depreciation and amortization							Carrying amounts
As of start of financial year	Depreciation and amortization [2][3]	Re-classifications [1]	Currency adjustments	Disposals	Reversals	**As of end of financial year**	**As of end of financial year**
3	0	0	0	0	0	3	122,898
155,229	20,504	0	0	5,901	0	169,832	113,660
91,298	8,142	5	196	1,999	0	97,642	28,859
0	0	0	0	0	0	0	1,250
246,530	28,646	5	196	7,900	0	267,477	266,667
422,700	11,585	–1,571	1,865	1,395	0	433,184	234,561
473,109	21,982	–17	1,453	22,837	0	473,690	151,089
569,719	37,540	–61	127	38,861	0	568,464	163,145
0	0	0	0	0	0	0	21,177
1,465,528	71,107	–1,649	3,445	63,093	0	1,475,338	569,972
4,900	1,768	800	3	4,910	0	2,561	5,664
3	0	0	0	0	0	3	123,237
169,832	19,086	0	0	8,013	0	180,905	95,659
97,642	6,642	–2	352	28,856	0	75,778	24,220
0	0	0	0	0	0	0	2,716
267,477	**25,728**	**–2**	**352**	**36,869**	**0**	**256,686**	**245,832**
433,184	11,916	–323	2,977	528	0	447,226	250,940
473,690	16,893	–605	1,599	15,513	0	476,064	137,581
568,464	35,573	313	2,225	46,131	0	560,444	149,913
0	0	0	0	0	0	0	9,226
1,475,338	**64,382**	**–615**	**6,801**	**62,172**	**0**	**1,483,734**	**547,660**
2,561	**71**	**0**	**–31**	**0**	**0**	**2,601**	**7,358**

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 euros (see note 5).

These consolidated financial statements relate to financial year 2011/2012 (April 1, 2011 to March 31, 2012). They were approved for publication by the Management Board of Heidelberger Druckmaschinen Aktiengesellschaft on May 24, 2012.

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 IFRS Interpretations Committee (IFRS IC) 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 2011/2012:

Standard	Publication by the IASB/IFRS IC	Date of adoption in EU[1]	Published in Official Journal of the EU	Effects
Amendments to standards				
IAS 24: Related Party Disclosures (Revised 2009)	4-Nov-2009	1-Jan-2011	20-Jul-2010	> None
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	> None
Improvements to International Financial Reporting Standards 2010	10-May-2010	Various, 1-Jul-2010 at earliest	19-Feb-2011	> None
Amendments to interpretations				
Amendments to IFRIC 14: Prepayments of a Minimum Funding Requirement	26-Nov-2009	1-Jan-2011	20-Jul-2010	> None
New interpretations				
IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments	26-Nov-2009	1-Jul-2010	24-Jul-2010	> None

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

New accounting provisions

The IASB and the IFRS IC approved and amended other standards and interpretations, whose application during financial year 2011/2012 is not yet compulsory or which have not yet been approved by the European Union (EU). Heidelberg is not currently planning to apply these standards at an early date.

Standards	Publication by the IASB / IFRS IC	Effective date [1]	Published in Official Journal of the EU
Amendments to standards			
Amendments to IAS 1: Presentation of Financial Statements	16-Jun-2011	1-Jul-2012	Open
Amendments to IAS 12: Deferred Tax: Recovery of Underlying Assets	20-Dec-2010	1-Jan-2012	Open
Amendments to IAS 19: Employee Benefits	16-Jun-2011	1-Jan-2013	Open
IAS 27: Separate Financial Statements	12-May-2011	1-Jan-2013	Open
IAS 28: Investments in Associates	12-May-2011	1-Jan-2013	Open
Amendment to IAS 32: Offsetting Financial Assets and Financial Liabilities	19-Oct-2011	1-Jan-2014	Open
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 1: Government Loans with a Below-market Rate of Interest	13-Mar-2012	1-Jan-2013	Open
Amendments to IFRS 7: Financial instruments: Disclosures: Transfers of Financial Assets	7-Oct-2010	1-Jul-2011	23-Nov-2011
Amendment to IFRS 7: Financial Instruments: Offsetting Financial Assets and Financial Liabilities	19-Oct-2011	1-Jan-2013	Open
Amendments to IFRS 9 and IFRS 7: Date of Mandatory First-time Adoption and Transition Disclosures	16-Dec-2011	1-Jan-2015	Open
New standards			
IFRS 9: Financial Instruments	12-Nov-2009	1-Jan-2015	Open
IFRS 10: Consolidated Financial Statements	12-May-2011	1-Jan-2013	Open
IFRS 11: Joint Arrangements	12-May-2011	1-Jan-2013	Open
IFRS 12: Disclosure of Interests in Other Entities	12-May-2011	1-Jan-2013	Open
IFRS 13: Fair Value Measurement	12-May-2011	1-Jan-2013	Open
New interpretations			
IFRIC 20: Stripping Costs in the Production Phase of a Surface Mine	19-Oct-2011	1-Jan-2013	Open

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

Content	Expected effects
> Items of other comprehensive income must be grouped according to whether or not they are recycled to profit or loss; subtotals must be presented for both groups. > Income taxes in connection with items reported before taxes must be shown separately in other comprehensive income for each of these two groups.	> Currently being examined
> 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 abolition of the deferral of actuarial gains and losses (the corridor method), combined with the duty to recognize these directly in other comprehensive income, the substitution of the concept of expected return on plan assets by the net interest approach, and the modification of the recognition of post-employment benefits. > The disclosure requirements for defined benefit plans were also amended.	> Currently being examined
> The individual standard now only includes the – unchanged – regulations on accounting for interests in subsidiaries, associates, and joint ventures in separate financial statements.	> None
> Most of the changes are as a result of the inclusion of joint ventures in the scope of IAS 28.	> Currently being examined
> The changes include clarifications of regulations on the offsetting of financial assets and financial liabilities.	> Currently being examined
> The amendments relate to additional information for first-time adopters whose currency was subject to severe hyperinflation on the one hand and the elimination of the set first-time adoption date on the other.	> None
> The amendments relate to accounting for government loans with a below-market interest rate at the time of transition to IFRS.	> None
> The amendments relate to the disclosure of risks resulting from transfers of financial assets.	> Currently being examined
> The changes include additional disclosure requirements for netted financial instruments.	> Currently being examined
> The standard stipulates that IFRS 9 is only effective for financial years beginning after January 1, 2015. It also grants the option not to restate comparative figures in the year of first-time adoption of IFRS 9 and includes additions to IFRS 7.	
> 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
> IFRS 10 creates a uniform basis for the definition of a parent-subsidiary relationship and for the specific definition of the consolidated group. > The uniform consolidation model for all companies is based on the parent's control of the subsidiary.	> Currently being examined
> IFRS 11 replaces IAS 31 and regulates accounting for matters in which an entity participates in a joint venture or a joint operation.	> Currently being examined
> IFRS 12 compiles the necessary disclosures for entities reporting in accordance with the new standards IFRS 10, IFRS 11, and IAS 28 Investments in Associates and Joint Ventures	> Currently being examined
> IFRS 13 compiles the guidelines for determining fair value found in various individual standards. Fair value is basically defined as the selling price.	> Currently being examined
> IFRIC 20 regulates accounting for stripping costs in the production phase of a surface mine.	> None

3 SCOPE OF CONSOLIDATION

The consolidated financial statements of Heidelberger Druckmaschinen Aktiengesellschaft include a total of 70 (previous year: 75) domestic and foreign companies controlled by Heidelberger Druckmaschinen Aktiengesellschaft within the meaning of IAS 27. Of these companies, 59 (previous year: 64) are located outside Germany.

	2010/2011	**2011/2012**
April 1	75	75
Initial consolidation due to formation	0	0
Initial consolidation due to acquisition	0	0
Merger	0	4
Deconsolidation	0	0
Liquidation	0	1
March 31	75	70

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 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, 2012 include five (previous year: five) companies whose reporting period ends as of December 31, 2011. 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 changed as follows as against the previous year:

> Merger:
  As of November 1, 2011, Heidelberg Latvija SIA, Riga, Latvia, Heidelberg Lietuva UAB, Vilnius, Lithuania, and Heidelberg Finland Oy, Vantaa, Finland, were merged with Heidelberg Baltic Finland OÜ, Tallinn, Estonia. As of March 30, 2012, Heidelberg Print Finance Japan K.K., Tokyo, Japan, was merged with Heidelberg Japan K.K., Tokyo, Japan.

> Liquidation:
  As of December 30, 2011, International Machinery & Oil Company (Pty) Ltd., Johannesburg, South Africa, was liquidated.

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	
	2010/2011 €1 =	2011/2012 €1 =	2010/2011 €1 =	2011/2012 €1 =
AUD	1.3975	1.3152	1.3668	1.2836
CAD	1.3459	1.3702	1.3674	1.3311
CHF	1.3292	1.2102	1.2993	1.2045
CNY	8.8591	8.8491	9.2381	8.4089
GBP	0.8503	0.8643	0.8789	0.8339
HKD	10.2881	10.7772	10.9696	10.3705
JPY	112.6583	109.3292	117.0100	109.5600
USD	1.3229	1.3861	1.4090	1.3356

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

6 GENERAL ACCOUNTING POLICIES

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

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 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 the option provided under IAS 38, intangible assets are measured at amortized cost. 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 in line with the option provided 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 in line with the option provided under IAS 40. The notes to the consolidated financial statements provide information on the fair value of investment property, which among other things is 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):

	2010/2011	**2011/2012**
Development costs	3 to 12	3 to 12
Software/other rights	3 to 5	3 to 5
Buildings	10 to 50	10 to 50
Technical equipment and machinery	3 to 15	6 to 29
Motor vehicles	6 to 9	6 to 9
Operating and office equipment	4 to 15	4 to 15
Investment property	10 to 50	10 to 50

Impairment of non-financial assets

The carrying amount of intangible assets (including capitalized development costs) and of 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) and 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". 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 deferred liabilities 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: 28.43 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 (2005 G) or comparable foreign mortality tables. Plan assets carried at fair value are offset against defined benefit obligations. The service cost is reported under staff costs and the interest portion of the additions to provisions under net financial income. The return on plan assets is offset from staff costs at the level of the individual company up to the amount of expenses for pension claims. Any excess amount is reported in net financial income.

The calculation of the return expected on plan assets in the long term depends on the respective asset category. Our forecasts are based on long-term historical average figures. Actuarial gains and losses are entirely offset in equity. Actuarial gains and losses recognized in 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.

Prepaid expenses and deferred income

For taxable government investment subsidies and tax-free investment allowances there is an option to recognize these as deferred income or deduct them when determining the carrying amount of the asset. Heidelberg reports these subsidies as deferred income that is reversed and recognized as income in line with the expected pattern of economic benefits from the asset over its useful life.

