ANNUAL REPORT 2012/2013

Print is more than …

HEIDELBERG

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Two-year overview – Heidelberg Group

Figures in € millions

	2011/2012	2012/2013
Incoming orders	2,555	**2,822**
Net sales	2,596	**2,735**
EBITDA [1]	90	**111**
Result of operating activities [2]	3	**28**
– **in percent of sales**	0.1	**1.0**
Net loss	– 230	**– 110**
– **in percent of sales**	– 8.9	**– 4.0**
Research and development costs	129	**118**
Investments	70	**82**
Equity	576	**400**
Net debt [3]	243	**261**
Free cash flow	10	**– 18**
Earnings per share in €	– 0.98	**– 0.47**
Number of employees at financial year-end	15,414	**14,215**

[1] Result of operating activities excluding special items and before depreciation and amortization
[2] Excluding special items
[3] Net total of financial liabilities and cash and cash equivalents

* **Print makes sense.**

Print: a five-letter word and a phenomenon that makes sense – not least for our five senses. Take a close look at each of the five letters. You'll find something to touch – even if you can't pull the thread. Or something to smell, like lilies of the valley (rub the flower and you will get the scent). Listen to the sound in the QR code – it will make your ear ring. Print is not made to eat, but it can make food look pretty tasty. In the first letter you see light reflected. With a little imagination you can begin to see a self-reflection of the print phenomenon.

April >> May >> June

Chronicle 2012/2013

April 2012

Research and Development Realigned

The development of new technologies will be the main focus moving ahead. At the same time R&D will continue to increase cross functionalities and the commonality of parts and make sure that the newest technologies are available in all parts of the portfolio. Digital printing for commercial and packaging printing will be integrated and expanded. New head of Research and Development is Frank Kropp (picture 1, top row).

Amstetten Energy Management System Achieves ISO 50.001 Certification

The Amstetten foundry is one of the first to be certified according to the new norm. Foundries are very energy-intensive and finding ways to reduce energy consumption in this context is particularly important. The energy management system at the Amstetten site will be extended to include other energy-intensive Heidelberg sites.

May 2012

drupa 2012 International Trade Show

At drupa, Düsseldorf, the international trade show for printing and paper, Heidelberg presents an extended portfolio of new products and solutions tailored to meet the current needs of the changing market. Ecological aspects and optimization along the entire production process are becoming increasingly important issues. Heidelberg stages its entire drupa presentation on a carbon-neutral and sustainable basis.

Global Strategic Partnership with Landa Corporation of Rehovot, Israel

The goal of the cooperation is to expand the Company's digital printing capabilities based upon Landa's Nanographic Printing™ technology.

June 2012

Partnership in Colombia

SENA (Servicio Nacional de Aprendizaje), an initiative established by the Colombian government, invests in three Speedmaster SM 74 models. SENA offers various on-the-job training programs, among others for professions within the print media industry.

Heidelberg Presents Linoprint Digital Printing Solutions for the Pharmaceutical Industry

At ACHEMA, the world's largest event for chemical technology, process engineering and biotechnology, Heidelberg demonstrates how Linoprint can offer integrated printing solutions that reliably meet the high-quality requirements for pharmaceutical packaging.

July 2012

Change in Top Management

Bernhard Schreier leaves Heidelberg at the end of the year. The Supervisory Board appoints Dr. Gerold Linzbach as the new CEO.

Heidelberg Successfully Develops a New Area of Business in the Field of IT

The Heidelberg CAx Quality Manager is a new CAD add-on that enables users in various sectors to quickly and reliably check the quality of their own product and production data.

August 2012

Heidelberg Service Solution Wins InterTech Technology Award 2012

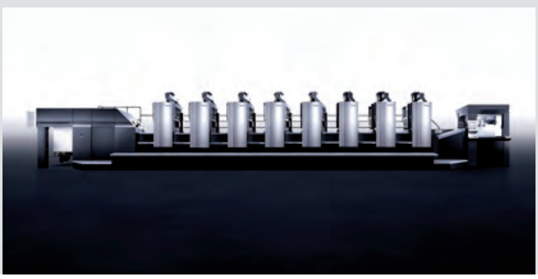
Granted by the Printing Industries of America, the award was given for Heidelberg's Web-based solution Prinect Performance Benchmarking.

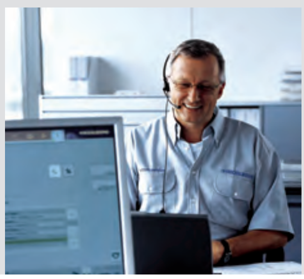
October 2012

Cogeneration Plant Opens at the Wiesloch/Walldorf Site

The new plant was officially opened by Baden-Württemberg's Environment Minister Franz Untersteller and Heidelberg CEO Gerold Linzbach. The cogeneration plant represents a major contribution to the Baden-Württemberg energy revolution. It helps Heidelberg to cut energy costs at its largest production site by 10 percent and lowers annual CO_2 emissions by 3,700 metric tons.

>> October >> November





>> July >> August >> October

Print Media Center (PMC) Reopened in Heidelberg
The PMC has been completely renovated and is now fully equipped for commercial printing. It offers an overview of the Company's products, including the most recent innovations. In future it will be used more frequently to target European customers.

November 2012

New Sheetfed Speedmaster SX Series Successfully Launched
More than 1,000 printing units of the new series have already been sold worldwide. Customers confirm an increase in flexibility, productivity and energy efficiency.

Heidelberg's eCall® Technology Patented in US
Heidelberg's eCall remote-service technology is unique in the printing industry. Patented in Europe since 2010, it is now also patented in the US.

December 2012

Quality Made in Qingpu
On the "DISCOVER HEI" media tour Heidelberg presents its modern production facility as well as its strategy for the Chinese market to the general public. Visitors from the media are impressed by the production site's state-of-the-art technology.

Heidelberg Underscores the Strategic Importance of Environmental Protection and Sustainability
Heidelberger Druckmaschinen Aktiengesellschaft joins the German Engineering Federation (VDMA – Verband Deutscher Maschinen- und Anlagenbau e.V.) sustainability initiative Blue Competence. Moreover, customers can now order all Heidelberg equipment on a climate-neutral basis. Heidelberg is the only company in the printing press industry with a tool for accurately analyzing and managing the CO_2 footprint of its products and services.

January 2013

Heidelberg Showcases Visionary Print Applications at its Research and Development Center
Market-ready and demonstration products show just how much is already possible in the area of surface finishing and printed electronics. Other innovative applications displayed included 3D objects, surface drying and digital imaging.

February 2013

Leading Vehicle Manufacturer Daimler Uses Heidelberg Software for Development Work
Daimler AG is now using software from Heidelberg at all its development sites to check the quality of product data in the CAD environment (CAx data).

March 2013

Heidelberg Realigns Its Sales Organization in Germany
Effective April 1, 2013, the sales and services area in Germany is organized into three regions: North, Central and South. The new organization is aimed to better meet customer needs in the context of ongoing structural changes. In all markets throughout the world, Heidelberg is adapting its organizational structures to meet the changing needs of specific markets. The changes in the industrial nations also reflect the Company's stronger presence in emerging markets. To lower structural costs, sales functions are being consolidated and individual markets are being realigned. Nevertheless, comprehensive service remains assured for customers worldwide. ■

>> December >> March

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HEIDE

Dear Shareholders,

Heidelberg is in the process of a long transformation that started some years ago when the structure of our industry began to change and hit a low point back in 2008/2009 when the market for new equipment took a significant blow.

> We expected the market to bounce back. Statistics indicated that the volume for printed products remained very stable.

> But we had to realize that the main driver had changed. In industrial countries the main driver was the consolidation of many small capacities into fewer, much more productive machines/printers: The "old market" would not return.

> So we made the decision to adjust our capacities. We have successfully lowered our headcount by almost one third and at the end of the financial year we have reached the same per capita sales figure as in 2008, or even slightly better.

During this transformation we had significant expenses and could not achieve profitability. At the same time, we made a major investment in the continually growing Chinese market, where we established our own fully functioning production site. We also maintained our strong global customer base and continued our research activities. We might not have done everything in the most efficient way. But we basically reinvented the whole Company. In such a large process there is always some level of trial and error, and corrections are necessary along the way.

Challenges

Heidelberg's chances for achieving future profitability are strong. Thanks to the restructuring activities of previous years, we have achieved a size that fits our markets. If the end market for printed products remains relatively stable – as we expect – we will be able to maintain our global network due to ongoing business relationships with many leading customers worldwide. "Heidelberg" continues to be a very strong brand within the industry. Major organizational changes will hopefully not be necessary. We now need to "fine-tune" our system to finally reach sustainability for our profits.

> To give our customers the best support for being successful, we need to look beyond the printing press itself. To make the best business proposals we need to understand the customers on an individual basis. The seamless integration of individual process steps along the entire value chain is sometimes more important for the customer than peak performance.

> We need to sharpen our focus on the differences between the regional dynamics. The demand for efficiently manufactured standard machines is as interesting as the market for customized high-performance presses. While efficient standard machines might best meet customer needs in some emerging countries, in some industrialized regions we have more business opportunities in services and consumables. It is our target to come to an optimized match between our structures and the regional quality of the markets.

> We also started a major initiative to improve our complexity management tools. We enjoy the size of our toolbox for solving the customer needs, but we have to make sure that we know what effect the associated complexity has, last but not least, on our working capital. We will also critically evaluate additional OEM (Original Equipment Manufacturer) or partnership concepts, which would help us to focus our own limited resources or to bring in external know-how in areas where we have less internal experience.

For many years the market allowed suppliers to work on many different fields and to develop strategies from "the inside out". Customers today expect a high degree of cooperation and understanding of their individual needs. They only pay for what is generating value for them. High reliability and efficient services are a "must".

Solutions

Of course, our main focus with regard to organization has been the rightsizing of capacities, without endangering the interface to the customers. However, we also had discussions about an organizational structure and processes that would support the current and future requirements for creating sustainable profitability.

> We identified the need to have different business models for the different product or service offerings, without giving up the synergies within Production, Sales and Service, R&D and Administration. Therefore we recreated our Business Area (BA) organization. The responsibility of a BA is to understand exactly the needs of the customers and how much value can be extracted in this part of our portfolio. They decide the product design and the marketing strategy. Together with the functions they "negotiate" the necessary support. Finally they have to articulate their BA strategy. And they are responsible for the implementation.

> While the vast majority of our portfolio is healthy and profitable, we need to continue to work on a better optimum. We need to find solutions for the parts which are not delivering satisfying contributions, and we will also make some decisions with regards to opportunities which we haven't captured sufficiently yet. Thanks to our broad research portfolio we have many choices, but it is now time to focus.

Stephan Plenz
Management Board member and
Head of Heidelberg Equipment

Marcel Kiessling
Management Board member and
Head of Heidelberg Services

> Additionally, we strictly reemphasized – also in our incentive system – the philosophy that in every single deal we aim to increase (economic) value and not volume. This is a challenge in times when all suppliers are struggling with historic overcapacities and try to fill their structures with orders. The resulting price pressure (which to a lesser extent is driven by the customer) is a main reason for the lack of profitability in our industry. Accepting unprofitable orders cannot be the answer.

The time for general measures has gone. We, the Board, have to make sure that we efficiently allocate our resources to the most valuable sectors. We have carefully defined a framework that permits and expects individual responsibility. It is our aim to promote entrepreneurial thinking at all levels. While we empower our employees to act, we also stress that each is accountable for his or her actions. Accountability is part of action, both are equally important for our success.

Dirk Kaliebe
Chief Financial Officer and
Head of Heidelberg Financial Services

Dr. Gerold Linzbach
Chief Executive Officer

The overall performance of the Company depends directly on the performance of each individual employee, on his or her desire to create value. When we all work together the value of the Company as a whole will be greater than the sum of the many individual achievements. The positive operating results this business year are a first step. Our goal next year is to reach a net profit. We are confident that once we return to profitability we will be able to sustain it. Profitability will give us the chance to further reduce our debt, pursue important strategic options, and, not least, reward our shareholders for their trust with a satisfying share price.

Dr. Gerold Linzbach

Dirk Kaliebe

Marcel Kiessling

Stephan Plenz

Teamwork

There was a time when men believed there were only four elements. Compared with the 118 elements we know today, the number seems insignificantly small. Yet these four elements, if they worked together, were capable of creating anything and everything that Nature was or could become. By itself, none of the elements was anything special. But together they formed something that made man stop and wonder. The special thing about each element was the way it worked together with the other three to create something worth wondering about, something wonderful – a whole far greater than the sum of the four parts. Behind it all was a type of teamwork. The four basic elements were called fire, earth, air and water.