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,
- 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 4.75 percent or 4.25 percent respectively (previous year: to 5.25 percent or 4.75 percent respectively) would result in a € 30,874 thousand (previous year: € 26,818 thousand) reduction or a € 32,936 thousand (previous year: € 28,564 thousand) increase in domestic pension claims. After income taxes, the losses offset in other comprehensive income would be reduced by € 22,096 thousand (previous year: € 19,194 thousand) or increased by € 23,572 thousand (previous year: € 20,443 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 10.0 percent (previous year: 10.7 percent) for the cash-generating unit Heidelberg Equipment and 10.4 percent (previous year: 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 NET SALES

In addition to income from sales of products and services, sales include income from commission, finance, and operating leases totaling € 5,891 thousand (previous year: € 7,404 thousand) and interest income from sales financing and finance leases amounting to € 14,581 thousand (previous year: € 16,148 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

	2010/2011	**2011/2012**
Reversal of other provisions and deferred liabilities	44,369	51,183
Recoveries on loans and other assets previously written down	22,455	16,935
Hedging/exchange rate gains	11,035	13,965
Income from operating facilities	14,161	12,845
Income from disposals of intangible assets, property, plant, and equipment, and investment property	8,791	2,004
Other income	35,651	26,152
	136,462	**123,084**

10 COST OF MATERIALS

	2010/2011	**2011/2012**
Cost of raw materials, consumables and supplies, and of goods purchased and held for resale	1,111,793	1,111,999
Cost of purchased services	119,044	117,310
Interest expense of Heidelberg Financial Services	3,210	2,410
	1,234,047	**1,231,719**

The ratio of the cost of materials to total operating performance is 47.0 percent (previous year: 47.5 percent).

11 STAFF COSTS AND NUMBER OF EMPLOYEES

	2010/2011	**2011/2012**
Wages and salaries	733,677	762,234
Retirement benefit expenses [1]	41,932	34,268
Return on plan assets	– 30,847	– 27,880
Other social security contributions and expenses	127,949	135,908
	872,711	**904,530**

[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 € 11,246 thousand (previous year: € 14,040 thousand).

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

	2010/2011	Average **2011/2012**	31-Mar-2011	As of **31-Mar-2012**
Europe, Middle East and Africa	11,286	10,930	11,156	10,833
Eastern Europe	653	624	631	615
North America	1,033	940	1,000	882
South America	245	264	250	262
Asia/Pacific	2,133	2,215	2,160	2,221
	15,350	14,973	15,197	14,813
Trainees	714	672	631	601
	16,064	**15,645**	15,828	**15,414**

[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 € 90,181 thousand (previous year: € 101,521 thousand) relate to intangible assets (€ 25,728 thousand; previous year: € 28,646 thousand), property, plant, and equipment (€ 64,382 thousand; previous year: € 71,107 thousand), and investment property (€ 71 thousand; previous year: € 1,768 thousand).

Impairment was recognized as follows: € 0 thousand (previous year: € 1,756 thousand) on investment property, € 169 thousand on land and buildings (previous year: € 307 thousand), € 408 thousand on other equipment, office and operating equipment (previous year: € 258 thousand) and, due to lower earnings prospects, € 2,708 thousand on intangible assets (previous year: € 1,643 thousand). Impairment primarily relates to the Heidelberg Equipment Division and is essentially recognized under special items.

13 OTHER OPERATING EXPENSES

	2010/2011	**2011/2012**
Special direct sales expenses including freight charges	117,734	121,954
Other deliveries and services not included in the cost of materials	109,222	111,888
Rent and leases	65,761	62,474
Travel expenses	41,993	43,928
Bad debt allowances and impairment on other assets	18,242	20,590
Hedging/exchange rate losses	25,596	20,337
Additions to provisions and deferred liabilities relating to several types of expense	19,719	18,853
Insurance expense	12,714	10,967
Costs of car fleet (excluding leases)	8,302	8,045
Other overheads	104,962	100,504
	524,245	**519,540**

14 SPECIAL ITEMS

Special items include expenses in connection with our efficiency program Focus 2012.

Staff-related expenses of € 123,123 thousand were incurred as part of this program in the reporting period. The remaining expenses of € 19,151 thousand essentially relate to other structural measures in connection with Focus 2012 and include impairment losses on inventories and intangible assets, consulting costs, and costs due to building vacancies.

15 FINANCIAL RESULT

	2010/2011	2011/2012
Financial income	22,690	20,475
Financial expenses	171,724	110,029
Financial result	– 149,034	**– 89,554**

16 FINANCIAL INCOME

	2010/2011	2011/2012
Interest and similar income	14,036	14,974
Income from financial assets/loans/securities	8,654	5,501
Financial income	22,690	**20,475**

17 FINANCIAL EXPENSES

	2010/2011	2011/2012
Interest and similar expenses	169,459	106,465
– of which: net interest expenses for pensions	(37,403)	(34,431)
Expenses for financial assets/loans/securities	2,265	3,564
Financial expenses	171,724	**110,029**

Interest and similar expenses include expenses in connection with the high-yield bond and the credit facility (see note 29). 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 and reversals of write-downs of € 620 thousand (previous year: € 194 thousand).

18 TAXES ON INCOME

Taxes on income are broken down as follows:

	2010/2011	2011/2012
Current taxes	– 33,664	– 81,586
of which Germany	(– 24,862)	(– 85,863)
of which abroad	(– 8,802)	(4,277)
Deferred taxes	19,677	82,364
of which Germany	(– 36,105)	(77,455)
of which abroad	(55,782)	(4,909)
	– 13,987	**778**

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) and comparable taxes of the foreign subsidiaries. The nominal total German tax rate is still 28.43 percent for the financial year.

No deferred tax liabilities were recognized for temporary differences on shares in subsidiaries of € 232,011 thousand (previous year: € 282,425 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 € 20,576 thousand in the reporting year (previous year: € 54,586 thousand).

Total tax loss carryforwards for which no deferred tax assets were recognized amount to a total of € 1,067,871 thousand (previous year: € 525,865 thousand). Of these, € 1,763 thousand can be used until 2013 (previous year: € 4,556 thousand until 2012), € 7,240 thousand until 2014 (previous year: € 5,688 thousand until 2013), € 9,428 thousand until 2015 (previous year: € 7,406 thousand until 2014), € 3,965 thousand until 2016 (previous year: € 2,518 thousand until 2015), € 2,136 thousand until 2017 (previous year: € 6,416 thousand until 2016) and € 1,043,339 thousand until 2018 and later (previous year: € 499,281 thousand until 2017 and later).

Deferred tax assets are only recognized for tax loss carryforwards if their realization is guaranteed in the near future. Write-downs of deferred tax assets for loss carryforwards recognized in previous years were carried out in the year under review in the amount of € 63,952 thousand (previous year: € 0 thousand). Deferred tax assets totaling € 1,250 thousand (previous year: € 0 thousand) were recognized in the reporting year on tax loss carryforwards not previously recognized. Deferred tax assets on current tax losses amounting to € 1,007 thousand (previous year: € 968 thousand) were recognized in the reporting year. 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 € 14,941 thousand (previous year: € 107,312 thousand) were capitalized at companies that generated a tax loss in the current or prior financial year.

Income of € 0 thousand was recognized from loss carrybacks in the reporting year (previous year: € 215 thousand).

Unutilized tax credit for which no deferred tax assets have been recognized on the consolidated statement of financial position amounted to € 2,454 thousand (previous year: € 2,326 thousand).

Current taxes were reduced in the reporting year by € 4,023 thousand (previous year: € 1,418 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 € 97,376 thousand (previous year: € 50,804 thousand).

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

	2010/2011	**2011/2012**
Income before taxes	–142,877	–229,315
Theoretical tax rate in percent	28.43	28.43
Theoretical tax income	–40,620	**–65,194**
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	–9,173	0
– Differing tax rate	–4,363	–7,990
– Tax loss carryforwards [1]	26,214	144,003
– Reduction due to tax-free income	–7,419	–10,898
– Tax increase due to non-deductible expenses	5,310	12,586
– Change in tax provisions/taxes attributable to previous years/impairment deferred tax assets temporary differences	21,427	–74,339
– Other	–5,363	2,610
Taxes on income	–13,987	**778**
Tax rate in percent	9.79	**–0.34**

[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 are the same as the segments (see note 37). The carrying amounts of the goodwill associated with the cash-generating units Heidelberg Equipment and Heidelberg Services total € 47,542 thousand (previous year: € 47,527 thousand) and € 75,695 thousand (previous year: € 75,371 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. The calculation of the value in use by Heidelberg 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, external information sources and expectations of future market development. Key assumptions on which the calculation of the value in use by the management is based include future developments of sale prices and the forecasts of market prices for commodities, the Company's investment activities, the competitive situation, growth rates, and the costs of capital. As a result, and as in the previous year, there were no impairment requirements for the Heidelberg Equipment, Heidelberg Services, and Heidelberg Financial Services cash-generating units.

The calculated cash flows were discounted on the basis of market data using weighted average costs of capital (WACC) before taxes of 9.0 percent (previous year: 9.7 percent) for the Heidelberg Equipment cash-generating unit and of 9.4 percent (previous year: 10.0 percent) for the Heidelberg Services cash-generating unit. As in the previous year Heidelberg uses constant growth rates of 1 percent to show expected inflation to extrapolate cash flows beyond the detailed planning period.

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 € 127,922 thousand in the reporting year (previous year: € 121,470 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 € 3,917 thousand (previous year: € 4,423 thousand) for land and property and € 5,196 thousand (previous year: € 3,445 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 € 14,637 thousand (previous year: € 21,697 thousand). These assets are reported under technical equipment and machinery. These assets are printing presses leased to customers. The gross carrying amounts were € 29,677 thousand (previous year: € 38,891 thousand) and cumulative depreciation amounted to € 15,039 thousand (previous year: € 17,194 thousand). Depreciation of € 4,264 thousand (previous year: € 5,590 thousand) was recognized in the reporting year. Future lease income of € 2,444 thousand (previous year: € 5,456 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 € 1,184 thousand (previous year: € 2,506 thousand), € 1,130 thousand (previous year: € 2,809 thousand), and € 129 thousand (previous year: € 141 thousand) respectively.

In connection with a loan (carrying amount: € 48,548 thousand; previous year: € 55,564 thousand), the lender was granted usufructory rights on three developed plots of land (carrying amount: € 35,533 thousand; previous year: € 36,534 thousand). In connection with the refinancing of the Heidelberg Group (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 € 362,507 thousand (previous year: € 379,388 thousand) and € 4,939 thousand (previous year: € 3,076 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 € 9,390 thousand (previous year: € 7,596 thousand). As in the previous year, only immaterial current income or expenses were incurred in connection with investment property in the reporting year.

The useful lives of some property, plant, and equipment were adjusted in the reporting year. If the useful lives had remained unchanged, depreciation would have been € 3,993 thousand higher in the reporting year.

In line with IFRS 5, assets of € 2,694 thousand (previous year: € 908 thousand) were classified as held for sale as of March 31, 2012. These essentially relate to one undeveloped and three developed plots of land, the sale of which has been planned and initiated, and which are mostly assigned to the Heidelberg Services segment.