Today's world of color printing is based on four basic colors; the three primary colors Cyan, Magenta and Yellow – and Black. If there were only one of the three primary colors, or only the pigments contained in all three, we still would not have the Black needed for the depth and contrast we take for granted in the color pictures we see printed today.

Most of the color pictures we see today are comprised of these four colors. These basic colors we hardly ever see as the basic colors they are, or only in those rare instances when a picture is not printed correctly. The four colors are usually printed one after the other. They are usually referred to as C (Cyan), M (Magenta), Y (Yellow), and K (Black). "K" stands for "key", and, in fact, Black plays a key role. The color picture we see is not the addition of the four colors: It is the result of their interaction. With the help of a magnifying glass, the trained eye can see in each color picture thousands of minute, precisely printed individual points of different colors, perfectly taking their place to create the picture. If you don't see the point, then you will see the picture. Most people then see the sunset on their last vacation, the fascinating sparkle in the eye of a tiger, or maybe the face of someone they know and love. And there are a few that see teamwork. That's the way color printing works. That's the way we work at Heidelberg.

Color

Without it the world would be – colorless, black and white, flat and one-dimensional. Grass wouldn't be green, the sky wouldn't be blue, roses wouldn't be red, and the banana still would not be straight, but neither would it be yellow. For the French painter Yves Klein the color blue had a special meaning. His monochrome marine blue paintings are known worldwide. The color makes its way through the eye into the soul. It expresses an emotion, it conjures one up. A color can be calming – or disturbing, warm or cold, attractive or repelling. It can make a product or company logo unmistakably unique. Or it can lend a political movement, a nation or a mood a type of identity. The sky is blue as is the sea which reflects it. Green with envy, or is it the ecological color of hope? Red with anger. Black is the night, and sadness. And death – the rest is colorless. The first patent registered in Germany was granted for the process used to produce the color marine blue, back in 1877. Yves Klein patented his own special ultramarine blue in 1960. It is similar to the color on the next page.

The idea to print in color is as old as the idea of printing itself. It stems from the way man perceives things. We want to print in color because we perceive our world in color. Color seems to be part of nature, and part of human nature. A world without color is a little bit less world, and a little bit less true. Can anything be true if it does not show its true colors? Color has been a subject for philosophers and poets, for physicists, photographers and graphic designers – and artists. And it is a topic for us at Heidelberg, both the technology of color printing and the physical makeup of the colors themselves.

The colors and coatings in our Saphira Eco line do not just help reproduce the colors of the world, they also help protect the world. They meet or surpass industrial environmental standards and make possible color stability in the production process at the same time. When it comes to combining ecology with economy our Saphira Eco line shows its true color: Saphira Eco products are based on renewable and/or recyclable materials and produce fewer emissions than comparable products. The gain for the environment is also a gain for the customer: In addition to fewer emissions, there is also less color waste, less wastewater – and a reduction in energy consumption.

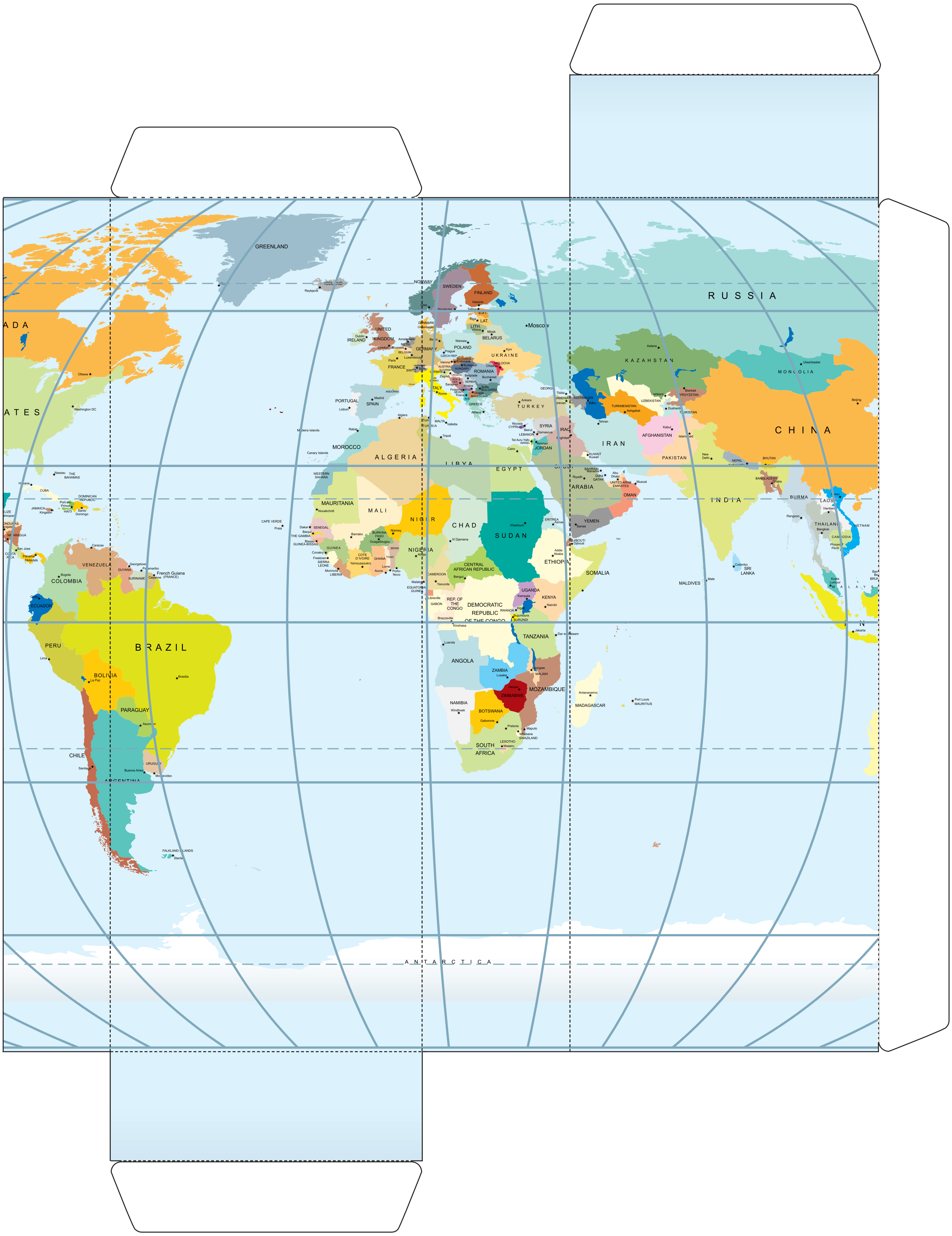
Packaging

Does packaging make the world go around? No. Not exactly. But it does make it possible for more things to go around the world than ever before. And because of developments in packaging, goods of all types go around the world faster, safer, more economically and with less environmental impact. Packaging may not make the world go around, but it's one of those silent drivers of globalization.

The time when a package only had a value because of the product inside it has passed. In many cases a product loses its value completely if it is not properly packaged. Today packaging has a value in its own right. It is no longer a nice-to-have afterthought: It is an integral part of the original design of the product itself. It protects the product, the consumer and the environment in multiple ways.

In a globalized economy, if a product can't be efficiently shipped, its market potential is effectively limited. And a product can only be effectively shipped if it can be properly packaged. But before a product is shipped it must be stored efficiently without losing quality. Packaging makes for effective logistics, can optimize the supply chain – and make a major contribution to a company's profitability. From a consumer point of view: Packaging prevents perishable goods from perishing, warns about expiration dates and prevents tampering. Environmental issues concern both producer and consumer and are becoming increasingly relevant in all of the world's markets. Ecological packaging is not just a question of recycling; it is about reducing the environmental impact along the entire value chain.

Packaging print is one of our most important market segments. Heidelberg offers a number of packaging innovations – ranging from labels to blister packs and braille for pharmaceutical products, to non-toxic ink for packaging of food and nutritional products, to mention just a few examples. Last but not least: We offer a number of ways to enhance products. Print on packaging is a key to protecting brand integrity. Special colors and coatings can offer a color consistency that preserves logo identity and an aesthetic quality that makes consumers take notice. Before the customer sees the product he sees the package. The print on the package makes a first impression that can last.



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BURMA
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TURKEY
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SAUDI ARABIA
YEMEN
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MADAGASCAR
BRAZIL
PERU
COLOMBIA
VENEZUELA
BOLIVIA
PARAGUAY
CHILE
ARGENTINA
ECUADOR
French Guiana (FRANCE)
SRI LANKA
MALDIVES
ANTARCTICA

CO_2

At Heidelberg we have reached the point where quantity is transformed into quality. In a point that is especially important for the environment. We have developed our presses to the point that it is possible to increase the quantity printed – and reduce the resulting quantity of CO_2 emissions at the same time. Of course, it is not really the transformation of quantity into quality. In effect, the technical quality of our modern printing presses translates into a necessary ecological quality. And because we have also increased efficiency, the ecological quality also translates into an economic quality and quantity. When both economy and ecology are improved it is a plus for society as a whole. For us at Heidelberg, this mutually enhancing combination of ecology, economy and society is what sustainability is all about. This has been an important issue for us for years – and it is becoming increasingly important for our customers. Seen realistically, printing 100 percent green remains a dream. As long as there are machines, paper and ink involved there will be an ecological footprint. But the dream of Green Printing is a special one – not least because so much of it has already become reality.

Since 2012 almost all of our equipment – prepress, press and postpress – is available climate-neutral. Our technology makes it possible for our customers to exactly calculate the CO_2 footprint of their products and services. This gives them a chance to analyze, control and optimize the crucial points in the value chain. All relevant parameters are included in the calculation – from the extraction of raw materials and the production of manufacturing materials to the test phase and the transportation to the customer. There is less process waste. In addition, a lot of paper is saved: With the Anicolor equipment start-up paper waste can be reduced by up to 90 percent. Paper has the largest share of the CO_2 footprint of the print product. Because the customer can precisely analyze and control his processes, he can focus on those parts that will optimize energy consumption. The price that the environment pays is less, and so are the customer's energy costs.

Digital print

The etymology of the word is interesting, but misleading. The word digital points back to the Latin word “digitus”, which means finger. But the word finger points in the wrong direction. Digital printing has nothing to do with pressing a finger to paper to produce a fingerprint, or actually with the pressing of anything else for that matter. On the contrary. Unlike the traditional way of printing, there are no printing plates or anything else that “presses” ink onto paper. The words or the pictures are applied to the surface of the material to be printed almost without touching it. The more accurate word to describe the printing process called digital printing is “non-impact printing (NIP)”. To speak of a digital printing press is almost a contradiction in terms. Digital printing “presses” are centuries removed from those first machines that literally “pressed” to print. The word “digitus” also has a meaning that points us to a word that doesn’t just describe a printing technology, but a whole age, our age – the “Digital Age”. Digitus can also mean digit – or number. In this case it refers to the way numbers can be precisely coded and used to transmit and process information. In this sense, of course, all modern printing technologies, digital or offset, are digital because the information they ultimately print was first digitized.

Is offset technology better or digital technology? Actually, that is the wrong question. The right question is: Which technology is better suited to efficiently print the job required? Both technologies have advantages and disadvantages. Digital printing is less well suited for large print runs: It is comparatively slower, and the ink consumption becomes expensive. When it comes to larger print runs, the offset technology is the more efficient choice. Digital technology is the better choice when it is a matter of a small print job. When the print run consists of a single copy, digital printing offers a solution that is efficient, quick and high quality. For example, your personal photo book. The single copy contains the unique photos of vacation, friends, and family.

With respect to uniqueness digital printing does have a type of similarity with a fingerprint. Because it can target a single individual by name it is often used, for example, in direct mailings. Digital printing makes it possible to economically target a single individual person. The personalization of the mailing makes the recipient as unique as his or her fingerprint.

Heidelberg offers a wide range of fully integrated offset and digital solutions. With our Prinect Digital Print Manager the printer can combine the best of both worlds: He can manage both digital and offset jobs from a single workflow. To become competitive more quickly, we entered into a global strategic partnership with Ricoh in 2011. In 2012 we began working with Landa of Rehovot, Israel, to develop further digital solutions for small print runs.

Heidelberg

It is the name of a city located not far from where the relatively small Neckar river in southern Germany flows into the legendary Rhine. It is home to Germany's oldest university, founded in 1386, and the more than 140,000 people who live there today. For many, it is Germany's most beautiful city. For many in the print industry it is the name of the technologically most advanced printing presses in the world. The name stands for quality, technological precision, innovation and reliability – worldwide.

The history of Heidelberg printing presses began in 1850 when Andreas Hamm opened a bell foundry and machine factory in Frankenthal; in 1896 the Company moved to Heidelberg. In 1905, a little more than a half century after Hamm founded his company, it is renamed Schnellpressenfabrik AG Heidelberg. “Schnell” means fast: The word “fast” began to take on a new meaning in the printing industry. The history of print and the stock company that changed its name to “Heidelberger Druckmaschinen Aktiengesellschaft” in 1967 continued to develop quickly. In 1914 the Company introduced the legendary “Tiegel” at BUGRA in Leipzig, the international trade show for the book and graphic industries. Capable of printing 1,000 sheets in an hour, the automated Tiegel marked a revolutionary change in the economics of printing – a global brand was born. In 1962 the Company made the transition from letterpress to offset printing, which has remained its core business until today.

Heidelberg has remained a global brand, but the world of print has changed decisively, and not just its technology. The global print volume has been stable now for more than a decade. Growth, however, has for the most part only been seen in the emerging countries. Currently about 85 percent of Heidelberg sales are made outside of Germany. China is the fastest-growing market. In Qingpu, about an hour west of Shanghai, Heidelberg established its own production site back in 2006. Today, about 400 “Heidelberger” manufacture high-quality small, medium and large standard printing presses.

Qingpu ★

Partnership

Like knows like. In a successful partnership one sees oneself in the other, but not in relationship to the present, but more with a view toward the future. With the necessary imagination, you can see yourself not as you are, but as you would like to be – and with the help of the right partner, can become in the future. You see possibilities that you would not have alone, but could have working together. You see in the other the same entrepreneurial mindset and a common will to succeed.

Heidelberg has a global market presence and the experience and competency along the entire value chain that make it an attractive partner for companies inside as well as outside the print industry. Its state-of-the-art know-how ranges from software and engineering to logistics and process management. Heidelberg's partnerships are strategic and long-term. The focus can be different from case to case. Reducing costs can be the emphasis, increasing productivity or knowledge-sharing to speed up the development of a new idea. In some cases partnerships are the first steps toward developing new business areas. The goal of all our partnerships is to secure the Company's future success and realize new market potentials.

Heidelberg actively pursues a broad strategy that includes various areas – from solutions for global logistics to research projects with leading universities. There are also partnerships, for example with Ricoh and Landa (see page 18), that aim to increase our competitiveness and market presence in an area relatively new to us and increasingly important, such as digital printing.

Service

The word has as many meanings as customers have needs. But for most customers it has only one place, and only one time: Here and now. There, where the customer has his problem, and then, when he needs a solution. Anything less is bad service. For a company like Heidelberg with a global customer base here and now means: Around the world, around the clock. Omnipresence belongs to those virtues we expect a good service provider to possess – along with competency, reliability, environmental friendliness, economy and – last but not least, the ability to anticipate problems and solutions along the entire value chain. Anticipation is better than reaction. And a bit of creativity should be mixed in.

Consumables and services are increasingly important both for us at Heidelberg and for our customers. The global volume for the business with consumables and services is about three times greater than the business for new presses – and less dependent on economic fluctuations. Heidelberg has the largest installed press base in the entire industry worldwide and can claim an important position for realizing new business. Currently, about 40 percent of our sales are generated in the segment for consumables and services. In this growing market Heidelberg offers a comprehensive and differentiated service portfolio. Our services go beyond technical machine maintenance and the delivery of original service parts and consumables that are needed. We also bring our customers new ideas – for business development, for example, or for optimizing processes and increasing profitability. We also offer software solutions and high-quality remarketed presses. In addition, Heidelberg Financial Services offers financing possibilities for the purchase of new presses.

By the way, there are different ways to solve the problems of time and space. Our World Logistics Center (WLC) is closely connected with our logistics centers in the US, Japan and Hong Kong. In 95 percent of all cases we can deliver our customers what they need immediately. With the help of our Remote Service we can be there – without being there: Problems can be diagnosed via the Internet and solved where the machine is located. And thanks to our eCall we can start solving a problem before the customer even knows he has one: As soon as a problem arises, the machine with the problem generates an eCall automatically.

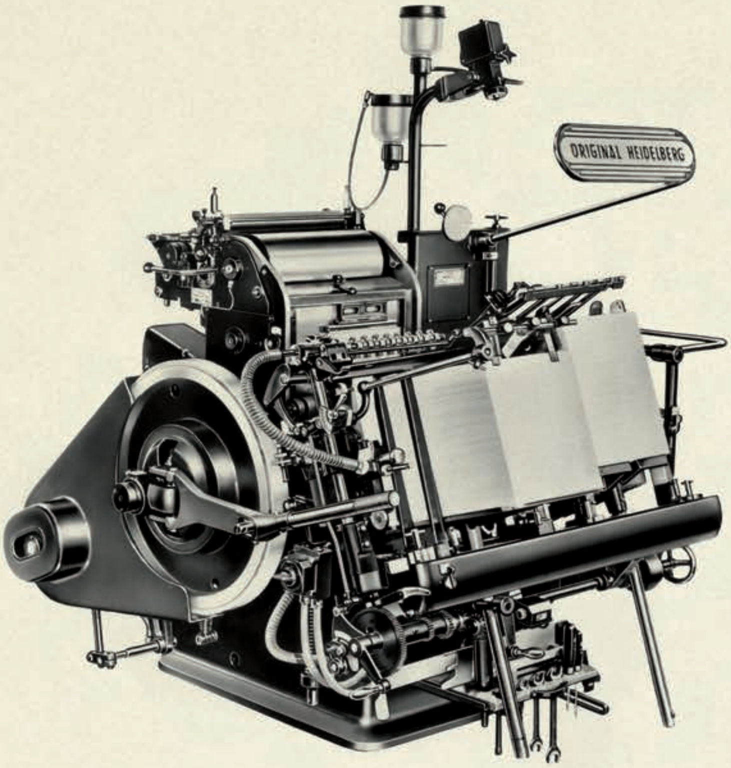

York
Heidelberg
Qingpu
Detroit
London
Rio de

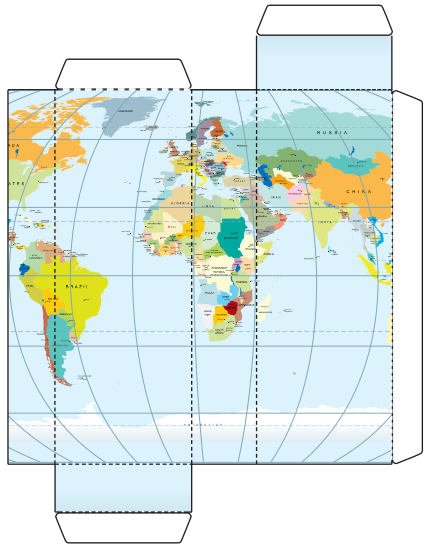
Printing press

How much and how quickly things would change! For Gutenberg, casting the lead-alloy letters he needed for his printing project, in his shop in the middle of 15th-century Mainz, it would have been unimaginable. It wasn't only what he printed that made such a great impression. It was also how he made the impression. The lead letters moved. More precisely: They were moved by the printer's hand. Printing was literally a handicraft. Typesetting would remain manual work for a very long time. But not just the type was set by hand, every single sheet of paper was placed and removed from the press – by hand. An automatic printing press would not enter the market for a few more centuries. When Heidelberg's famed Tiegel appeared on the market in 1914 it was capable of printing 1,000 sheets an hour. When it went into series production in 1921 the automatic Tiegel could print 3,000 sheets an hour. Today, a modern Heidelberg Speedmaster is capable of printing 18,000 sheets an hour. Setting 18,000 letters by hand would not be a matter of hours, but of days. And once the typesetting was finally finished the arduous printing process would begin. The ›leaden‹ times of this "hand"icraft lasted into the 20th century. In fact, lead type is still used today – for printing small numbers of calling cards.

In a certain sense Gutenberg printed his own calling card. The print run was small, but it made history. Of the fewer than 200 copies printed fewer than 50 are still in existence. The calling card had 42 lines – times 1,272 pages and was written in Latin. No one knows for sure how long it took to print. The prepress preparations began in 1450, the first finished copies appeared four or five years later. Guttenberg's calling card – the Gutenberg Bible – was also the calling card of modern printing.

A bible wasn't the only thing that would be named after the printer from Mainz. There is also a galaxy named after him. Marshall McLuhan, the Canadian philosopher of media theory, called the age dominated by the printed book the Gutenberg Galaxy. Whether the Internet Galaxy heralds the end of the Gutenberg Galaxy or whether it is only another chapter in the story started by Gutenberg is a question that only the future can answer. In the meantime, what began with the printing of a book has long since become much more than a printing press or any book that could be printed on one. Print will have a future because a book is more than the paper it is printed on, and print is more than a book.

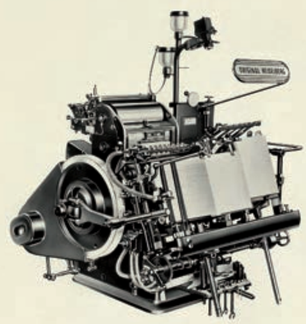

ORIGINAL HEIDELBERG



Print

is

more.



Our goal is sustainable profitability

There are persistent rumors that "print is dead"?
Rumors can damage a company. Facts can make a company stronger. We want to focus on the facts. Facing facts is a prerequisite for success. For a long time, ever since Gutenberg discovered movable type, print has been driving change; now it is being driven by change – financial uncertainties in the world's economies, Internet-based media, consolidation and stagnation in the industrialized countries and growth in the emerging countries. Despite the changes, the fact is that global print production volume is stable. To be sure, journalistic print media are seriously challenged, but print is hardly "dead". It has, however, changed radically. Our job is to understand these changes and focus on business areas and markets where we can make a sustainable profit.

Despite the relative "stability" in global print volume, Heidelberg has not been able to make a profit for the last five years. Why?
Two things came together. On the one hand, the market situation became much more challenging. While the print product volume remained stable, the market for new equipment became significantly smaller. There was also a major geographical shift: Market growth moved from the established industrial countries to the emerging countries. The stagnation in the economies of the industrial countries led to widespread consolidation; here fewer printers were needed to print the same volume. On the other hand, we also faced internal challenges. We had to adapt the Company to fit the new market dynamics. We have changed significantly – in the past few years we have reduced our headcount from around 20,000 to around 14,000. While doing this we repositioned ourselves geographically to take advantage of the growth in the emerging countries, especially China. Was there really a basic ›mistake‹ that we made? Instead of absorbing all our restructuring costs ourselves, we should have tried harder to pass at least some of these costs on to the market. When you look at the large scope of the changes we made, there was really no basic mistake. There was, however, the normal trial and error process, which always includes corrections as things move along.

Describe your market. What do you mean by "stability"?
Our end market, the worldwide volume of printed products, is relatively large, at about € 400 billion per year worldwide, and has remained stable at this level for a decade and a half. But the word "market" is misleading. It makes little sense to talk about "the" market and more sense to talk about a number of different markets. Not all markets are equally stable. And in all of the different markets there are some business areas with greater potential than others. In addition, while some areas are more susceptible to economic downswings, others are less cyclical. Our services and consumables business is stable or growing. In contrast, the market for new equipment is more volatile.

How has the decline in the publishing sector affected Heidelberg?
Journalistic publishing has been impacted greatly by Web-based media and changing reader habits. Circulation of many magazines and newspapers is down significantly. In some cases print versions have been discontinued; this has affected patterns for advertising inserts. Newspapers and magazines with huge print runs were usually the domain of rotary offset. Our core business is sheetfed offset printing. Under actual conditions this is the most stable technology and makes up more than a third of the total global print volume. We were not affected as directly as people in the rotary offset business. In some cases the decline could actually result in an upside for us, because reduced print runs could make our sheetfed technology and digital print solutions more attractive.

What about the other customer groups? How have they changed?
Commercial printing and packaging printing are key for us. Both commercial and packaging printing are important businesses in all markets worldwide. Commercial printing is usually done by small to mid-size printers. It is more directly related to economic strengths and weaknesses and is more susceptible to economic shifts. In established industrial countries factors like the instability in the euro zone and stalemates concerning the US budget, for example,



can have a negative impact on commercial printing. Advertising budgets are normally cyclical, and very susceptible to economic developments. On the other hand, as emerging economies grow and change, commercial printing may also develop a new potential in these regions.

… and packaging?
Packaging is a growing and differentiated business and can involve large industrial printers. Parts of the packaging business, for example expensive packaging for luxury items in cosmetics, are more related to economic developments and consumer spending. Other parts of the packaging business, for example for daily hygiene and food and nutrition as well as for pharmaceuticals, are less dependent on economic swings. The need for multi-language printing and tamper-safe blister packaging makes the pharmaceutical industry an increasingly important target group for customers. Special effects and coatings are also becoming increasingly important as a way of promoting brands and differentiating products from competitors. In the economies of emerging countries, packaging plays a dual role. More goods and products sold within emerging countries are being sold in packages. And items produced in emerging countries for export require good packaging for shipping and ultimately for competitive marketability at their destination.