21 FINANCIAL ASSETS

Financial assets include shares in subsidiaries totaling € 20,659 thousand (previous year: € 12,645 thousand), other investments of € 3,464 thousand (previous year: € 3,476 thousand) and securities of € 3,365 thousand (previous year: € 3,426 thousand). The underlying quoted prices for the securities qualify under level 1 in the hierarchy of fair values stipulated by IFRS 7: Financial Instruments: Disclosures as only quoted prices observed on active markets were used in measurement.

22 RECEIVABLES AND OTHER ASSETS

	31-Mar-2011			31-Mar-2012		
	Current	Non-current	Total	Current	Non-current	Total
Receivables from sales financing	87,582	90,419	178,001	70,460	85,830	156,290
Trade receivables	376,928	0	376,928	360,958	0	360,958
Other receivables and other assets						
Other tax assets	18,757	0	18,757	18,039	0	18,039
Loans	421	7,333	7,754	279	7,016	7,295
Derivative financial instruments	30,318	8,500	38,818	15,406	395	15,801
Deferred interest	104	0	104	140	0	140
Prepaid expenses	12,544	2,190	14,734	16,061	1,536	17,597
Other assets	91,379	24,897	116,276	66,493	7,651	74,144
	153,523	42,920	196,443	116,418	16,598	**133,016**

In the reporting year, plan assets of € 913 thousand (previous year: € 6,997 thousand) were included in non-current other assets (see note 27).

In connection with the refinancing of the Heidelberg Group (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 € 91,457 thousand (previous year: € 170,616 thousand), € 98,388 thousand (previous year: € 106,116 thousand), and € 10,598 thousand (previous year: € 9,027 thousand) respectively.

Receivables from sales financing

RECEIVABLES FROM SALES FINANCING are shown in the following table:

Contract currency	Carrying amount 31-Mar-2011 in € thousand	Remaining term in years	Effective interest rate in %	Carrying amount **31-Mar-2012** in € thousand	Remaining term in years	Effective interest rate in %
EUR	96,663	up to 8	up to 18	91,701	up to 9	up to 18
AUD	29,027	up to 7	up to 13	24,944	up to 7	up to 13
USD	20,637	up to 6	up to 11	11,736	up to 5	up to 11
Other	31,674			27,909		
	178,001			**156,290**		

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 € 19,570 thousand (previous year: € 27,406 thousand) was recognized for receivables from sales financing with a gross carrying amount of € 48,972 thousand (previous year: € 52,728 thousand). The derived market value of the collateral held for receivables from sales financing was € 148,591 thousand (previous year: € 170,938 thousand) as of the end of the reporting period. This collateral is essentially reservations of title, though the amount of security varies from region to region.

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:

	31-Mar-2011	31-Mar-2012
Receivables from sales financing neither past due nor impaired	139,156	113,976
Receivables past due but not impaired		
less than 30 days	5,888	2,657
between 30 and 60 days	1,646	1,592
between 60 and 90 days	702	2,938
between 90 and 180 days	1,636	2,246
more than 180 days	3,651	3,479
Total	13,523	12,912
	152,679	**126,888**

The total impairment loss in the period for receivables from sales financing was € 9,002 thousand (previous year: € 6,761 thousand). Of this, impairment amounts booked to allowance accounts developed as follows:

	2010/2011	2011/2012
As of the start of the financial year	43,147	31,089
Additions	5,291	8,710
Utilization	–7,025	–7,096
Reversals	–10,829	–9,505
Change in scope of consolidation, currency adjustments, other changes	505	215
As of the end of the financial year	31,089	**23,413**

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 € 15 thousand (previous year: € 1,177 thousand). Leases are subject to the following parameters:

	31-Mar-2011				31-Mar-2012			
	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	–	–	–	19,692	–	–	–	15,615
Lease payments received	–	–	–	– 15,101	–	–	–	– 13,813
Outstanding lease payments	1,659	2,932	–	4,591	779	1,023	–	1,802
Interest portion of outstanding lease payments	– 286	– 359	–	– 645	– 76	– 38	–	– 114
Present value of outstanding lease payments (carrying amount)	1,373	2,573	–	3,946	703	985	–	1,688

Trade receivables

A specific allowance for impairment losses of € 34,316 thousand (previous year: € 37,823 thousand) was recognized for trade receivables with a gross carrying amount of € 44,918 thousand (previous year: € 46,140 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:

	31-Mar-2011	31-Mar-2012
Trade receivables neither past due nor impaired	252,781	239,914
Receivables past due but not impaired		
less than 30 days	65,197	58,447
between 30 and 60 days	17,425	18,219
between 60 and 90 days	6,042	10,197
between 90 and 180 days	13,362	10,487
more than 180 days	13,804	13,092
Total	115,830	110,442
	368,611	**350,356**

The derived market value of the collateral held for receivables from machinery sales was € 183,369 thousand (previous year: € 209,213 thousand) as of the end of the reporting period. This collateral is essentially reservations of title, though the amount of security varies from region to region.

The total impairment loss in the period for trade receivables was € 11,193 thousand (previous year: € 10,881 thousand). Of this, impairment amounts booked to allowance accounts developed as follows:

	2010/2011	2011/2012
As of the start of the financial year	50,672	45,275
Additions	8,344	9,743
Utilization	– 5,012	– 7,287
Reversals	– 9,090	– 7,065
Change in scope of consolidation, currency adjustments, other changes	361	532
As of the end of the financial year	45,275	**41,198**

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 € 5,162 thousand (previous year: € 4,959 thousand) and € 4,453 thousand (previous year: € 4,661 thousand) relate to loans (gross carrying amount € 12,459 thousand; previous year: € 12,716 thousand) and other financial assets (gross carrying amount € 30,983 thousand; previous year: € 52,857 thousand) respectively.

Of the impairment recognized on loans in the previous year, € 87 thousand (previous year: € 116 thousand) were utilized and € 3 thousand (previous year: € 51 thousand) were reversed. Additions to impairment losses of € 63 thousand were required (previous year: € 89 thousand). Of the impairment recognized on other financial assets in the previous year, € 0 thousand (previous year: € 1,454 thousand) were utilized and € 1 thousand (previous year: € 34 thousand) were reversed. Additions to impairment of € 383 thousand were required (previous year: € 551 thousand).

€ 818 thousand (previous year: € 318 thousand) of unimpaired loans and other financial assets were past due by more than 180 days.

Derivative financial instruments essentially include asset cash flow hedges of € 13,697 thousand (previous year: € 35,241 thousand) and asset fair value hedges of € 1,778 thousand (previous year: € 1,745 thousand).

23 DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

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

	31-Mar-2011		31-Mar-2012	
	Asset	Liability	Asset	Liability
Tax loss carryforwards	70,574	0	7,797	0
Assets:				
Intangible assets/property, plant, and equipment/investment property/financial assets	35,571	59,380	9,359	6,719
Inventories, receivables, and other assets	15,676	11,593	10,206	1,889
Securities	286	0	0	0
Liabilities:				
Provisions	71,103	6,003	12,478	4,136
Liabilities	8,392	11,997	4,586	1,023
Gross amount	201,602	88,973	44,426	13,767
Offsetting	82,675	82,675	5,780	5,780
Carrying amount	118,927	6,298	**38,646**	**7,987**

Deferred tax assets include non-current deferred taxes of € 33,228 thousand (previous year: € 92,227 thousand). Deferred tax liabilities include non-current deferred taxes of € 6,220 thousand (previous year: € 5,430 thousand).

Due to currency translation, deferred tax assets were increased in equity by € 220 thousand (previous year: € 1,860 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 break down as follows:

	2010/2011			2011/2012		
	Before income taxes	Income taxes	After income taxes	Before income taxes	Income taxes	After income taxes
Pension obligations	16,761	–8,997	7,764	–94,841	–1,686	–96,527
Currency translation	4,257	0	4,257	35,448	0	35,448
Available-for-sale financial assets	–362	–278	–640	–292	27	–265
Cash flow hedges	17,529	–5,004	12,525	–9,732	1,833	–7,899
Total other comprehensive income	38,185	–14,279	23,906	–69,417	174	**–69,243**

24 INVENTORIES

	31-Mar-2011	31-Mar-2012
Raw materials and supplies	113,572	121,925
Work and services in progress	332,086	334,796
Finished goods and goods for resale	299,160	325,264
Advance payments	2,862	3,741
	747,680	**785,726**

In order to adjust inventories to the net realizable value, impairment of € 1,900 thousand was recognized in the year under review (previous year: € 12,614 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. Remarketed equipment was repossessed as collateral owing to the insolvency of customers. In the year under review, remarketed equipment of € 373 thousand (previous year: € 527 thousand) was reported under finished goods and goods held for resale. The repossession of this collateral resulted in cash inflows of € 797 thousand (previous year: € 900 thousand) at German companies in the reporting period.

The carrying amount in connection with the refinancing of the Heidelberg Group (see note 29) was € 468,305 thousand (previous year: € 470,776 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 € 63,644 thousand (previous year: € 70,650 thousand). Bank balances are exclusively held for short-term cash management purposes.

26 EQUITY

Share capital/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.

The share capital of Heidelberger Druckmaschinen Aktiengesellschaft therefore amounts to € 599,672,166.40 (previous year: € 597,325,573.12) and is divided into 234,246,940 shares (previous year: 233,330,302). For information on the capital increase performed in the year under review please see “Authorized capital”.

The Company held 400,000 treasury shares as of March 31, 2011. The shares were acquired in March 2007. 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. These shares can only be utilized to reduce the capital of Heidelberger Druckmaschinen Aktiengesellschaft or for employee share participation programs and other forms of share distribution to the employees of the Company or a subsidiary or to individuals who are or were employed by Heidelberger Druckmaschinen Aktiengesellschaft or one of its associates.

As part of the agreement reached at the start of the previous year between the management and employee representatives on the coordination of interests for German locations it was agreed to set up an employee share participation program. The issuance of shares was therefore free of charge for employees. At the beginning of the year under review 257,081 treasury shares were used for this employee share participation program. In the previous year, employee shares were measured on the basis of IFRS 2: Share-based Payment. The employee program attained earnings totaling € 1,027 thousand in the year under review (previous year: expenses of € 3,025 thousand). The employee share participation program resulted in an allocation to capital reserves of € 1,339 thousand as of March 31, 2012 (previous year: € 2,260 thousand).

As of March 31, 2012, the Company still held 142,919 treasury shares. The amount of these shares allocated to share capital is € 366 thousand (previous year: € 1,024 thousand), with a notional share of share capital of 0.06 percent as of March 31, 2012 (previous year: 0.17 percent).

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 would have been 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 would have exercised their option or conversion rights or fulfilled their obligation regarding conversion/the exercising of options by July 19, 2011. However, the Company did not issue any such bonds or rights before July 19, 2011.

At the Annual General Meeting on July 18, 2008, the Management Board was granted two authorizations valid until July 17, 2013, which have the same content but which differ with regard to the option and conversion prices stipulated, to issue 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. To ensure any option or conversion rights or obligations of bonds or similar instruments created on the basis of the above authorizations, 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 was 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).