Given the pressure to produce small print jobs quickly and economically, digital printing technologies are becoming increasingly important. Can Heidelberg compete in this area?
We are already competing here, and we are positioning ourselves to become more competitive. But the real issue is not which technology is better. The customer is looking for the most efficient way to get his print job done. Depending on the print job the answer can be either digital or sheetfed – in some cases maybe even a combination of the two. The offset technology is not the economically best solution for shortest print runs. The preferred technology for print runs well under 250 copies or personalized print runs is digital printing. For longer runs,

"We had a good fourth quarter and we achieved an operating plus. We are making progress, but not yet profit. Next year we want to be profitable and we have taken the steps that I think will make it happen."

offset printing continues to offer the greatest production benefits. This is why many print shops make use of both digital and offset printing technologies. We offer customers both technologies, and with our Prinect software we offer a way to efficiently integrate them. In 2011 we began a global partnership with Ricoh, complementing our market presence and experience with their digital know-how. We more recently entered into a global strategic partnership with Landa of Rehovot, Israel, that will help us further expand our "short-run printing" capabilities. Another successful business model for the production of smallest print runs is offered by Web-to-Print providers. These printers collect many individual orders via the Internet and then print them in one large-format sheetfed offset production run.

Your market description is more or less positive.
When will Heidelberg stop having negative numbers?
We had a good fourth quarter as expected and we achieved an operating plus. We are making progress, but not yet profit. Next year we want to be profitable and we have taken the steps that I think will make it happen. We have made a good start, but I am fully aware that it is just a start.

Your operating plus seems more the result of cost-cutting than anything else.
Will the profitability that you are aiming at be simply the result of downsizing?
I prefer to use the idea of rightsizing, not downsizing. It is not just less negative, it is also more accurate. What the right size is depends on the markets. If a market grows, rightsizing could mean upsizing. See China. But yes, this year our operating plus was based largely on cost-cutting measures. We cut costs by more than €60 million this year. Going forward we will have cost savings of more than €200 million every year. That is significant. In fact, we achieved these savings ahead of schedule. But the critical point in your question is about long-term, sustainable profit. Here my answer is clear: Cost-cutting alone is not a strategy for sustainable profit. Focus 2012 was a healthy and necessary reaction – and it was not easy. Our employees deserve a lot of credit for making the progress we have made. But sustainable profit has to be based on focusing on those business areas where we can make a profit, not on shrinking. On strategic actions, not just reactions.

You have been in charge now for more than six months.
What are your impressions after half a year?
I had the advantage of coming not just from outside the Company, but also from outside the industry. I had to learn about the Company and the industry, but I also could make use of experiences I had made. One of my most important goals was transparency, learning exactly how things fit together, how decisions were made and who made them. Knowing how we interact with each other and analyzing how we interact with our customers and markets was a top priority. Certain things became clear very quickly. The positive side? We have highest product quality, a justified strong reputation worldwide, a good position in emerging markets. Thanks to our efficiency program Focus 2012 we cut costs significantly and achieved a size that puts us in a good position as we move ahead. What must be improved? Our organization has to focus more on profit and align itself more quickly to market changes.

What strategic actions have you taken since you arrived?

We adapted and realigned the organization within our operating segments, our so-called Business Areas, and assigned the BA managers clear and individual responsibility. Fast decision-making was necessary and now it's not just possible – it's expected. People will be held responsible when goals aren't met. Making our processes transparent made it possible to heighten accountability. The organization is now more results-driven and the responsibility for the results is with the decision-makers. We are better geared to take advantage of non-cyclical business potentials in our service and consumables segment. In areas that are stable but not growing we are focused on improving margins and making only sales that bring a profit. I think pricing problems are more home-made than customer-driven: Price issues were largely the result of overcapacities on the manufacturers' side. In regions that are growing – China is the best example –, we are set up to increase profits by growing sales as the market grows. China is the largest single market for printing presses worldwide. I just returned from Beijing where we participated in the industry's most important event this year, China Print. The Chinese market is large, international and professional. We want to further strengthen our presence there.

What can Heidelberg do better than others?

We have decisive critical mass, a wealth of technological competency, a large global customer base and are firmly established in all of the world's key markets, especially in China where we have our own full-fledged production site. In comparison, we have a large base of installed machines in the business and a consumables and services business with tested global reliability that supports it. Our consumables and services segment has a strong upside; we can grow here in a basically non-cyclical business. We have expertise from the beginning to the end of the value chain – prepress, press and postpress, from consulting, equipment and software to consumables, service and logistics. But our technical know-how is only part of the story: The other part is customer knowledge. In the end it is all about meeting customer needs better than the competition; this is where the depth of our customer knowledge is decisive. In addition, we are a pioneer in environmentally friendly printing – something that gives future-oriented customers a true competitive advantage.

Has the efficiency program Focus 2012 been completed?

Did we reach the defined goals? Yes. In recent years we reduced our headcount by about one third and made major cost cuts. At the same time we maintained our strong market presence and still invested in further developing our technologies. But we have to remember that our efficiency program basically had a dual focus. We had to rightsize to fit the changing market dynamics and we had to increase our efficiency at the same time. Our rightsizing was necessary because the market for new equipment decreased by about 40 percent. Especially in the industrialized countries, as I mentioned before, there was dramatic consolidation. The rightsizing is gradually coming to an end and we are now at the same per capita sales that we had before the crisis hit five years ago. However, we must continue to increase our efficiency: This will be an ongoing process. When cost increases are unavoidable, we will try to offset some of

"Our job is to recreate our business to fit the shape of the markets. We don't shape the markets – we serve them. The better our organization fits the shape of the markets, the greater our chances for success."

the cost increases by going to the market with price increases, and then work even harder to improve our processes to further improve our cost base. Even when Focus 2012 is over, we will remain focused on the same targets: We want to reduce our net debt to normal levels and achieve sustainable profitability. Once this happens we will be able to pursue some of the ideas that we cannot finance at the moment.

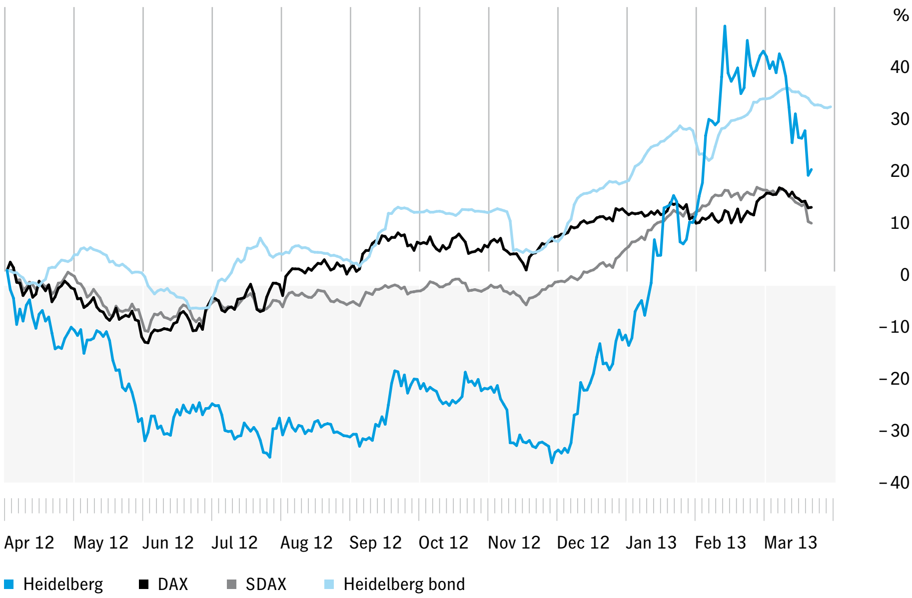
How will you know when rightsizing has reached the right size?
You are asking about the shape of the Company for the future. Shaping a company is a careful creative process, almost like when a sculptor hews a shape out of a huge piece of raw stone. First he works to create the basic shape, and then he works and reworks until he has given the stone all the minute details that will give the finished work the unmistakable character he is striving for. Finishing touches are decisive – and sometimes are never really finished. Some detail can almost always be improved. At Heidelberg – with Focus 2012 – we have achieved the basic shape. We are working on the finishing touches. But for us, the creative process is really a re-creative process. And, of course, we are not the real artist. The real artist in the shaping process is the market, with all its regional differences and details. Our job is to mirror the market, to recreate our business to fit the shape of the different markets. We don't shape the markets – we serve them. The better our organization fits the shape of the markets and their different needs, the greater our chances for success. We are making progress – achieving an operating plus last year is an important step. But the real sign of progress will be profit. We plan to reach that goal next year.

When will the Heidelberg strategy translate into a plus for its shareholders?
The negative results in the last five years have eroded shareholder trust. That is understandable – and regrettable. Our leadership team is in the process of rebuilding lost trust. The progress we are making is beginning to translate into a positive share development – up about 20 percent on a year-on-year basis. Also, the bond we issued last year recovered in the course of the year and was trading at around 99 percent at the close of the business year. Trust is slowly returning. The improved share price is a plus for our shareholders. We expect to make more progress and we expect this to show in our share price. The trust of our shareholders is important to us. In the end their trust helps make our progress possible. On our road back to profitability we consider it a crucial part of our job to make sure that Heidelberg makes good investor sense.

HEIDELBERG ON THE CAPITAL MARKETS

Performance of the Heidelberg share and the Heidelberg bond

Compared to the DAX / SDAX (Index: April 1, 2012 = 0 percent)



The Heidelberg Share and the Heidelberg Bond

> Heidelberg's share price rises sharply in fourth quarter of 2013
> Closing price of € 1.80 up around 20 percent on previous year
> Heidelberg bond returns to par

The price of the **HEIDELBERG SHARE** reflects the two-track business development over the course of the reporting year, and also the general trend of the stock indices: while the first nine months were characterized by falling prices, a pronounced upward movement took place in the final quarter of the year under review. Towards the end of the calendar year, the share benefited from the tangible improvement in our figures in the second half-year as well as from the upward trends on the stock markets. The closing share price of € 1.80 on March 31, 2013, was around 20 percent higher than the equivalent closing price in the previous year.

All in all, the positive price performance of the **HEIDELBERG BOND** continued in the year under review. At the start of the first quarter, the bond was trading at around 75 percent. Based on the improved financial figures, the bond continued to recover over the course of the year, expanding these gains in the fourth quarter in particular: At the end of February, it was trading at 100 percent (par), before closing the financial year at around 99 percent on March 31, 2013.

Key performance data of the Heidelberg share

Figures in € ISIN: DE 0007314007	2011/2012	**2012/2013**
Basic earnings per share [1]	– 0.98	– 0.47
Cash flow per share	– 0.56	– 0.17
Share price – high	3.38	2.22
Share price – low	1.20	0.94
Share price – beginning of financial year [2]	3.36	1.45
Share price – end of financial year [2]	1.50	1.80
Market capitalization – financial year-end in € millions	351	421
Number of shares in thousands [3]	233,899	234,104

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

Key performance data of the Heidelberg bond [1]

Figures in percent RegS ISIN: DE 000A1KQ1E2	2011/2012	**2012/2013**
Nominal volume in € millions	304	304
Bond price – high	103.2	101.6
Bond price – low	57.3	69.5
Bond price – beginning of financial year [1]	102.1	74.9
Bond price – end of financial year [1]	75.1	98.9

[1] Closing price, source: Bloomberg

As part of the issuance of its bond, Heidelberg obtained a credit rating from two high-profile rating agencies for the first time. These ratings were reviewed during the reporting year. Standard & Poor's again classified Heidelberg's long-term rating as B but improved its outlook to "stable", while Moody's continued to give Heidelberg a Corporate Family rating of B3 and a negative outlook. Standard & Poor's gave a CCC+ rating to the high-yield bond, while Moody's rated the bond at Caa1.

German stock indices at all-time high: Heidelberg share significantly outperforms the DAX and the SDAX in the fourth quarter of 2013

Although the basic sentiment on the stock markets remained positive in the final quarter of the previous financial year, uncertainties in the euro zone and concerns about the public debt crisis at the start of April 2012 had an adverse effect on the global economy, and hence on the DAX and SDAX indices. Both indices suffered significant losses at the beginning of the year under review. After this weak first quarter, the second quarter saw rising share prices. With an increase of 1,000 index points, it was one of the most favorable quarters in the history of the DAX. Overall, the DAX had recorded a gain of around 2 percent after the first six months, while the SDAX closed with a 7 percent decline. Similar to the leading indices, the Heidelberg share dropped sharply primarily during the first quarter and – despite a price increase at the end of September – ended the first six-month period of the reporting year with a decrease of approximately 18 percent.

Even in the final quarter of the 2012 calendar year, the stock exchanges were caught in the maelstrom of further fiscal policy relaxation on the one hand and patchy economic data on the other. In December, following initial price slumps, the DAX broke through the important 7,500-point mark, which had still presented a barrier from a chart perspective in August and September 2012. The momentum from the year-end rally on the German stock markets continued into the new year: After briefly exceeding the 8,000-point mark in early March, the DAX ended the financial year only slightly below this psychologically important barrier. At a level of 7,795 points on March 31, 2013, it was up around 12 percent on the previous year. The SDAX closed at 5,698 points, representing an increase of around 9 percent in the same period.

The Heidelberg share initially followed the general trend, falling to an all-year low of € 0.94 on November 28, 2012. Following the increase in the stock indices it then recovered again and as a result of the significantly improved financial figures even outperformed the indices slightly: on February 19, 2013 the share reached its high for the year at € 2.22. At the end of the financial year on March 31, 2013, the Heidelberg share closed at € 1.80, around 20 percent higher than the equivalent closing price of March 30, 2012.

In constant dialog with the capital markets: At roadshows and on-site

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 bond.

We inform all stakeholders in an open and timely manner and set great store on not only publishing financial figures but also explaining them. This includes working continuously with the more than 15 financial analysts that regularly covered the Heidelberg share and bond in the year under review. As part of our creditor relations, we continued to build up communication relationships with financial analysts and investors specializing in high-yield bonds. Similarly, our collaboration with the rating agencies was an important component of our capital market communications. We gave presentations at a number of international capital market conferences, held an investors' day at the drupa trade show and held roadshows in Germany and abroad. In addition to our investor relations activities, our Company's locations in Heidelberg, Wiesloch-Walldorf and Qingpu were visited numerous times by investors and analysts. Next to one-on-ones and group discussions with the Management Board and the Investor Relations team, these visits included tours of our production facilities; one focus was on our new Print Media Center in Heidelberg, which we have expanded into an end-to-end, fully integrated print shop for commercial 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.

Service for **PRIVATE INVESTORS** is important to us. You can find an IR contact form on our Web site. Our IR Web site also contains extensive information on Heidelberg's shares, audio recordings of conference calls, the latest IR presentations, corporate news and dates of publications. The Investor Relations team welcomes your questions and suggestions.

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The publication of the results for the 2011/2012 financial year was accompanied by the annual press and analysts' and investors' conference in Heidelberg on June 14, 2012. The Management Board presented the results for the past financial year, the Company's new products and the realignment of the sales and services organization to reflect changes in market conditions. The events were used intensively by representatives of the media and analysts alike.

Annual General Meeting 2012: All resolutions adopted

On July 26, 2012, around 1,800 shareholders attended our Annual General Meeting for the 2011/2012 financial year, which was held at the Rosengarten Congress Center in Mannheim; this meant that almost 38 percent of Heidelberg's share capital was represented.

Among other things, the agenda included the approval of the new remuneration system for members of the Management Board, which came into force on April 1, 2012, as well as the new provisions on Supervisory Board remuneration. In addition, the Annual General Meeting resolved a reduction in the size of the equally codetermined Supervisory Board to a total of 12 members, provided that the number of German employees entitled to vote permanently remains below the threshold of 10,001 employees; further details can be found in the Report of the Supervisory Board on page 182 and the Management and Control section on pages 55 to 57. All of the proposed resolutions were adopted by a large majority of the shareholders, including the proposal on Contingent and Authorized Capital 2012. The Annual General Meeting also resolved not to distribute a dividend for the previous financial year.

Free float increased to 100 percent

At the end of the second quarter of the year under review, Allianz SE informed us that it had reduced its share of the voting rights of Heidelberger Druckmaschinen Aktiengesellschaft. As of October 4, 2012, it held 2.11 percent of the voting rights (corresponding to 4,953,952 of a total of 234,246,940 voting rights). Hence the free float of Heidelberger Druckmaschinen's shares was 100 percent of the share capital of 234,246,940 shares. The total number of shares outstanding at the end of the year under review was 234,246,940. At the time this report was printed, the shareholders holding more than 3 percent of Heidelberg shares were Universal-Investment-Gesellschaft mit beschränkter Haftung (8.18 percent), RWE AG (4.22 percent), Union Investment Privatfonds GmbH (3.07 percent) and Dimensional Holdings Inc. (3.01 percent).

CONSOLIDATED MANAGEMENT REPORT 2012/2013

The structure of the consolidated management report has been adjusted to enhance transparency

THE 2012/2013 FINANCIAL YEAR AT A GLANCE

> **Sales** rise by 5 percent to €2,735 billion in the financial year

> **Forecast achieved:** EBITDA excluding special items improves to €111 million; EBIT excluding special items clearly positive at €28 million

> **Special items and negative financial result** lead to net loss of €110 million

> Free cash flow **excluding expenses** for Focus 2012 clearly positive at around €44 million (including Focus 2012: €–18 million); **net debt** stable year-on-year at €261 million

> **Management Board transition complete:** Dr. Gerold Linzbach assumed office of CEO as of September 1, 2012

COMPANY STRUCTURE AND BUSINESS ACTIVITIES

Company Profile

HEIDELBERGER DRUCKMASCHINEN AKTIENGESELLSCHAFT (HEIDELBERG) has been a major provider for the global printing industry for a number of years. We develop, produce and distribute technology for commercial and packaging printing. With our own **SALES AND SERVICE BRANCHES** and via **PARTNERS**, we reach our customers in around **170 COUNTRIES** worldwide, generating Group sales of around € 2.7 billion in the 2012/2013 year under review. Around 60 percent of sales were generated from **NEW MACHINERY**; in addition to printing presses for sheetfed offset, digital and flexo printing, this includes prepress and finishing machinery and our software for integrating all of the processes within a print shop. Around 40 percent of sales were generated from **SERVICES, CONSUMABLES AND SERVICE PARTS**. As print shops have a continuous need for these products and services, this segment is less susceptible to economic developments than the new machinery segment. We also support our customers by offering financing concepts for their investment projects.

In all business areas, we cooperate with strong partners and intend to further expand these **PARTNERSHIPS**.

Our central functions as well as our research and development business are bundled at our **HEAD OFFICE IN HEIDELBERG, GERMANY**. We also have active **DEVELOPMENT AND PRODUCTION SITES** in **EIGHT OTHER COUNTRIES**.

All in all, around **14,200 PEOPLE** work for Heidelberg worldwide. In order to reflect the significant changes in market conditions, we have been forced to reduce our workforce considerably over recent years. We are continuously working to achieve improvements in productivity in all fields of application in order to offset the general rise in costs or to realize savings potential. Around 30 percent of our employees work in our global sales and service network. Reliable, rapid service is a key criterion for our customers when it comes to selecting a supplier; it also has attractive margins.

STAFF COSTS account for around a third of our total costs, while the **COST OF MATERIALS**, including purchased parts, makes up around 45 percent of total costs. Our primary materials are steel, electronic components and energy.

In the established industrialized nations and, increasingly, in the emerging economies, considerable emphasis is placed on the **ECOLOGICAL OPTIMIZATION** of the production of our machinery right through to operation and the consumables used. Measures relating to the development, manufacture and use of machinery are aimed at reducing resource consumption and hence the carbon footprint, as well as other emissions and process-related waste. The Saphira Eco products we launched in 2011 meet the most stringent industry standards and statutory requirements. Printed materials manufactured using products from our Saphira Eco line are allowed to bear the “Printed with Saphira Eco” seal.

Printed with Saphira Eco
HEIDELBERG

Our **MARKET** consists of four submarkets that have considerable differences in terms of customer requirements. Demand ranges from high-performance standard machinery through to highly specialized machines that are tailored to specific customer needs.

The end market, i. e. the market for printed products, has changed significantly over the past decade, including in terms of its regional and technological structure. Sheetfed offset technology is the most common technology in this market. Heidelberg is the **MARKET LEADER FOR SHEETFED OFFSET PRINTING**. You can read more about the market and market participants on pages 44 and 48 of this report.

Sites and Services Network

> Global network with benefits for us and our customers
> Own production site in China
> Global sales and services and logistics network

Heidelberg has **PRODUCTION SITES** in eight countries. They constitute a network that is organized by families of components. This ensures that each production site has the necessary parts and materials at the right time. Our **SHEETFED OFFSET MACHINES** are constructed at two production sites: In Wiesloch-Walldorf, Germany, we assemble printing presses in all our format classes and special machinery based on customer requirements. In Qingpu, near Shanghai, China, we produce high-quality standard machines. The other production sites manufacture individual parts and modules or construct **PREPRESS OR POSTPRESS** machines. The US, the United Kingdom and the Netherlands are home to our experts for specialty coatings, while our specialist for business and automation software is located in Belgium.

In **MANUFACTURING**, our focus is on parts for which quality is a key factor and on products that provide competitive benefits for us and our customers thanks to our specialization. A modern printing press consists of up to 100,000 parts. In addition, high-performance software is used to control up to 500 individual drive shafts and as many as 300 pneumatic parts. Nowadays, electronics represent a significant portion of the value of a high-performance printing press. We continuously analyze costs and processes with a view to optimizing vertical integration.

The Heidelberg Production System: Improving processes and cutting costs

We use the Heidelberg Production System (HPS) to ensure quality while continuously lowering manufacturing costs. HPS provides our employees with binding catalogs of measures and rules that help to drive the continuous optimization of processes. HPS now supports the further development of processes and structures not only in production, but also in the area of administration. HPS is closely linked to our complexity management activities. In future, the HPS concept will not only be used to reduce production site and service costs; the same principles will also be applied to administration and other areas, such as structure and space optimization. In the area of information technology, HPS is supplemented by the Customer Relationship Management (CRM) system that was introduced in the previous year in order to optimize communication and service processes.

Benefits of the Qingpu production site grow along with the Chinese economy

We are present in the world's fastest-growing economy, China, with our own production site. In the previous year, we completed the capacity expansion at the Qingpu production site to a production area of around 45,000 sq m. We can now satisfy demand from China with locally manufactured products to a greater extent. Almost 40 percent of printing units in the 35×50, 50×70 and 70×100 formats that are sold in China are now manufactured locally. Qingpu means that Heidelberg is well positioned to realize future growth opportunities in China and further develop its position on the market.

A global sales and services network for an increasingly globalized industry

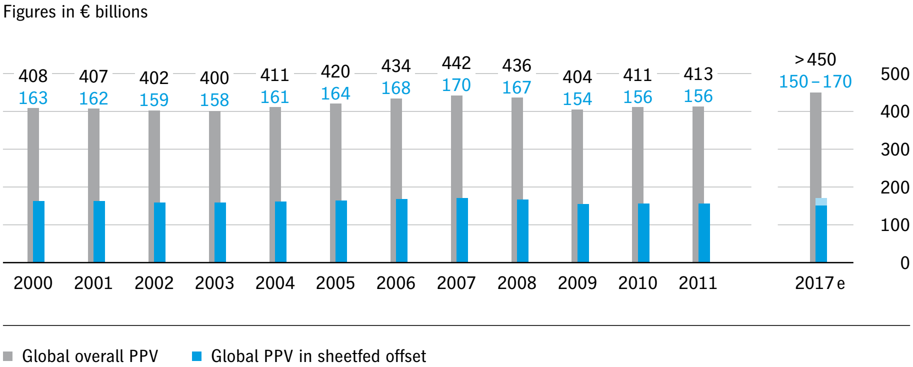
Around 85 percent of our sales are generated outside Germany. Our **SALES AND SERVICES NETWORK** covers the entire globe: in all key printing markets, we offer our customers high machine availability, guaranteed quality and on-time delivery directly or via partners. Our **SERVICE LOGISTICS NETWORK** ensures that customers can enjoy a reliable supply of original Heidelberg service parts over the entire product life cycle. In more than 95 percent of cases, we can deliver these to anywhere in the world within 24 hours. The core of our globally integrated logistics network is the World Logistics Center (WLC) at the Wiesloch-Walldorf production site, which manages the logistics centers in the US, Japan and Hong Kong. We also use the network to supply customers with our consumables. Internet-based service offerings are playing an ever-greater role. Customers are increasingly using our Internet-based remote services or the eCall function, which allows defective printing presses to be automatically reported to the Heidelberg service team. The network ensures that the necessary service parts are already available by the time a technician arrives. In cases where service quality and economic efficiency can be secured or increased, strategic partnerships are an important element of our service concept. Our aim is to further reduce logistics and freight costs in both the Heidelberg Equipment segment and the Heidelberg Services segment. The optimization of our logistics concept is an important element of our program aimed at further reducing net working capital.