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). Authorized Capital 2009 was revoked by way of resolution of the ordinary Annual General Meeting on July 28, 2011.

A capital increase was carried out in financial year 2011/2012 to implement the court settlement with the former shareholders of Linotype-Hell Aktiengesellschaft. Under the amicable settlement of the court dispute with the former shareholders of Linotype-Hell Aktiengesellschaft regarding the exchange ratio on March 30, 2011, it was agreed by way of court settlement to compensate the shareholders in shares of Heidelberger Druckmaschinen Aktiengesellschaft. For this purpose, the Management Board resolved, with the approval of the Supervisory Board, to increase the share capital by € 2,346,593.28 by issuing 916,638 new shares. Shareholders' subscription rights were disapplied with the approval of the Supervisory Board. To create new shares, the Management Board partially exercised its authorization under the resolution of the Annual General Meeting on July 18, 2008 to increase the share capital by issuing new shares against deposits (Authorized Capital 2008). The capital increase resolution was entered in the commercial register on June 6, 2011.

The Annual General Meeting on July 28, 2011 authorized the Management Board, with the approval of the Supervisory Board, to increase the share capital of the Company by up to € 119,934,433.28 on one or several occasions against cash contributions by July 27, 2016 (Authorized Capital 2011). The Management Board was authorized, with the approval of the Supervisory Board, to determine the further content of the shares' rights and the conditions for their issue. The authorization took effect on entry of the amendment of the Articles of Association in the commercial register; this took place on August 5, 2011.

Capital reserves

The capital reserves essentially include amounts from the capital increases in accordance with Section 272 (2) 1 of the Handelsgesetzbuch (HGB – German Commercial Code), from simplified capital reductions in accordance with Section 237 (5) of the Aktiengesetz (AktG – German Stock Corporation Act) and expenses from the issuance of option rights to employees in line with IFRS 2: Share-based Payment.

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.

The amicable settlement of the court dispute with the former shareholders of Linotype-Hell Aktiengesellschaft regarding the exchange ratio on March 30, 2011 resulted in the derecognition in the year under review of the risk provisions recognized in the previous year, thereby increasing retained earnings.

Appropriation of the net profit of Heidelberger Druckmaschinen Aktiengesellschaft

To settle the loss generated by Heidelberger Druckmaschinen Aktiengesellschaft in the 2010/2011 financial year of € 22,364,781.44, after offsetting the reversed reserve for treasury shares of € 1,024,000.00 in the annual financial statements in the previous year, the difference of € 21,340,781.44 was withdrawn from retained earnings.

The loss of € 30,017,081.24 generated by Heidelberger Druckmaschinen Aktiengesellschaft in the year under review was offset in full in its annual financial statements by way of withdrawal 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 and 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 € 64,136 thousand (previous year: € 58,511 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

	2010/2011		**2011/2012**	
	Domestic	Foreign	**Domestic**	**Foreign**
Discount rate	5.00	4.30	4.50	3.52
Expected return on plan assets	4.91	5.16	5.17	4.60
Expected future salary increases	3.00	2.69	3.00	2.44
Expected future pension increases	2.00	2.04	2.00	2.35

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-2011	**31-Mar-2012**
Provisions for pensions and similar obligations	221,011	326,080
Reported assets	6,997	913
Net carrying amounts at the end of the financial year	214,014	**325,167**

The net carrying amounts developed as follows:

	2010/2011	**2011/2012**
Net carrying amounts at the start of the financial year	216,473	214,014
Expenses for pension obligations	69,981	70,321
Pension payments	– 10,118	– 8,023
Funding of pensions/contributions	– 6,915	– 7,232
Change in actuarial gains (–)/losses (+)	– 16,761	94,841
Expected return on plan assets	– 41,201	– 42,634
Change in scope of consolidation, currency adjustments, other changes	2,555	3,880
Net carrying amounts at the end of the financial year	214,014	**325,167**

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-2011	31-Mar-2012
Present value of defined benefit obligation for employees (funded)	1,011,907	1,140,457
Less fair value of plan assets	–823,019	–846,400
	188,888	294,057
Present value of defined benefit obligation for employees (unfunded)	25,126	31,110
Net carrying amount	214,014	325,167
Reported assets included therein	6,997	913
Provisions for pensions and similar obligations	221,011	**326,080**

3) The defined benefit obligation for employees developed as follows:

	2010/2011	2011/2012
Defined benefit obligation for employees at the start of the financial year	1,022,736	1,037,033
Current service cost	21,552	20,215
Interest expense	47,757	49,185
Pension payments	–45,348	–44,954
Change in actuarial gains (–)/losses (+)	–26,645	85,710
Past service cost	0	2,527
Curtailments	672	–1,607
Change in scope of consolidation, currency adjustments, other changes	16,309	23,458
Defined benefit obligation for employees at the end of the financial year	1,037,033	**1,171,567**
– of which: funded	1,011,907	1,140,457
– of which: unfunded	25,126	31,110

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

	2010/2011	**2011/2012**
Fair value of plan assets at the start of the financial year	806,263	823,019
Expected return on plan assets	41,201	42,634
Funding of pensions	3,963	4,176
Employee contributions	2,952	3,056
Pension payments from funds	– 35,230	– 36,931
Change in actuarial gains (+)/losses (–)	– 9,884	– 9,131
Change in scope of consolidation, currency adjustments, other changes	13,754	19,577
Fair value of fund assets at end of the financial year	823,019	**846,400**

The actual return on plan assets is € 33,503 thousand (previous year: € 31,318 thousand).

5) Plan assets break down as follows:

	31-Mar-2011	**31-Mar-2012**
Fixed-income securities	440,440	447,306
Shares	275,122	211,262
Funds	4,195	95,141
Real estate	36,201	34,986
Qualifying insurance policy	29,192	29,385
Cash and cash equivalents	25,886	18,059
Other	11,983	10,261
	823,019	**846,400**

6) Retirement benefit expenses break down as follows:

	2010/2011	**2011/2012**
Current service cost	21,552	20,215
Interest expense	47,757	49,185
Past service cost	0	2,527
Curtailments	672	– 1,607
Expenses for pension obligations	69,981	70,320
Expected return on plan assets	– 41,201	– 42,634
Expenses for other pension plans	19,708	15,660
	48,488	**43,346**

The return on plan assets at 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.

Retirement benefit expenses reported under staff costs before netting against the return on plan assets amount to € 34,268 thousand (previous year: € 41,932 thousand).

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 € 216,990 thousand as of the end of the reporting period (previous year: € 119,379 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-2008	31-Mar-2009	31-Mar-2010	31-Mar-2011	**31-Mar-2012**
Present value of defined benefit obligation for employees (funded)	810,564	832,648	996,681	1,011,907	1,140,457
Less fair value of plan assets	– 817,618	– 702,810	– 806,263	– 823,019	– 846,400
	– 7,054	129,838	190,418	188,888	**294,057**
Present value of defined benefit obligation for employees (unfunded)	21,201	24,324	26,055	25,126	31,110

	2007/2008	2008/2009	2009/2010	2010/2011	**2011/2012**
Experience adjustments to liabilities	– 1,699	1,223	14,846	5,107	5,203
Experience adjustments to assets	– 57,071	– 108,105	88,944	– 9,883	– 9,131

28
OTHER PROVISIONS

	31-Mar-2011			**31-Mar-2012**		
	Current	Non-current	Total	Current	Non-current	Total
Tax provisions	27,364	176,313	203,677	25,002	92,951	**117,953**
Other provisions						
Staff obligations	73,009	36,427	109,436	73,812	31,944	105,756
Sales obligations	120,927	13,695	134,622	114,598	13,205	127,803
Other	69,939	76,579	146,518	109,328	146,109	255,437
	263,875	126,701	390,576	297,738	191,258	488,996
	291,239	303,014	594,253	322,740	284,209	**606,949**

	As of 31-Mar-2011	Change in scope of consolidation, currency adjustments, reclassification	Utilization	Reversal	Addition	As of 31-Mar-2012
Tax provisions	203,677	1,020	5,687	98,963	17,906	**117,953**
Other provisions						
Staff obligations	109,436	8,203	65,475	7,226	60,818	105,756
Sales obligations	134,622	3,187	43,028	34,930	67,952	127,803
Other	146,518	– 2,220	37,850	14,802	163,791	255,437
	390,576	9,170	146,353	56,958	292,561	488,996
	594,253	10,190	152,040	155,921	310,467	**606,949**

Additions include accrued interest and the effects of the change in discount rates of € 10,357 thousand (previous year: € 8,214 thousand). These relate to expenses of € 2,122 thousand (previous year: € 2,196 thousand) for staff obligations, € 158 thousand (previous year: € 253 thousand) for sales obligations, and expenses of € 8,077 thousand (previous year: € 5,765 thousand) for miscellaneous other provisions.

As in previous years, TAX PROVISIONS primarily recognize the risks of additional assessments. The decrease in tax provisions primarily results from finalized appeal procedures and annual audit at Heidelberger Druckmaschinen Aktiengesellschaft.

STAFF PROVISIONS essentially relate to bonuses (€ 30,018 thousand; previous year: € 29,221 thousand), expenses for early retirement payments and for the partial retirement program (€ 26,465 thousand; previous year: € 25,739 thousand) and anniversary expenses (€ 16,624 thousand; previous year: € 16,585 thousand).

SALES PROVISIONS mainly relate to warranties, reciprocal liability, and buyback obligations (€ 78,468 thousand; previous year: € 87,430 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 € 11,236 thousand (previous year: € 13,091 thousand), € 8,575 thousand (previous year: € 10,716 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 € 47,369 thousand (previous year: € 68,239 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 € 68,908 thousand (previous year: € 49,944 thousand) and research and development obligations of € 7,055 thousand (previous year: € 5,511 thousand). In addition, there are provisions of € 143,790 thousand (previous year: € 51,550 thousand) primarily in connection with our **FOCUS 2012 EFFICIENCY PROGRAM.**

29 FINANCIAL LIABILITIES

	31-Mar-2011				31-Mar-2012			
	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]	4,518	50,000	0	54,518	50,000	0	0	50,000
High-yield bond [1]	0	0	0	0	12,966	0	291,244	304,210
Amounts due to banks [1]	264,679	32,067	17,660	314,406	15,276	32,031	9,072	56,379
From finance leases	2,152	2,868	2,661	7,681	1,955	4,735	2,055	8,745
Other	18,012	0	0	18,012	18,362	0	0	18,362
	289,361	84,935	20,321	394,617	98,559	36,766	302,371	**437,696**

[1] Including deferred interest

Borrower's note loans

There is currently one (previous year: two) floating-rate borrower's note loan with a nominal amount of € 50,000 thousand (previous year: € 54,500 thousand) with bullet maturity in March 2013. The contractually arranged interest rate adjustment periods are up to three months.

High-yield bond

On April 7, 2011, in connection with the refinancing agreed on March 25, 2011, Heidelberg issued a high-interest, unsecured bond of € 304 million with a seven-year term and a coupon of 9.25 percent p. a.

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-2011 in € thousand	Remaining term in years	Effective interest rate in %	Carrying amount **31-Mar-2012** in € thousand	Remaining term in years	Effective interest rate in %
Loans	EUR	363,491	up to 7	up to 6.57	98,877	up to 6	up to 6.57
Loans	Other	2,873	up to 3	up to 14.4	4,058	up to 2	up to 16.2
Other	Other	2,560	up to 1	up to 14.5	3,444	up to 1	up to 15.5
		368,924			**106,379**		

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 € 48,548 thousand (previous year: € 55,564 thousand), the lender was granted usufructory rights to three developed properties. The basis of this is a sale (usufructory 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 usufructory rights each have a term of 18 years. The usufructory rights can be commuted after ten years. The fair value of this loan calculated on the basis of the discounted cash flow method using market interest rates is € 52,124 thousand (previous year: € 57,135 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 € 506,001 thousand (previous year: € 636,937 thousand) can be used as financing for general business purposes and for measures in connection with our Focus 2012 efficiency program (see note 14).

In June and August 2009, Heidelberg had negotiated loan agreements with its financing banks for a total facility of € 1,400 million originally set to mature in summer 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.

In the previous year, the proceeds from the share capital increase at Heidelberger Druckmaschinen Aktiengesellschaft in September 2010 were used in full, less the issuing costs, to repay the required amount for the syndicated credit line and the credit line guaranteed by the public sector and for the early repayment of the loan from the special KfW program.

At the start of the year under review, some of the net issue proceeds from the high-yield bond were used for the early repayment of the two credit lines. Also in connection with the refinancing agreed on March 25, 2011, a new revolving credit facility concluded with a syndicate of banks for € 500 million maturing at the end of 2014 entered into effect parallel to this to replace the previous credit lines. The financing agreements for the new credit facility contain standard financial covenants regarding the financial situation of the Heidelberg Group.

In order to adjust the originally agreed financial covenants to a level in line with the changes in the economic environment as part of the Focus 2012 efficiency program, an amendment to the credit terms was agreed with the syndicate banks in March 2012. Due to Heidelberg's reduced financing requirements as a result of its successful asset management, this agreement with the banks also includes a € 25 million reduction of the credit line from July 1, 2012.

The carrying amounts in connection with the refinancing of the Heidelberg Group as part of a comprehensive collateral concept is 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.

Liabilities from finance leases

Liabilities from finance leases are as follows:

				31-Mar-2011				**31-Mar-2012**
	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	–	–	–	20,423	–	–	–	18,480
Lease payments already made	–	–	–	– 9,758	–	–	–	– 7,268
Outstanding lease payments	2,789	4,589	3,287	10,665	2,553	6,253	2,406	11,212
Interest portion of outstanding lease payments	– 637	– 1,721	– 626	– 2,984	– 598	– 1,518	– 351	– 2,467
Present value of outstanding lease payments (carrying amount)	2,152	2,868	2,661	7,681	1,955	4,735	2,055	**8,745**

30 TRADE PAYABLES

As a general rule, until full payment has been effected trade payables are collateralized by reservation of title.

31 OTHER LIABILITIES

	31-Mar-2011				31-Mar-2012			
	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
Deferred liabilities (staff)	46,655	0	0	46,655	42,597	0	0	42,597
Advance payments on orders	86,610	0	0	86,610	66,145	0	0	66,145
From derivative financial instruments	15,680	10,040	0	25,720	17,826	0	0	17,826
From other taxes	33,628	0	0	33,628	34,766	0	0	34,766
For social security contributions	8,010	2,254	845	11,109	8,459	1,547	690	10,696
Deferred income	44,223	22,406	4,045	70,674	42,246	22,293	3,616	68,155
Other	64,217	75,221	12,859	152,297	59,205	82,759	14,093	156,057
	299,023	109,921	17,749	426,693	271,244	106,599	18,399	**396,242**

Derivative financial instruments

Derivative financial instruments include liability cash flow hedges of € 15,946 thousand (previous year: € 22,025 thousand) and liability fair value hedges of € 1,880 thousand (previous year: € 1,860 thousand).

Deferred income

Deferred income includes taxable investment subsidies of € 2,511 thousand (previous year: € 2,673 thousand), tax-free investment allowances of € 717 thousand (previous year: € 899 thousand), and other deferred income of € 64,927 thousand (previous year: € 67,102 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 € 1,643 thousand (previous year: € 2,534 thousand).

TAX-FREE ALLOWANCES include allowances in line with the German Investment Allowance Act of 1991/1996/1999/2005/2007 of € 717 thousand (previous year: € 899 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 to profit or loss 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 € 72,807 thousand (previous year: € 63,516 thousand) compared to the carrying amount of € 83,101 thousand (previous year: € 78,452 thousand). The carrying amounts of the miscellaneous non-current other financial liabilities are largely the same as their fair values.

32 INFORMATION ON FINANCIAL INSTRUMENTS

Carrying amounts of financial instruments

The carrying amounts of financial instruments are assigned to the measurement categories of IAS 39:

> RECONCILIATION > ASSETS

Items in statement of financial position	IAS 39 measurement category[1]	Carrying amounts			Carrying amounts		
				31-Mar-2011			31-Mar-2012
		Current	Non-current	Total	Current	Non-current	Total
Financial assets							
Shares in affiliated companies	AFS	0	12,645	12,645	0	20,659	20,659
Other investments	AFS	0	3,476	3,476	0	3,464	3,464
Securities	AFS	0	3,426	3,426	0	3,365	3,365
		0	19,547	19,547	0	27,488	27,488
Receivables from sales financing							
Receivables from sales financing not including finance leases	L&R	86,209	87,846	174,055	69,757	84,845	154,602
Receivables from finance leases	n. a.	1,373	2,573	3,946	703	985	1,688
		87,582	90,419	178,001	70,460	85,830	156,290
Trade receivables	L&R	376,928	0	376,928	360,958	0	360,958
Other receivables and other assets							
Derivative financial instruments	n. a.[2]	30,318	8,500	38,818	15,406	395	15,801
Other financial assets	L&R	53,412	11,001	64,413	39,486	8,326	47,812
		83,730	19,501	103,231	54,892	8,721	63,613
Miscellaneous other assets		69,793	23,419	93,212	61,526	7,877	69,403
		153,523	42,920	196,443	116,418	16,598	133,016
Cash and cash equivalents	L&R	147,934	0	147,934	194,556	0	194,556

[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 € 326 thousand in short-term hedges (previous year: € 1,832 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 measurement category[1]	Carrying amounts			Carrying amounts		
				31-Mar-2011			**31-Mar-2012**
		Current	Non-current	Total	Current	Non-current	Total
Financial liabilities							
Convertible bond	FLaC	0	0	0	12,966	291,244	304,210
Borrower's note loans	FLaC	4,518	50,000	54,518	50,000	0	50,000
Amounts due to banks	FLaC	264,679	49,727	314,406	15,276	41,103	56,379
Liabilities from finance leases	n.a.	2,152	5,529	7,681	1,955	6,790	8,745
Other financial liabilities	FLaC	18,012	0	18,012	18,362	0	18,362
		289,361	105,256	394,617	98,559	339,137	437,696
Trade payables	FLaC	129,726	0	129,726	165,051	0	165,051
Other liabilities							
Derivative financial instruments	n.a.[2]	15,680	10,040	25,720	17,826	0	17,826
Other financial liabilities	FLaC	110,424	77,144	187,568	99,794	84,483	184,277
		126,104	87,184	213,288	117,620	84,483	202,103
Miscellaneous other liabilities		172,919	40,486	213,405	153,624	40,515	194,139
		299,023	127,670	426,693	271,244	124,998	396,242

[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 €0 thousand in short-term hedges (previous year: €1,835 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 syndicated credit facility is on a short-term basis. The period of utilization is normally not more than three months. These loans have therefore been assigned to the "Up to 1 year" column, although the agreements on which they are based run until December 2014.

	31-Mar-2011	**31-Mar-2012**
Up to 1 year	294,105	117,315
Between 1 and 5 years	93,770	155,254
More than 5 years	21,722	357,991
	409,597	**630,560**

Net gains and losses

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

	2010/2011	**2011/2012**
Available-for-sale financial assets	7,827	2,279
Loans and receivables	– 3,942	– 6,667
Financial liabilities at amortized cost	– 99,324	– 49,393

Changes in the value of available for sale financial assets of € – 292 thousand (previous year: € – 362 thousand) were also recognized in other comprehensive income.

Net gains and losses include € 9,864 thousand (previous year: € 8,595 thousand) of interest income and € 51,367 thousand (previous year: € 103,128 thousand) of interest expenses for financial assets and financial liabilities not measured at fair value through profit or loss.

In addition, there were net losses on financial instruments held for trading of € – 774 thousand (previous year: € – 22 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 exchange rate fluctuations in connection with net risk positions in foreign currencies occurring with regard to 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-2011	**31-Mar-2012**	31-Mar-2011	**31-Mar-2012**
Currency hedging				
Cash flow hedge				
Forward exchange transactions	191,878	280,863	3,770	1,095
– of which: assets	(135,455)	(167,337)	(4,681)	(3,327)
– of which: liabilities	(56,423)	(113,526)	(–911)	(–2,232)
Currency options	1,156,342	475,000	10,520	–2,328
– of which: assets	(672,742)	(285,000)	(30,560)	(10,370)
– of which: liabilities	(483,600)	(190,000)	(–20,040)	(–12,698)
	1,348,220	755,863	14,290	–1,233
Fair value hedge				
Forward exchange transactions	495,260	291,239	–115	–102
– of which: assets	(243,188)	(147,542)	(1,745)	(1,778)
– of which: liabilities	(252,072)	(143,697)	(–1,860)	(–1,880)
Interest rate hedging				
Cash flow hedge				
Interest rate swaps	50,404	50,000	–1,074	–1,016
– of which: assets	(0)	(0)	(0)	(0)
– of which: liabilities	(50,404)	(50,000)	(–1,074)	(–1,016)

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	between 1 and 5 years	More than 5 years	Total undiscounted cash flows
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
31-Mar-2012				
Derivative financial liabilities				
Outgoing payments	−391,843	0	0	−391,843
Associated incoming payments	376,006	0	0	376,006
Derivative financial assets				
Outgoing payments	−403,381	−7,140	0	−410,521
Associated incoming payments	415,112	7,571	0	422,683

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, 38 percent (previous year: 50 percent) of the hedging volume relates to the US dollar and 15 percent (previous year: 24 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 asset values of € 13,697 thousand (previous year: € 35,241 thousand) and liability values of € 14,930 thousand (previous year: € 20,951 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 € 913 thousand (previous year: € 1,702 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 from the fair value of hedges of € 23,770 thousand (previous year: € – 17,365 thousand) and the translation of hedged items at reporting date rates of € – 23,954 thousand (previous year: € 15,936 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 one year and are in line with our planning horizon. As of the end of the reporting period, the measurement of all transactions resulted in liabilities of € 1,016 thousand (previous year: € 1,074 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: € 11 thousand) was recognized in the consolidated income statement.