The Market for Printed Products

> The market for printed products is large and stable
> More than a third of products are produced on sheetfed offset presses
> Significant variation in regional growth trends

The market for printed products is stable. For almost 15 years, the global volume for printed products has been more than € 400 billion. The market is influenced both by economic trends (reduced advertising spending in recession phases) and technological trends (Internet communication). Overall, however, the influence of these factors on printing volumes amounts to a low single-digit percentage and is historically offset by the growth of the market (graphic).

Global and sheetfed offset print production volume



Source: Heidelberg estimate April 2012, BCG Analysis – November 2011, industry statistics, PIRA, Jakkoo Pöyry, Primir (GAMIS), Global Insight

Within the market there are the three application areas of publishing, packaging and commercial printing. We mainly operate in the submarkets of commercial and packaging printing, which together account for around 60 percent of the market. The packaging sector is growing more strongly, e. g. as a result of the rising share of high-quality packaging in the emerging nations, and is considered to be less cyclical. The commercial printing area has stabilized, but is still subject to greater economic fluctuation than the packaging sector.

Sheetfed offset remains the most frequently used printing technology

The choice of production technology is essentially determined by the print run of the respective product. Our core technology (sheetfed offset) is used for more than a third of all printed products worldwide, typically for medium print runs (1,000 to 10,000) and for high-quality products. The fragmentation in the publishing segment is making sheetfed offset printing increasingly attractive. For lower print runs, for example, web offset printing is less economical. Sheetfed offset also offers a number of options for the finishing of the printed product. Sheetfed offset printing also plays a big role in packaging, particularly for multilingual texts such as in pharmaceutical packaging, or if very high-quality packaging is used as a unique selling proposition for the actual product or manufacturer. The share of digital printing techniques is rising in all applications. The term "digital" is a little misleading here, because the actual difference is the absence of printing plates due to non-impact transfer of the text or image to the material. As this is only possible with significantly slower paper transport and the ink required is relatively expensive, this technology is limited to small print runs or even one-offs, such as photo albums, for economic reasons.

China the largest growth market

Regionally, growth is predominantly taking place in the emerging nations, particularly China. The industrialized Western markets are experiencing stagnation or even slight erosion. Investments here are essentially driven by the pressure to create ever more productive and flexible machinery and not by volume growth.

These clearly different growth dynamics within the submarkets make the careful allocation of resources to the right areas a key strategic element. Thus, Heidelberg already generates more than 40 percent of its sales in the emerging nations and consequently has its own production facilities in China.

Customer Structure

> Customer base characterized by small and medium-sized print shops
> Purchase criteria defined by order spectrum and regional environment
> Consolidation of customers offers risks and opportunities

We have a relatively homogeneous customer base. A typical company in the commercial printing sector is a small or medium-sized enterprise, has a national or even only regional catchment area, and is mostly organized as a single company, rarely as a group. Customers for packaging printing are bigger on average; here there are multinational or even international companies. As packaging materials cannot be economically transported over longer distances or stored in large quantities, packaging printers often follow the global production site strategy of their main customers.

Since relatively recently there are also Web-to-Print print shops, which process a large number of orders submitted on the Internet round the clock on highly productive, large-format, fully automated presses. There is also a number of microenterprises with up to 50 employees that are subject to enormous cost pressure and are increasingly giving up their business or at least in part no longer printing themselves. We have approximately 15,000 mostly medium or large customers around the world that we serve directly or through associated partners.

Order spectrum and regional environment determine purchasing criteria

In our experience, purchase criteria, or at least their order of priority, vary according to the application area in which the customer operates and the regional environment. In industrialized regions productivity, automation and maximum availability are the top priorities – for customers in both packaging and commercial printing. They strive to reduce their staff costs but have qualified employees who can also use all the features on a machine. Intelligent, proactive services are important. In achieving their profitability targets, end-to-end solutions that increase flexibility and optimize processes often take priority over purely maximizing productivity. For customers in emerging nations, however, the maximum available investment budget often plays a bigger role than the degree of automation, especially as factors such as staff costs and employee qualifications are often weighted less heavily. The presses are rarely operated around the clock and unplanned downtime is accepted more readily. While demand for standardized machinery is more common in China, for example, highly automated presses with a special configuration play a larger role in the industrialized nations.

Structural change – the challenge of restructuring and repositioning

In spite of the relative stability of printing volumes, there have been constant structural changes within the printing industry, some of which have been far-reaching. The structural change was driven by new developments in IT and communications technology on the one hand and by financial crises and the associated economic fluctuations on the other. Especially in the industrialized nations, the markets were and still are characterized by consolidation. Together with the demand for more printing press productivity, this development contributed to increased closures among smaller print shops and an accelerated decline in printing and press volumes in the smaller formats. The resulting drop in the number of customers led to proactive price cuts among printing press manufacturers out of fear of surplus capacity.

These changes are challenging Heidelberg to adapt to the new dynamics of the different markets. In addition to the necessary and substantial restructuring measures, opportunities were created for new products, production processes and market-specific marketing strategies. Heidelberg increasingly developed away from being a supplier and more towards being a partner to its customers that can offer tailored product recommendations thanks to its knowledge of customer business along the entire value chain. While new machinery business is influenced directly by economic developments, the need for consumer materials and services is constant or is even growing – even with consolidation on the rise. New machinery business accounts for around 60 percent of sales, consumer materials and services business for approximately 40 percent. A precise knowledge of market developments and customer requirements and a constant watch on the efficiency of sales structures therefore always have to be strategically combined with innovative technologies, products and services.

Submarkets and Participants

> Offerings along the entire value chain
> More than 40 percent market share in sheetfed offset equipment
> Sole globally operating retailer in consumables

The sheetfed offset market can be roughly divided into four markets: the market for sheetfed offset presses, prepress and finishing equipment, services and consumables. By offering products along the entire value chain of a print shop, we operate on each of these markets. Below, we explain the **COMPETITIVE STRUCTURE** of the individual submarkets in more detail.

Strong market presence in sheetfed offset printing

The market volume for **SHEETFED OFFSET PRINTING PRESSES** has risen from approximately € 2.5 billion in 2009 to around € 2.7 billion in the 2012 calendar year and can therefore be considered stable. The market has oligopolistic structures. The four biggest printing press manufacturers, Heidelberg, Koenig & Bauer, Komori and manroland, together account for more than 80 percent of sales of the global market for sheetfed offset presses. As these manufacturers produce their machinery almost exclusively in Germany or Japan, they also have similar cost structures. Heidelberg has the largest market share of more than 40 percent. It also has a global market presence, a strong brand name and a broadly installed base. While Asian competitors are playing an ever greater role in many areas of mechanical engineering, the barriers to market entry are very high in high-quality printing press engineering. New competitors are not expected to join the market in the near future.

On the **PREPRESS AND FINISHING EQUIPMENT** submarket, the market volume has increased from around € 2.2 billion in 2009 to around € 2.6 billion in the 2012 calendar year. Heidelberg is one of the biggest providers in this relatively highly fragmented sector and has a market share of around 11 percent. Unlike the sheetfed offset sector, Asian and Chinese providers in particular play a larger role on the world market here. Screen, Fuji, Kodak and Agfa are the biggest competitors on the prepress market; competitors in the finishing segment include Müller Martini, MBO, Kolbus, Shanghai Electric and Bobst.

Market opportunities primarily in consumables business

The market volume in the **SERVICE SECTOR** has climbed from around € 1.1 billion in 2009 to approximately € 1.2 billion in the 2012 calendar year. We handle most of the service business for our own installed base.

In the **CONSUMABLES BUSINESS**, which is three times the size of the global market for new sheetfed offset presses at around € 8.0 billion, the competitive structure is highly heterogeneous. There are no other retailers operating globally on this market; the regional markets are usually not dominated by individual providers. Typical competitors are small and medium-sized companies that are active in their local market. In addition, manufacturers partly sell their own products, which means that this part of the market is not available to retailers. Given this fact, Heidelberg's market share is currently around 9 percent – or 4.5 percent based on the total market. As our consumables are ideally coordinated for use in our equipment and therefore provide customers with greater production security, this gives us a competitive advantage.

Heidelberg has its own sales operation on the **MARKET FOR REMARKETED EQUIPMENT**, and can fully exploit its additional benefits as a manufacturer with a global service network. We focus primarily on Heidelberg equipment that is not older than ten years. This market has a volume of around € 300 million, our market share is more than 40 percent.

Strategy: Targets and Measures

> Strategic objective: sustainable profitability
> Measures being implemented to reduce costs, capacities and complexity
> Market requirements change Company structure

Heidelberg pursues a corporate strategy that is aimed at achieving **SUSTAINABLE PROFITABILITY**. The strategic process initiated to achieve this consists of two phases. Following sustained losses since the crisis year of 2008, the first phase involves a **RETURN TO PROFITABILITY** in the current financial year and reporting a positive **NET RESULT AFTER TAXES**. The interim target of generating a clearly positive result of operating activities excluding special items was achieved in the 2012/2013 year under review. At the same time, we intend to further reduce our net debt and achieve a level of indebtedness in the medium term that is no more than twice as high as our operating result before depreciation, amortization and write-downs. This will make us increasingly flexible and improve our scope for evaluating and optimizing the strategic planning of our portfolio in accordance with our future earnings strength in the second phase. In the year under review, we took the first important step towards achieving this by organizing the Group into **BUSINESS AREAS (BAs)**. This has allowed Heidelberg to strengthen its BAs within the Equipment, Services and Financial Services segments.

Strategic measures to achieve sustainable profitability

We have already resolved a number of measures aimed at allowing us to achieve our profitability targets. Some of these have already been implemented, while others are currently being realized. The measures are aimed at reducing costs and capacities on the one hand, and fundamentally transforming the Company on the other. We are aiming to have completed the capacity reduction phase by the end of the 2013/2014 financial year. We intend to achieve the second part of the planned improvement in earnings by giving Heidelberg a new profile and by creating structures and processes that will allow us to better allocate responsibilities and business structures for the purposes of measuring success. Heidelberg's future success will depend to a large extent on our ability to reflect within the Company the requirements of the markets and our customers in order to allow us to work profitably with our products in the long term. We are combining this approach with increased personal responsibility on the part of the relevant decision-makers.

The Focus 2012 efficiency program

In January 2012, we resolved a plan of action aimed at reducing our cost base. The **FOCUS 2012** efficiency program was initiated and all of the key measures were implemented in the 2012/2013 year under review. After realizing savings of more than € 60 million in the first year, annual cost savings of around € 180 million are expected to be generated from the 2013/2014 financial year onwards. In addition, we will continue to adjust cost structures to reflect changes in market requirements. To this end, we will intensify individual measures under the Focus 2012 program, thereby increasing the total savings generated to more than € 200 million.

Since 2008, the number of employees has been lowered from more than 20,000 to the current figure of around 14,200. By mid-2014, the workforce will be reduced further to significantly less than 14,000, meaning that the size of the Company will reflect the current market level. Our global product and service quality and competitiveness continue to be guaranteed at our various locations.

Transformation of segments and business areas: Focus on customer orientation, personal responsibility and performance orientation

Our various product and service offerings require business processes that are consistent with the demands of the market. Our aim is to leverage synergies within the functional areas of R&D, production, sales, service and administration. To this end, we have revised and adapted the organizational structure within our operating segments – the **BUSINESS AREA (BA) STRUCTURE**. This development has shortened decision-making paths and, in particular, increased the responsibility borne by the BA managers. Each BA focuses on the needs of its customers and determines the product design and the marketing strategy. In this way, the shape of the Company is determined by the interaction between our customers and the BAs. The corresponding BA strategy is being implemented in coordination with the Management Board, which allocates the necessary resources. The goal is not just to promote business thinking at all levels of the individual segments and BAs, but also to firmly establish personal responsibility. If the implementation of the strategy is not successful in individual BAs, the Management Board will decide on the future positioning and further use of resources.

Sales and services: Using resources profitably

In the industrialized nations, the printing industry is undergoing further contraction and consolidation. Since 2012/2013, we have reflected these changes with a new **SALES AND SERVICES ORGANIZATION** and improved internal processes. We are reducing structural costs by bundling sales and service activities and realigning individual markets, while continuing to ensure that our customers receive comprehensive service. We are simplifying the overarching structures in the area of sales and service to the greatest possible extent. Among other things, this includes bundling administrative functions for different markets and introducing positions with dual functions around the world. For example, management functions for general sales are being combined with management functions for sales and service for the products of a specific business area. This simplification of administrative structures is based on an analysis of all of the Company's business processes that was conducted last year – from order processing through to the installation of machinery at the customer. The analysis of this information and the resulting adjustments have allowed us to ensure that customers can put equipment they have ordered into service even more quickly, among other things.

In addition to efficiency improvements in the area of sales and service in the industrialized nations, we are continuing to expand our presence in countries such as China in particular. This means that we are following our customers to the markets where the printing production volume is rising. China has developed into the world's largest single market for printing presses. With more than 600 sales and service employees locally, we believe that China offers particular potential for additional business.