Sensitivity analysis

In order to clearly show 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.

Recognized **CURRENCY RISKS** as defined by IFRS 7 are caused by monetary financial instruments not in the functional currency. The portfolio of primary monetary financial instruments is mainly held directly in the functional currency or transferred to the functional currency through the use of derivatives. It is therefore assumed in this analysis that changes in exchange rates show no influence on income or equity with regard to this portfolio. The impact of the translation of the subsidiaries' financial statements into the Group currency (translation risk) is not taken into account either. Accordingly, the analysis includes the derivative financial instruments that were concluded in order to hedge highly probable future cash flows in a foreign currency (cash flow hedge). Assuming a 10 percent increase in the value of the euro against all currencies, the hedge reserve would have been € 24,478 thousand (previous year: € 27,190 thousand) higher as of the end of the reporting period and the financial result would have been € 792 thousand lower (previous year: € 897 thousand). Assuming a 10 percent decrease in the value of the euro, the hedge reserve would have been € 25,544 thousand (previous year: € 29,540 thousand) lower and the financial result would have been € 652 thousand lower (previous year: € 690 thousand higher).

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 € 370 thousand (previous year: € 841 thousand) higher as of the end of the reporting period and the financial result would have been € 119 thousand higher (previous year: € 3,053 thousand lower). Assuming a decrease of 100 basis points in the market interest rate across all terms, the hedge reserve would have been € 380 thousand (previous year: € 869 thousand) lower and the financial result would have been € 119 thousand lower (previous year: € 3,053 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 € 4,729 thousand as of March 31, 2012 (previous year: € 3,476 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-2011				31-Mar-2012			
	Up to 1 year	between 1 and 5 years	More than 5 years		Up to 1 year	between 1 and 5 years	More than 5 years	
Lease obligations	49,146	129,548	106,531	285,225	43,628	120,003	81,415	245,046
Investments and other purchasing requirements	39,462	3,590	0	43,052	43,055	11,864	0	54,919
	88,608	133,138	106,531	328,277	**86,683**	**131,867**	**81,415**	**299,965**

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 € 35,069 thousand (previous year: € 38,565 thousand);
- the Print Media Academy (Heidelberg) in the amount of € 32,458 thousand (previous year: € 31,805 thousand);
- the World Logistics Center (WLC) (Wiesloch-Walldorf plant) in the amount of € 28,033 thousand (previous year: € 29,669 thousand);
- the X-House administrative building (Heidelberg) in the amount of € 8,901 thousand (previous year: € 12,893 thousand);
- the administrative and production building in Rochester, New York, USA, in the amount of € 12,923 thousand (previous year: € 31,327 thousand);
- the administrative and production building in Durham, USA, in the amount of € 16,374 thousand (previous year: € 17,476 thousand); and
- motor vehicles with a total value of € 27,454 thousand (previous year: € 23,192 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

	2010/2011	2011/2012
Consolidated net loss for the year (€ thousand)	– 128,890	– 230,093
Number of shares in thousands (weighted average)	156,140	233,899
Basic earnings per share (€)	– 0.83	– 0.98
Diluted earnings per share (€)	– 0.83	– 0.98

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 233,899 thousand (previous year: 156,140 thousand shares). The weighted number of shares outstanding was influenced by the capital increase to implement the court settlement with the former shareholders of Linotype-Hell Aktiengesellschaft (see note 26) and the holdings of treasury shares. In the reporting period, 257,081 treasury shares were issued to employees of Heidelberger Druckmaschinen Aktiengesellschaft and its subsidiaries as employee shares. 142,919 treasury shares were still held as of March 31, 2012 (March 31, 2011: 400,000).

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.

€ 4,300 thousand (previous year: € 3,592 thousand) of investments in intangible assets, property, plant, and equipment, and investment property relate to intangible assets, € 61,626 thousand (previous year: € 69,756 thousand) to property, plant, and equipment, and € 5 thousand (previous year: € 0 thousand) to investment property. The additions from finance leases of € 3,734 thousand (previous year: € 5,396 thousand) are not included in investments. An amount of € 9 thousand (previous year: € 28 thousand) of income from the disposal of intangible assets, property, plant, and equipment, and investment property relates to intangible assets and € 28,483 thousand (previous year: € 37,847 thousand) to property, plant, and equipment.

The cash used in intangible assets, property, plant, and equipment, and investment property includes investments of € 18,104 thousand (previous year: € 15,993 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 (€ 194,556 thousand; previous year: € 147,934 thousand).

Detailed information on the consolidated statement of cash flows can be found in the Group management report.

37 INFORMATION ON SEGMENT REPORTING

Figures in € thousands

	Heidelberg Equipment		Heidelberg Services		Heidelberg Financial Services		**Heidelberg Group**	
	1-Apr-2010 to 31-Mar-2011	**1-Apr-2011 to 31-Mar-2012**	1-Apr-2010 to 31-Mar-2011	**1-Apr-2011 to 31-Mar-2012**	1-Apr-2010 to 31-Mar-2011	**1-Apr-2011 to 31-Mar-2012**	1-Apr-2010 to 31-Mar-2011	**1-Apr-2011 to 31-Mar-2012**
External sales	1,515,944	1,522,550	1,096,829	1,058,539	16,148	14,581	2,628,921	2,595,670
Depreciation and amortization	80,244	73,896	17,302	12,997	11	3	97,557	86,896
Non-cash expenses	216,528	307,570	84,588	83,255	9,515	13,208	310,631	404,033
Special items [1]	–9,813	117,495	7,473	24,534	107	245	–2,233	142,274
Result of operating activities (segment result)	–88,339	–201,011	76,653	47,857	17,843	13,393	6,157	–139,761
Investments	67,459	59,683	11,278	9,979	7	3	78,744	69,665

[1] Expenses (+); income (–)

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

The Heidelberg Group's structure has been broken down in line with the internal organizational and reporting structure into the segments Heidelberg Equipment, Heidelberg Services, and Heidelberg Financial Services. Heidelberg Equipment essentially comprises new machinery business. Services, consumables, and remarketed equipment business are bundled in the Heidelberg Services segment. The Heidelberg Financial Services segment comprises sales finance business. Further information on the business activities, products, and services of the individual segments can be found in "Group Corporate Structure and Organization" in the Group management report.

Regionally, we distinguish between Europe, Middle East and Africa, Eastern Europe, North America, South America, and Asia/Pacific.

Further information on the business areas can be found in the chapters "Segment Reporting" and "Sales and 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-2010 to 31-Mar-2011	**1-Apr-2011 to 31-Mar-2012**
Result of operating activities (segment result)	6,157	–139,761
Financial income	22,690	20,475
Financial expenses	171,724	110,029
Financial result	–149,034	–89,554
Income before taxes	–142,877	**–229,315**

Information by region

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

	1-Apr-2010 to 31-Mar-2011	**1-Apr-2011 to 31-Mar-2012**
Europe, Middle East and Africa		
Germany	397,565	387,708
Other Europe, Middle East and Africa regions	613,716	564,991
	1,011,281	**952,699**
Asia / Pacific		
China	418,875	412,523
Other Asia / Pacific regions	437,437	441,371
	856,312	**853,894**
Eastern Europe	299,175	**296,417**
North America	300,821	**328,643**
South America	161,332	**164,017**
	2,628,921	**2,595,670**

Of the non-current assets, which comprise intangible assets, property, plant, and equipment, and investment property, € 546,055 thousand (previous year: € 599,373 thousand) relates to Germany and € 254,795 thousand (previous year: € 242,930 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 74). 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:

	2010/2011	**2011/2012**
Equity	868,592	575,697
– Net deferred taxes	112,629	30,659
Adjusted equity	755,963	**545,038**
Annual average	598,172	650,501
Pension provisions	221,011	326,080
+ Tax provisions	203,677	117,953
+ Net tax receivables/liabilities	2,352	1,249
+ Non-operating financial liabilities	366,601	409,605
Liabilities	793,641	**854,887**
Annual average	1,003,650	824,264
Adjusted total capital	1,549,604	**1,399,925**
Annual average	1,601,822	1,474,765

Neither the capital management strategy nor its focus has changed as against the previous year. Priority is given to reducing the commitment of capital, strengthening the equity ratio and securing liquidity. In the year under review, the equity of the Heidelberg Group declined sharply from € 868,592 thousand to € 575,697 thousand. Based on total assets, the equity ratio therefore dropped from 32.9 percent to 22.9 percent.

Owing to the increase in the share capital of Heidelberger Druckmaschinen Aktiengesellschaft in September 2010 and our measures to reduce capital tie-up, net financial liabilities were virtually unchanged from € 246,683 thousand in the previous year at € 243,140 thousand. The net financial liabilities are the total financial liabilities and cash and cash equivalents.

Heidelberg is not subject to any capital requirements arising from its Articles of Association.

In June and August 2009, Heidelberg had negotiated loan agreements with its financing banks for a total facility of € 1,400 million originally set to mature in summer 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. In the previous year, the proceeds from the share capital increase at Heidelberger Druckmaschinen Aktiengesellschaft in September 2010 were used in full, less the issuing costs, to repay the required amount for the syndicated credit line and the credit line guaranteed by the public sector and for the early repayment of the loan from the KfW's special program.

On April 7, 2011, in connection with the refinancing agreed on March 25, 2011, Heidelberg issued a high-yield, unsecured bond of € 304 million with a seven-year term and a coupon of 9.25 percent p. a. At the start of the year under review, some of the net issue proceeds from the high-yield bond were used for the early repayment of the two credit lines. Also in connection with the refinancing agreed on March 25, 2011, a new revolving credit facility concluded with a syndicate of banks for € 500 million maturing at the end of 2014 entered into effect parallel to this to replace the previous credit lines.

The financing agreements for the new credit facility contain standard financial covenants regarding the financial situation of the Heidelberg Group.

In order to adjust the originally agreed financial covenants to a level in line with the changes in the economic environment as part of the Focus 2012 efficiency program (see note 14), an amendment to the credit terms was agreed with the syndicate banks in March 2012. As a result of Heidelberg's reduced financing requirements as a result of its successful asset management, this agreement with the banks also includes a € 25 million reduction of the credit line from July 1, 2012.

One of the covenants of this credit line is the minimum equity criterion that the Heidelberg Group must comply with.

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DECLARATION OF COMPLIANCE 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 our Web site WWW.HEIDELBERG.COM in the "Investor Relations" section under "Corporate Governance". Earlier declarations of compliance are also permanently available here.

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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 (see pages 40 to 47) and the corporate governance report.

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

Total cash remuneration of the Management Board for the year under review including non-cash remuneration amounted to € 2,709 thousand (previous year: € 2,653 thousand), bonus remuneration accounted for € 942 thousand of this in total (previous year: € 1,080 thousand) and the multi-year long-term bonus for € 306 thousand (previous year: € 0 thousand).