In the area of IT, we are evolving from a pure service provider into an active participant in optimized value chains. After we had introduced our new Customer Relationship Management (CRM) system the previous year in the Heidelberg sales and services company in Germany, we rolled out the system to the strategically important markets of Brazil, Asia and North America in the year under review. In addition to reducing process costs, one particular benefit of the improvements to product data management is that they allow for targeted customer analysis. CRM's customer-oriented approach will also help BA managers to identify customer behavior and requirements more quickly and precisely.

Complexity management: Reduced complexity retains quality while increasing profitability

Around the world, printed products are almost as varied as the information they communicate or the functions they fulfill. The production of magazines, flyers or photo books poses entirely different requirements in terms of materials and processes than is the case for packaging, for example. And the requirements within the area of packaging also vary significantly. For health and other reasons, food packaging is subject to different guidelines than perfume packaging, for instance. The finishing that might be desired in one case is often prohibited in another. Inks and materials that make perfume packaging more valuable and attractive may be hazardous to the product packaged, and hence ultimately to the end consumer, if they come into contact with food. We offer a wide range of products and services to our customers in the areas of commercial and packaging printing worldwide. The diversity of our products, processes, technologies and parts is similarly pronounced. Diversity offers both risks and opportunities. It can have a tangible impact on profitability, especially when – as in the market for printing presses – the diversity of requirements increases while the market itself changes and consolidates.

While sales in the new equipment sector have declined over recent years as a result of the structural change within the industry, the number of parts has increased significantly due to technical innovation and the continued development of the machinery. The individual parts used in a high-performance printing press, which often number more than 100,000, require a correspondingly high number of service parts and substantial warehousing and administrative costs. This complexity gives rise to some preventable costs; at the same time it ties up our working capital. The relevant number of parts has increased by between 5 and 10 percent every year. Among other things, this has affected the resources required for series management, procurement, production and, of course, inventories and the number of service parts.

We have introduced a **COMPLEXITY MANAGEMENT SYSTEM** covering the entire value chain. We are using complexity management to adjust the Group's products, structures and processes to reflect changes in conditions right through to development. Our R&D organization has already been converted; it is now organized on the basis of assemblies and modules rather than product lines. In order to reduce the overall cost level, we are also in the process of shifting our focus away from the pure analysis of manufacturing costs towards an analysis of process costs. Corresponding standardization projects have already been initiated in the production environment.

Our aim is to continuously reduce complexity while maintaining the quality of our products and services at the high level which our customers are used to receiving. When quality is maintained, reducing complexity can lead to lower costs and increased profitability for us and our customers alike.

Market potential: Regional differentiation and concentration on less cyclical fields of business

Although the global printing production volume has been stable over the past ten years and is expected to remain stable over the coming years, there have been some considerable shifts within the market. The market as a whole consists of various submarkets offering different potential. We adopt a differentiated **REGIONAL STRATEGY** that allows us to realize the potential offered by the individual markets and different economic developments on a targeted basis.

Demand for printed products is undergoing different developments in the industrialized nations and in the emerging economies. In the former group of countries, there is growing demand for printing technologies that enable the high-quality, quick, customized and economically efficient production of large print runs and, in particular, a large number of smaller print runs by integrating all of the stages in the value chain. Technologies, software solutions and digital printing technologies that optimize processes are becoming increasingly important.

By contrast, demand for high-quality standardized printing presses is comparatively higher in the emerging economies than in the industrialized nations. In our most important single market, China, we have a local production site that is dedicated to standard equipment and can meet the high-quality requirements of our customers from here.

While demand for printing presses differs from region to region and, in particular, is more cyclical in nature, demand for **SERVICES, SERVICE PARTS AND CONSUMABLES** is less dependent on wider economic development. We have a large customer base around the world that continuously requires products and services in the course of their day-to-day business. Our global network ensures that print shops can be served quickly, reliably, economically and in accordance with their individual requirements. Over the coming years, we will increasingly focus on this less cyclical business potential.

Partnerships and new ventures – efficiently leveraging internal and external expertise

When optimizing our structures, we also examine which parts are best manufactured internally and which should be manufactured externally or in cooperation with partners. In future, we intend to further expand promising **PARTNERSHIPS** in all of our business areas. This will allow us to leverage potential in areas where our market share is still low. Our tight-knit sales and services network, the extensive expertise of our employees and our technical know-how mean that we are an attractive partner. In the area of digital printing, for example, we have had a global strategic partnership with Ricoh since 2011. At the start of the year under review, we entered into a further strategic partnership in digital printing with the Landa Corporation, Rehovot, Israel. Partnerships are also an important element of our R&D activities.

As part of our critical portfolio analysis, we have already identified promising **NEW VENTURES** in which we have previously been represented only marginally, if at all. We are currently testing some of these areas in order to achieve a strategic analysis – always from the perspective of potential profitability. As soon as we have achieved our aim of sustainable profitability, we will be able to use the available resources and funding in a targeted manner in order to enter or expand new fields of business. New areas of operation are largely derived from our core competencies. As our technological expertise offers qualities that can be beneficial to companies in various industries, however, new ventures may also lie outside the printing industry. In late February 2013, for example, a contract was concluded with Daimler AG under which Heidelberg's software and expertise will be deployed at all of Daimler's development sites. The software examines the quality of product data, particularly for CAD applications.

Values drive value

Increasing the financial value of our Company also depends on **VALUES** that cannot be measured financially. The foundations for growth in financial value are provided by a clear communication of the corporate strategy and objectives for our employees, encouraging personal responsibility at all levels and, for example, performance-based incentive systems. For Heidelberg, promoting the integrity and expertise of our employees is one of the management tasks that underpin our good global reputation and our strong market position.

Key Performance Indicators

> ROCE and value added: parameters for enhancing enterprise value
> Key financial figures: central control elements
> Non-financial key figures tracked as well

In the first phase of our strategy process, our primary goal is returning to profitability. At the same time, we intend to rapidly lower the Group's net debt. The second phase is about sustainably safeguarding profitability and increasing it in the medium term. Therefore, the return on capital employed (**ROCE**) will take on greater importance in our financial target system in the second phase of our strategy process in particular: After deducting the cost of capital, we are striving to sustainably increase our enterprise value, which we measure as **ECONOMIC VALUE ADDED** (**EVA**).

In its management of the Group, the Management Board primarily uses **KEY FINANCIAL FIGURES** as a basis for its decisions. These control parameters are the essential basis for the overall assessment of all issues and developments being assessed in the Group. In addition, the Management Board bases its decisions on **DEFINED EARLY WARNING INDICATORS** and **NON-FINANCIAL CONTROL PARAMETERS**.

Focus on key financial figures

Our planning and management are mainly based on the sales and earnings development of the Group and the segments. Other than sales, the primary financial figures in order are **EBIT, NET WORKING CAPITAL** in relation to revenues, **FREE CASH FLOW** and net debt in relation to EBITDA (leverage).

Assessment of future development with early warning indicators and variance analysis

In order to recognize trends in the Company's development early on, we analyze changes in various early warning indicators both for segments and for sectors.

In the **HEIDELBERG EQUIPMENT** segment, these are in particular the trend in incoming orders and the assessment of potential customer projects by the sales and services department. In the **HEIDELBERG SERVICES** segment, the main factor in consumables is per capita sales and also the contract ratio, i. e. concluding maintenance contracts for new sales, and the respective level of service capacity utilization. In the **HEIDELBERG FINANCIAL SERVICES** segment we monitor the non-performing ratio, the costs of risk provisioning and sales financing defaults. We compare monthly targets against actual data relevant to all aspects of business performance. Using the figures generated and a host of data from the corporate environment, we regularly draw up scenarios.

We also monitor general forecasts for the state of the economy as a whole as well as statistics and forecasts from the printing and mechanical engineering industry.

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For additional information on complexity management, please refer to page 51.

Non-financial key figures and targets

We intend to protect the "Heidelberg" brand, our most important intangible asset. Our internationally high quality standards in development, production and service make a key contribution towards this. As part of our continuous quality improvement and in order to monitor and steer our quality, we track central key performance indicators, for example, for our delivery quality and product reliability.

Our goal is to reduce complexity in the entire group; an example of the success indicators used is the number of different parts used or product variations. We want to increase the loyalty of strategically important customers to us. Sales funnel management figures help us track and analyze the development of global customer groups, customer potential and market development. The data required for this is provided by our state-of-the-art CRM system.

Similarly, we pay close attention to **ENVIRONMENTAL PROTECTION**. We describe our environmental protection objectives and indicators at Heidelberg on pages 66 to 69.

Management and Control

Heidelberger Druckmaschinen Aktiengesellschaft is a stock corporation under German law, with a dual management structure consisting of the Management Board and the Supervisory Board.

The **MANAGEMENT BOARD** had four members as of March 31, 2013: Dr. Gerold Linzbach (CEO), Dirk Kaliebe (CFO and head of Heidelberg Financial Services), Marcel Kiessling (head of Heidelberg Services) and Stephan Plenz (head of Heidelberg Equipment).

The **ORGANIZATIONAL CHART** (next page) shows the current allocation of functional responsibilities in the Management Board. As of September 1, 2012, the new CEO Dr. Gerold Linzbach assumed the responsibilities of Bernhard Schreier (CEO until August 31, 2012). **DR. GEROLD LINZBACH** is responsible for the areas of Corporate Development, Human Resources, Communications, Governance and Compliance, and Internal Audit. In his function as CFO, **DIRK KALIEBE** is also the head of the Heidelberg Financial Services segment and is responsible for the areas of Controlling, Accounting, Treasury, Taxes, IT and Investor Relations. **MARCEL KIESSLING** is the head of the Heidelberg Services segment and also took on overall responsibility for Sales in the reporting year. He is therefore in charge of the Regional Markets and

Service Organization and of Marketing. As the head of the Heidelberg Equipment segment, **STEPHAN PLENZ** is responsible for the areas of Product Management Equipment, Research and Development, and Manufacturing and Assembly. He is also in charge of Purchasing, Patents, Management of Quality and Environment, and Occupational Health and Safety and Product Safety.

The segment heads are also responsible for the **BUSINESS AREAS (BAs)**. Dirk Kaliebe is in charge of the Customer Financing BA. Marcel Kiessling is responsible for the Consumables and CtP BA, the Remarketed Equipment BA, and the Service and Service Parts BA. Stephan Plenz is responsible for the following BAs: Sheetfed and Postpress Packaging, Postpress Commercial, Digital, New Ventures, Prinect and Gallus.

Business Allocation Plan as of March 1, 2013

STEPHAN PLENZ Member of the Board Equipment	MARCEL KIESSLING Member of the Board Services	DIRK KALIEBE Chief Financial Officer and Financial Services	DR. GEROLD LINZBACH Chief Executive Officer
BUSINESS AREAS			
> Sheetfed and Postpress Packaging > Postpress Commercial > Digital > New Ventures > Prinect, Gallus	> Consumables and CtP > Remarketed Equipment > Service and Service Parts	> Financial Services	
FUNCTIONAL RESPONSIBILITIES			
> Product Management Equipment > Product Development > Manufacturing and Assembly > Purchasing > Patents > Management of Quality and Environment > Occupational Health and Safety and Product Safety	> Regional Markets and Service Organization > Marketing	> Controlling > Accounting > Treasury > Taxes > IT > Investor Relations	> Corporate Development > Personnel Director/ Human Resources > Communications > Enterprise Governance and Compliance > Internal Audit

According to the German Codetermination Act, the most important duties of the **SUPERVISORY BOARD** include appointing and dismissing members of the Management Board, monitoring and advising the Management Board, adopting the annual financial statements and approving or advising on key business planning and decisions.

At the end of December 2012, the Management Board of Heidelberger Druckmaschinen Aktiengesellschaft initiated status proceedings in accordance with Section 97 AktG by way of corresponding announcement that the number of members in the Supervisory Board of the Company was no longer consistent with the regulations of the German Codetermination Act. According to this statement, the number of employees at the German sites of the Company has been permanently less than the threshold of 10,001 since December 2012. After the Annual General Meeting in July 2013, the **SUPERVISORY BOARD** is therefore expected to only consist of **TWELVE MEMBERS** rather than its current sixteen.

Details on the work between the Management Board and the Supervisory Board and on corporate governance at Heidelberg can be found in the Annual Report in the Report of the Supervisory Board and the Corporate Governance Report.

Segments and Business Areas

In line with its internal reporting structure, the operating activities of the Heidelberg Group are divided into the following **SEGMENTS**: Heidelberg Equipment, Heidelberg Services and Heidelberg Financial Services. These are also reportable segments in accordance with IFRS.