As the last outstanding performance share units awarded under the expired long-term incentive (LTI) plan lapsed in the previous year, no performance share units were awarded in the year under review. Thus, total remuneration in the period under review amounted to € 2,709 thousand (previous year: € 2,653 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 € 800 thousand (previous year: € 731 thousand); this includes the service cost of € 496 thousand (previous year: € 458 thousand).

As of the end of the reporting period and as in the previous year, the Management Board members held no stock options under the expired stock option plan.

Former members of the Management Board and their surviving dependents received € 3,064 thousand (previous year: € 3,087 thousand). € 876 thousand of this (previous year: € 855 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 € 40,687 thousand (previous year: € 40,040 thousand). € 9,188 thousand of this (previous year: € 8,929 thousand) relates to the pension obligations of the former Linotype-Hell Aktiengesellschaft, acquired in financial year 1997/1998 under the provisions of universal succession. As in the previous year, former members of the Management Board held no 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 had loans collateralized by real estate dating back to before Group affiliation at interest of 5.31 percent. These loans were originally granted by a foreign subsidiary to finance a home for the member at his place of business abroad. As of March 31, 2011, these loans amounted to € 522 thousand with a remaining term of 23 ½ years. Both loans were repaid in full in the reporting year. The Heidelberg Group has not undertaken any contingent liabilities for either the members of the Management Board or the Supervisory Board.

Fixed remuneration of € 425 thousand (previous year: € 404 thousand), but no variable remuneration, as in the previous year, was paid to the members of the Supervisory Board for financial year 2011/2012, 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 financial year 2011/2012, transactions were carried out with related parties that resulted in liabilities of € 9,502 thousand (previous year: € 5,101 thousand), receivables of € 17,872 thousand (previous year: € 14,157 thousand), expenses of € 16,229 thousand (previous year: € 14,113 thousand) and income of € 19,386 thousand (previous year: € 20,617 thousand), which essentially includes sales. Write-downs of € 648 thousand were recognized on receivables from related parties (previous year: € 1,604 thousand). All transactions were concluded at standard market terms and did not differ from trade relationships with other companies.

Members of the Supervisory Board received remuneration of € 1,070 thousand (previous year: € 722 thousand) from Heidelberger Druckmaschinen Aktiengesellschaft and its consolidated companies in the year under review for consulting, service, and hiring agreements.

42 STOCK OPTION PROGRAM [1)]

The Annual General Meeting of September 29, 1999 had approved a contingent share capital increase of up to € 10,996 thousand 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.

The term of the last tranche (2004) of Heidelberg's stock option program ended on August 18, 2010. Please see note 42 in the notes to the consolidated financial statements as of March 31, 2011 for further information on the expired stock option program.

The regulations of IFRS 2: Share-Based Payment were applied to the recognition and measurement of the last tranche in the previous year. There were neither expenses nor income from the stock option program in the previous year. The provisions and the capital reserves amounted to € 0 thousand and € 9,431 thousand respectively in the previous year.

[1)] The information on the stock option program is also a component of the corporate governance report

43 LONG-TERM INCENTIVE PLAN (LTI) [1]

Heidelberger Druckmaschinen Aktiengesellschaft offered participation in its long-term incentive (LTI) plan to selected members of the Heidelberg Group's senior management. Heidelberg's LTI expired with the last outstanding performance share units (PSU) in the previous year. Please see note 43 in the notes to the consolidated financial statements as of March 31, 2011 for further information on the long-term incentive plan.

The last tranche (2007) of the LTI was measured on the basis of IFRS 2 in the previous year. The LTI was to be settled in cash; the provision for this amounted to € 0 thousand in the previous year. The LTI resulted in neither expenses nor income in the previous year.

44 EXEMPTION UNDER SECTION 264 (3) AND 264b OF THE GERMAN COMMERCIAL CODE

The following subsidiaries exercised the provisions of Section 264 (3) and 264 b of the German Commercial code (HGB) with regard to the specification and disclosure of the exemption regulations in the period under review:

Heidelberger Druckmaschinen Vertrieb Deutschland GmbH, Heidelberg [2][3];
Heidelberg Postpress Deutschland GmbH, Heidelberg [2][3];
Heidelberg China-Holding GmbH, Heidelberg [3];
Heidelberg Boxmeer Beteiligungs-GmbH, Heidelberg [3];
Heidelberg Print Finance International GmbH, Heidelberg [4];
Heidelberg Consumables Holding GmbH, Heidelberg [3];
Heidelberger Druckmaschinen Real Estate GmbH & Co. KG, Walldorf [2][3].

[1] The information on the long-term incentive plan (LTI) is also a component of the corporate governance report
[2] Exempt from preparing a management report in accordance with Section 264 (3) and 264 b HGB
[3] Exempt from disclosing annual financial statements in accordance with Section 264 (3) and 264 b HGB
[4] Exempt from disclosing annual financial statements and a management report in accordance with Section 264 (3) and 264 b HGB in connection with Section 340 a (2) clause 4 HGB

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AUDITORS' FEES

In the reporting year, the following expenses were incurred for services by the auditors:

Fees for	2010/2011	**2011/2012**
Audits of financial statements	843	866
Other assurance services	236	35
Tax advisory services	43	4
Other services	1,985	742
	3,107	**1,647**

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EVENTS AFTER THE END OF THE REPORTING PERIOD

There were no significant events after the end of the reporting period.

Heidelberg, May 24, 2012

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 24, 2012

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 income statement, the statement of comprehensive income, the statement of financial position, 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, 2011 to March 31, 2012. 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 315a (1) of the Handelsgesetzbuch (HGB – 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 315a (1) HGB and give a true and fair view of the net assets, financial position, and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Mannheim, May 25, 2012

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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

Financial Section

2011/2012

> 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	8,705
Heidelberg Print Finance International GmbH [1)2)]	D	Heidelberg	100	34,849	8,457
Heidelberg Postpress Deutschland GmbH [1)2)]	D	Heidelberg	100	25,887	– 13,501
Foreign					
Europe, Middle East and Africa					
Heidelberg International Ltd. A/S	DK	Ballerup	100	35,454	4,455
Hi-Tech Coatings International B.V.	NL	Zwaag	100	10,350	319
Heidelberg Graphic Equipment Ltd. [3)]	GB	Brentford	100	6,440	– 708
Heidelberg Schweiz AG	CH	Bern	100	5,861	6,257
Heidelberg France S.A.S.	F	Tremblay-en-France	100	5,315	– 8,114
Heidelberg Sverige AB	S	Solna	100	5,113	867
Eastern Europe					
Heidelberger Druckmaschinen Austria Vertriebs-GmbH	A	Vienna	100	74,471	659
Heidelberger Druckmaschinen Osteuropa Vertriebs-GmbH [4)]	A	Vienna	100	74,268	3,396
Heidelberg Polska Sp z.o.o.	PL	Warsaw	100	9,509	407
Heidelberg Baltic Finland OÜ	EST	Tallinn	100	8,599	– 43
Heidelberg Grafik Ticaret Servis Limited Sirketi	TR	Istanbul	100	5,894	1,311
Heidelberger CIS OOO	RUS	Moscow	100	– 2,368	12,498
North America					
Heidelberg USA, Inc.	USA	Kennesaw	100	96,383	5,792
Heidelberg Canada Graphic Equipment Ltd.	CDN	Mississauga	100	7,627	– 599
Heidelberg Mexico Services S. de R.L. de C.V. [3)]	MEX	Mexico City	100	8,352	2,672

Name	Location		Share in equity in percent	Equity	Net sales
South America					
Heidelberg do Brasil Sistemas Graficos e Servicos Ltda.	BR	São Paulo	100	15,318	– 198
Asia / Pacific					
Heidelberg Graphic Equipment (Shanghai) Co. Ltd.	PRC	Shanghai	100	56,505	7,785
Heidelberg China Ltd.	PRC	Hong Kong	100	15,920	6,385
Heidelberg Japan K.K.	J	Tokyo	100	14,690	– 5,218
Heidelberg Hong Kong Ltd.	PRC	Hong Kong	100	13,145	2,017
Heidelberg Asia Pte Ltd.	SGP	Singapore	100	13,052	1,103
Heidelberg Graphics (Tianjin) Co. Ltd.	PRC	Beijing	100	28,433	7,838
Heidelberg Korea Ltd.	ROK	Seoul	100	5,403	729
Heidelberg Malaysia Sdn Bhd	MYS	Petaling Jaya	100	610	– 333
Heidelberg Graphic Equipment Ltd.	AUS	Melbourne	100	– 152	– 17,184

[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

Robert J. Koehler
Chairman of the Management Board of SGL Carbon SE, Wiesbaden
Chairman of the Supervisory Board – since July 28, 2011 –
(Member of the Supervisory Board through July 28, 2011)
a) Klöckner & Co. SE
LANXESS AG
b) Benteler International AG, Austria (Chairman)

Dr. Mark Wössner
– through July 28, 2011** –
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
– through July 28, 2011** –
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 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

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

Dr. Siegfried Jaschinski
Member of the Management Board of MainFirst Bank AG, Frankfurt
a) Adcapital AG

Dr. Herbert Meyer
– since July 28, 2011 –
Member of the Auditor Oversight Commission (AOC), Berlin
a) MainFirst Bank AG
WEBASTO AG
b) Verlag Europa Lehrmittel GmbH
(Member of the Advisory Board)

Dr. Gerhard Rupprecht
Member of various Supervisory Boards, Gerlingen
a) Fresenius Management SE
Fresenius SE & Co. KGaA
Euler Hermes Deutschland AG

Beate Schmitt*
Member of the Works Council, Heidelberg/Wiesloch-Walldorf

Lone Fønss Schrøder
– since July 28, 2011 –
Member in various Supervisory Boards, Hornbaek, Denmark
a) Bilfinger Berger SE
b) AKER Solutions ASA, Lysaker/Norway
(Member of the Board of Directors)
KVAERNER ASA, Oslo/Norway
(Member of the Board of Directors)
NKT Holding AS, Brønby/Denmark
(Member of the Board of Directors)
Svenska Handelsbanken AB, Stockholm/Sweden
(Member of the Board of Directors)
Vattenfall AB, Stockholm/Sweden
(Member of the Board of Directors)
Volvo Personvagnar AB, Göteborg/Sweden
(Member of the Board of Directors)

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Professor and holder of the chair in production engineering at RWTH Aachen University, Aachen
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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

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– since July 28, 2011 –

Dr. Mark Wössner (Chairman)
– through July 28, 2011 –

Rainer Wagner

Martin Gauß

Mirko Geiger

Dr. Gerhard Rupprecht

Dr. Klaus Sturany

MEDIATION COMMITTEE UNDER ARTICLE 27 PARAGRAPH 3 OF THE CODETERMINATION ACT

Robert J. Koehler
– since July 28, 2011 –

Dr. Mark Wössner
– through July 28, 2011 –

Rainer Wagner

Wolfgang Flörchinger

Dr. Gerhard Rupprecht

AUDIT COMMITTEE

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Dr. Werner Brandt
– through July 28, 2011 –

Mirko Geiger

Dr. Herbert Meyer
– since July 28, 2011 –

Rainer Wagner

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– since July 28, 2011 –

Dr. Mark Wössner (Chairman)
– through July 28, 2011 –

Rainer Wagner

Dr. Gerhard Rupprecht

Beate Schmitt

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– since July 28, 2011 –

Dr. Mark Wössner (Chairman)
– through July 28, 2011 –

Dr. Klaus Sturany

The Management Board

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Walldorf
Chief Executive Officer and
Chief Human Resources Officer
* ABB 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)

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

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Stephan Plenz
Sandhausen
Head of the Heidelberg
Equipment Segment
** 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

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 – start-up 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 balanced 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.

CHAPTER 11

Chapter 11 is a chapter in the insolvency law of the United States of America. An application for insolvency under “Chapter 11” is aimed at restructuring, whereby the affected company attempts to remain able to conduct business at the same time.

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.

COMPLIANCE

(Conformity to regulations) A term describing adherence to laws and guidelines in companies.

CROSS-SELLING

Describes an integrated sales and services strategy that encompasses the comprehensive needs of the customer and covers this demand with products and services from the company’s own portfolio to the greatest possible extent.

CRM (CUSTOMER RELATIONSHIP MANAGEMENT)
Means for communicating throughout the customer process; particularly relevant for marketing as well as sales and services, e.g. a software specifically tailored to customer relationship management is called a CRM system.

ELECTROPHOTOGRAPHY
By imaging or lighting a photoconductor with the optical image of an original (for instance a document), a latent image is generated from electric charges, which is then used to selectively apply a toner (development) and produce an image (copy) of the original, for instance, on paper.

FINANCIAL COVENANTS
Contractually binding assurances by a borrower or bond debtor during the term of a loan.

INKJET PROCESS
A printing process in which the printing colors – mostly inks – are applied to the surface to be printed on in the form of very small drops from nozzles.

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.

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.

O-LED
Luminous thin film component made of organic semi-conductor material with a low current and light density as traditional light diodes but with a shorter life cycle.

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

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

PRINECT

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.

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.

QR-CODE

QR-codes (quick response) are basically small data memories that can store up to half a DIN A4 page of text. By using these, texts, links or program lines can be coded and transmitted.

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.

TECHNOLOGY ROADMAP

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

WEB-TO-PRINT

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

Index

* Cover

HEI LIGHTS 2011/2012

APRIL 2011 +++ At the **DIGI:MEDIA** trade show, Heidelberg and Ricoh launch the sale of their combined digital and offset solutions that make seamless hybrid print production possible: from Web-to-Print front-end through to the use of digital and offset technologies all the way to professional finishing. +++

APRIL 2011 +++ Heidelberg reduces its dependency on banks and diversifies financing sources: a **HIGH-YIELD BOND** with a nominal volume of € 304 million and a maturity of seven years is issued. At the same time, a **NEW REVOLVING CREDIT FACILITY** in the amount of € 500 million that expires at the end of 2014 enters into force. +++

JULY 2011 +++ In **CSAT**, Heidelberg takes over a **SPECIALIST IN DIGITAL PRINTING SYSTEMS** and the relevant consumables, thereby expanding the digital printing offerings in the growth market of packaging printing. With this strategic acquisition, access to technologies and expertise in the areas of drop-on-demand inkjet and electrophotography is also acquired. +++

SEPTEMBER 2011 +++ Heidelberg presents a new software solution with Prinect's **WEB-TO-PRINT MANAGER** at the GraphExpo in the US. It assists print shops in providing an efficient and comfortable interface for their business customers. Of course, shops for end customers in the Web-to-Print area can also be set up with the application. +++

OCTOBER 2011 +++ Heidelberg shows the international public of **PACKAGING DAYS** in Germany a completely integrated folding-carton production process. As the finishing process in packaging printing opens up particular differentiation and business potentials, particular attention is placed on die-cutters and folder-gluers. +++

DECEMBER 2011 +++ Heidelberg presents the **CONCEPT FOR DRUPA IN MAY 2012** and launches the communication campaign in the run-up to the trade show: Under the slogan "Discover HEI", various solutions with the most modern technologies and services are shown that facilitate growth for print shops in the current market environment. In addition, they demonstrate that printed material does have a future. +++

JANUARY 2012 +++ Heidelberg's Management Board approves the **FOCUS 2012** efficiency program in order to attain profitability goals and meet the market requirements in a volatile environment. As part of the program, capacities and costs are reduced, and the basis for positive business development is created. +++

FEBRUARY 2012 +++ Heidelberg presents a compact preview of product innovations and company developments at the International Media Conference in Düsseldorf. Stephan Plenz, Head of the Equipment Segment, informs journalists about the new Speedmaster SX series, which includes the Speedmaster SX 102, SX 74, and SX 52 models. +++

>>
HEILIGHTS FROM THE PRODUCT PORTFOLIO

FINANCIAL CALENDAR

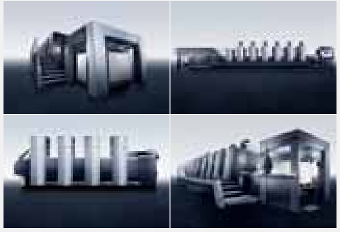
PUBLISHING INFORMATION

HEILIGHTS FROM THE PRODUCT PORTFOLIO

Integrated solutions for the entire printing process

> Whether highly automated with special configurations in the largest sheet format of 121 × 162 cm or standard presses: all **SPEEDMASTER** models guarantee the highest print quality – even at production speeds of 18,000 sheets/hour.

- SPEEDMASTER SM
- SPEEDMASTER CD
- SPEEDMASTER SX
- SPEEDMASTER CX
- SPEEDMASTER XL



> If, in a print shop, all the processes from order processing through to logistics are optimized, spoilage as well as the non-productive and set-up times are reduced to a minimum and, in addition, crystal-clear calculations are available, then Heidelberg's **PRINECT** print shop workflow is in use.

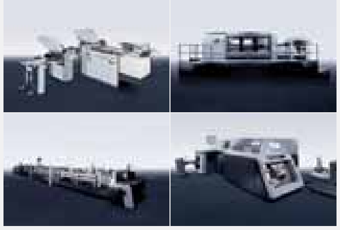
- PRINECT S
- PRINECT INTEGRATION MANAGER
- PRINECT PACKAGING WORKFLOW

> Digital printing technologies give print shops additional flexibility and new business models. With **LINOPRINT** models, Heidelberg offers options for individualized printing, both for packaging and commercial print shops.

- LINOPRINT C 751
- LINOPRINT L
- LINOPRINT FIXEDLINE
- LINOPRINT DTS 1200

> Professional **FINISHING** – cutting, folding, gluing, die-cutting, and folder gluing – is essential for the quality of the overall product. Commercial and packaging print shops can differentiate themselves from the competition with Heidelberg's product range.

- STAHLFOLDER
- STITCHMASTER
- EUROBIND
- DYMATRIX
- DIANA



> From blanket to coating: perfectly matched **SAPHIRA** consumables ensure the best results and are available in eco quality that meets the highest standards worldwide; also available specifically for food packaging.

- SAPHIRA ECO
- STARTER KITS
- PERFORMANCE KITS
- SAPHIRA INK LM 110

> The entire product life cycle of the printing presses is covered by Heidelberg's **SERVICES**. Naturally, this also includes the Internet-based maintenance offering, worldwide spare parts supply, and extensive training and consultancy services, including on the special effects that are possible with Saphira consumables. Financing services round out the offering.

- SYSTEMSERVICE
- PERFORMANCE SERVICES
- TRAINING AND CONSULTANCY SERVICES
- FINANCIAL SERVICES

On the Web site at www.heidelberg.com, we describe the competitive advantages that our solutions offer with respect to the productivity, environmental characteristics, and flexibility that they open up for print shops. Further details are also provided on new areas of business.

FINANCIAL CALENDAR 2012/2013

JUNE 14, 2012	Press Conference, Annual Analysts' and Investors' Conference
JULY 26, 2012	Annual General Meeting
AUGUST 8, 2012	Publication of First Quarter Figures 2012/2013
NOVEMBER 7, 2012	Publication of Half-Year Figures 2012/2013
FEBRUARY 7, 2013	Publication of Third Quarter Figures 2012/2013
JUNE 13, 2013	Press Conference, Annual Analysts' and Investors' Conference
JULY 23, 2013	Annual General Meeting

Subject to change

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PRINTED IN GERMANY.

FIVE-YEAR OVERVIEW – HEIDELBERG GROUP

Figures in € millions

	2007/2008	2008/2009	2009/2010	2010/2011	**2011/2012**
Incoming orders	3,649	2,906	2,371	2,757	**2,555**
Net sales	3,670	2,999	2,306	2,629	**2,596**
Foreign sales share in percent	83.8	81.0	83.8	84.9	**85.1**
EBITDA [1]	391	51	– 25	104	**90**
Result of operating activities [2]	268	– 49	– 130	4	**3**
– in percent of sales	7.3	– 1.6	– 5.6	0.2	**0.1**
Income before taxes	199	– 347	– 286	– 143	**– 229**
Net profit/loss	142	– 249	– 229	– 129	**– 230**
– in percent of sales	3.9	– 8.3	– 9.9	– 4.9	**– 8.9**
Research and development costs	222	186	121	121	**129**
Investments	217	198	62	79	**70**
Total assets	3,507	3,241	2,879	2,643	**2,518**
Net working capital [3]	1,193	1,212	1,031	908	**915**
Receivables from sales financing	323	273	212	178	**156**
Equity	1,193	796	579	869	**576**
– in percent of total equity and liabilities	34.0	24.6	20.1	32.9	**22.9**
Financial liabilities	544	760	816	395	**438**
Net debt [4]	402	681	695	247	**243**
Cash flow	290	– 238	– 179	– 41	**– 130**
– in percent of sales	7.9	– 7.9	– 7.8	– 1.6	**– 5.0**
Free cash flow	215	– 201	– 62	75	**10**
– in percent of sales	5.9	– 6.7	– 2.7	2.9	**0.4**
ROCE in percent	13.5	– 3.6	– 8.8	0.7	**0.3**
Return on equity in percent [5]	11.9	– 31.3	– 39.6	– 14.8	**– 39.9**
Earnings per share in €	1.81	– 3.20	– 2.94	– 0.83	**– 0.98**
Dividend in €	0.95	–	–	–	**–**
Share price at financial year-end in € [6]	10.71	2.29	3.36	3.34	**1.50**
Market capitalization at financial year-end	1,328	284	416	779	**351**
Dividend yield in percent [7]	5.58	–	–	–	**–**
Number of employees at financial year-end	19,596	18,926	16,496	15,828	**15,414**

[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] After tax
[6] Financial years 2007/2008, 2008/2009, and 2009/2010 are adjusted to the number of outstanding shares following the capital increase
[7] Based on share price at financial year-end in Xetra-trading

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