Within the segments, Heidelberg is divided into **BUSINESS AREAS (BAS)**. This structure allows us to implement individual BA strategies without relinquishing the operative synergies of functions at segment and company level. Thus, we guarantee a rapid response to market changes, firmly establish responsibilities and ensure the transparency of our performance.

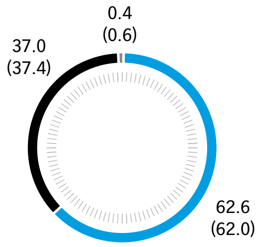
The **SHEETFED AND POSTPRESS PACKAGING, CONSUMABLES AND CTP BUSINESS AREAS** and the **SERVICE AND SERVICE PARTS BUSINESS AREA** contribute the largest share to total sales.

In addition to sheetfed offset printing presses for small, medium and large format classes, the **SHEETFED BUSINESS AREA** also includes finishing machinery for packaging printing. In the **CONSUMABLES AND COMPUTER-TO-PLATE (CTP) BUSINESS AREA**, we bundle our consumables – which we mostly buy – and prepress equipment. In addition to printing press maintenance, the **SERVICE AND SERVICE PARTS BUSINESS AREA** ensures a fast and reliable supply of service parts for customers. More on this can be found in the “Strategy” section on pages 48 to 53.

Segment allocation was adapted as follows as part of the further adjustment of the organization in line with the market environment: Since the fourth quarter of the 2012/2013 financial year, in the Gallus business area – together with flexo printing presses – the associated consumables, service parts and technical services have been fully shown in the Heidelberg Equipment segment. Since the same date, software solutions for the Prinect printing workflow have been allocated to Heidelberg Equipment. These were previously allocated to Heidelberg Services. Figures for the previous year were restated accordingly.

Segment sales

In percent of total sales
(in parentheses: previous year)



- Heidelberg Equipment
- Heidelberg Services
- Heidelberg Financial Services

Group Corporate Structure and Organization

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 SUBSIDIARIES** as of March 31, 2013. The Swiss prepress and consumables retailer OFS was acquired in the year under review and included in consolidation for the first time in the third quarter of the reporting year.

The list of all **SHAREHOLDINGS** of Heidelberger Druckmaschinen Aktiengesellschaft can be found in the appendix to the Notes to the Consolidated Financial Statements on pages 174 to 177.

OVERVIEW OF MATERIAL SUBSIDIARIES 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. (PRC)
Heidelberg China Ltd. (PRC)
Heidelberg Japan K.K. (J)
Heidelberg Hong Kong Ltd. (PRC)
Heidelberg Asia Pte Ltd. (SGP)
Heidelberg Graphics (Tianjin) Co. Ltd. (PRC)
Heidelberg Korea Ltd. (ROK)
Heidelberg Graphics (Thailand) Ltd. (TH)
Heidelberg Graphic Equipment Ltd. (AUS)

Employees

- Workforce adjustment implemented in a socially responsible manner
- Structures simplified and new system of management levels introduced
- Continued high level of training

Human resources activities in the past financial year focused on supporting Group-wide change processes and ensuring that they are reflected in the workforce and management structure.

In the year under review, we continued to implement the measures resolved as part of the Focus 2012 program: By March 31, 2013, around 1,200 employees had left the Company. With the expansion of individual measures under the program, the number of employees at the Group will be reduced to well below 14,000. Our aim remains to find socially responsible solutions for achieving this.

The employee figures below not only illustrate the workforce reduction to date, but also underline the fact that we are gearing our structures towards growth markets and adjusting our capacities to reflect the changes in market conditions. This is why the number of employees in the Heidelberg Services segment declined to a lesser extent than in the Heidelberg Equipment segment, and the workforce reduction in the Asia/Pacific region was less pronounced than in the EMEA region, which is characterized by industrialized nations. Even in a period of workforce reduction, we have largely ensured the retention of employees in key functions and other key performers through human resources policy instruments such as programs for management trainees.

Employees by Region

Number of employees

	31-Mar-2012	**31-Mar-2013**
EMEA	10,833	9,937
Eastern Europe	615	551
North America	882	791
South America	262	257
Asia/Pacific	2,221	2,158
	14,813	13,694
Trainees	601	521
Heidelberg Group	15,414	**14,215**

Supporting change within the Group: New structure of management levels

One of the main tasks of the Human Resources department in the year under review was to support the implementation of the new Business Area structure and a new system of management levels. In the current year, Human Resources will, among other things, focus on further simplifying structures and reducing complexity.

Employees by Segment

Number of employees	2011/2012	**2012/2013**
Heidelberg Equipment	10,447	9,585
Heidelberg Services	4,914	4,583
Heidelberg Financial Services	53	47
Heidelberg Group	15,414	**14,215**

Heidelberg's primary objective for the next two years is clear: a return to sustainable profitability. With the new **SYSTEM OF MANAGEMENT LEVELS**, responsibilities are allocated more clearly and variable remuneration components are linked to the achievement of financial targets in a transparent manner: Defined financial goals are assigned various weightings in a scorecard depending on the respective function. The overriding financial goals of the Heidelberg Group, EBIT and free cash flow, are taken into account for all senior executives. Our sales and services executives are measured against the sales generated, price quality, and compliance with cost and net working capital targets. In the centralized units, additional targets are agreed in a balanced scorecard that defines qualitative and quantitative goals. For this purpose, the four areas of "Customers", "Finances", "Employees" and "Processes" all receive equal weighting.

Focus of human resources activities: Looking to the future

When implementing measures aimed at reflecting market requirements and increasing profitability, it is important to strengthen Heidelberg's image as an employer brand for the future.

We have expanded our **RANGE OF TRAINING AND STUDY PROGRAMS** and are increasingly focusing on dual vocational training. We are adapting our offering to meet new requirements by introducing new careers. In September of the year under review, we started training for the occupation of "IT Systems Specialist for Application Development" and introduced three new fields of study: "Bachelor of Science Business Information Systems", "Bachelor of Engineering Electrical Engineering" and "Bachelor of Arts Accounting & Controlling". We have responded to the specific requirements in the areas of IT, finance, and research and development, and are increasingly establishing in-house expertise in these areas. We intend to leverage the benefits of the dual vocational system, particularly the early inclusion of young people in practical projects of relevance to the Company.

For many years, our **TRAINING RATE** has been constant at around 6 percent – an above-average figure for a mechanical engineering company. On September 1, 2012, a total of 142 trainees started their professional career at Heidelberg. In Germany, we provide training in 14 occupations and offer various bachelor programs in the areas of engineering, media and business. Due to the employment situation at the Company, we were unfortunately unable to offer jobs to those trainees completing their final examinations in spring 2013. Thanks to the high level of training and Heidelberg's continued excellent reputation as a training provider, we were able to assist most of these young people to find subsequent employment in other companies.

We pay particular attention to **ENSURING HEIDELBERG'S COMPETITIVENESS AND ATTRACTIVENESS AS AN EMPLOYER**. Among other things, we believe that the work-life balance will be extremely important when it comes to competing for qualified employees in the future. Once a year, an analysis of potential is performed for each employee in order to ensure that the need for qualified specialists and executives can be covered from within the Company. Key positions are made transparent across all divisions, and employees can be systematically advanced regardless of whether they are pursuing a specialist, executive or project career.

FURTHER TRAINING REQUIREMENTS are covered largely through internal training sessions and our comprehensive e-learning programs. In recent years, our Educ@te Wiki portal has been developed from an online reference database to a comprehensive learning portal. In assembly, all employees and managers are subject to a regular and permanent learning and qualification process; qualification networks identify individual training requirements and ensure the qualification process.

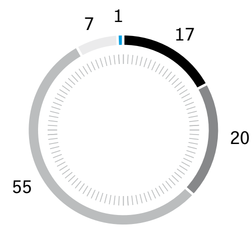
We intend to **INCREASE** the **PROPORTION OF WOMEN** at Heidelberg, particularly in technical and scientific professions. Accordingly, we regularly participate in events such as the so-called Girls' Day. In April 2012 and 2013, we showed almost 150 schoolgirls just how varied technical professions can be at on-site presentations in Wiesloch-Walldorf, Brandenburg and Amstetten. From November 2012 to March 2013, we also offered a workshop on technology (Technik-AG) in cooperation with the Rhine-Neckar Chamber of Commerce for the second time. At present, 14.6 percent of our trainees are female (previous year: 13.4 percent) – significantly higher than in the metal industry as a whole, where the average is just 7 percent.

Idea management: Proposals for improvement lead to savings of more than € 4.4 million

For us, the extensive participation of our employees in idea management serves to underline their qualification and motivation. Around 4,600 ideas were submitted in the year under review (previous year: 5,700). At 51 percent (previous year: 58 percent), the implementation rate was extremely high for the second year in succession. As a result, we were able to generate savings of more than € 4.4 million (previous year:

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
No formal qualification	7

€ 3.8 million). This speaks for the quality of the suggestions submitted. Idea management as a driver for continuous improvement is supplemented on a targeted basis by lean management initiatives aimed at streamlining processes and shortening decision-making paths.

Five-year overview – social key figures

	2008/2009	2009/2010	2010/2011	2011/2012	**2012/2013**
Number of employees (balance sheet date)	18,926	16,496	15,828	15,414	14,215
of which: trainees	707	700	631	601	521
Specialized training days	34,146	43,968	24,313	17,819	11,780
Turnover rate in percent [1]	3.4	14.1	6.4	5.0	12.7
Average seniority (in years)	13.7	15.2	15.7	16.1	16.8
Percentage of female employees	14.5	14.1	14.1	14.4	14.6
Percentage of part-time employees (excluding partial retirement)	2.8	2.7	3.9	3.7	3.8

[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 and including terminations for operational reasons

Research and Development

> Focus on core business, digital printing, new ventures
> New organization: Synergies through functional structure
> Future focus: From maximum productivity to greater flexibility and optimized workflow

Our research and development activities are geared towards the aspects of customer benefit and economic efficiency. New developments must have a high degree of market relevance and be capable of series production at a reasonable cost. In the area of research, we work in close cooperation with partners such as customers, suppliers, other companies and universities.

Our presence at the drupa international trade show for the printing and paper industry in Düsseldorf in May 2012 included the presentation of 60 new products offering comprehensive solutions for the key industry trends – for customers from the commercial printing and packaging printing sectors alike. At the heart of these solutions are developments such as the SPEEDMASTER XL 106, which guarantees the highest print quality even for double-sided printing and offers a maximum production speed of 18,000 sheets per hour, and the new SPEEDMASTER SX PRODUCT FAMILY, where we have combined two machine platforms in order to achieve high productivity, shortened make-ready and throughput times, and a constantly high production speed of up to 14,000 sheets per hour. By incorporating the digital printing systems of our cooperation partner Ricoh into our workflow, we provide our customers with important benefits in the area of **DIGITAL PRINTING**, such as consistency of quality, production security and cost and planning transparency.

In the year under review, we submitted a total of 117 new patent applications (previous year: 96). This means that Heidelberg's innovations and unique selling points are protected by around 4,900 registered and granted patents worldwide.

Cornerstones of research and development activities

Around 7 percent of our workforce is active in the area of R&D. In the year under review, we invested 4.3 percent of our sales in research and development; this related to new and further developments and, in particular, the start-up of series production. We focused our research and development activities on strategic growth areas and expanded our pioneering role in ecological printing.

In our core business, the sheetfed offset sector, we are aiming to improve individual processes and ultimately optimize the overall process landscape. Development is geared towards customer requirements with a view to economic efficiency. We see ourselves as a partner and advisor for our customers. We are also investing in digital printing and new ventures. Around 5 percent of our R&D budget is assigned to new ventures, including the printing of 3D objects and power electronics. We have positioned ourselves as a system partner in the customer segments of industry and energy, and have also received the first orders from the automotive sector.

65

We describe our R&D cooperations, including in the field of digital printing or Web-to-Print, on pages 65 and 66.

Organization: Synergies through functional structure

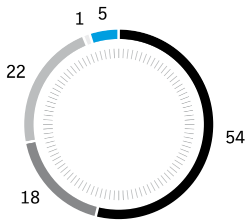
In the year under review, we established a consistently **FUNCTIONAL** organizational structure in the area of research and development. This makes it easier for us to improve individual processes and, ultimately, the overall process landscape. Thanks to our **PRODUCT PLATFORM STRATEGY**, which we had fully implemented in the previous years as part of our complexity management, we were able to bring together additional functions above and beyond the areas of management, software development, product safety and product environment: innovations in one format class can thus be quickly transferred to other format classes. For example, ensuring that development work for all printing and inking units is performed by a single team across all formats and product lines guarantees that the same solutions and parts are used for the same functions. You can read more about complexity management on page 51/52 of this report.

We have strengthened our digital printing development for commercial and packaging printing and bundled these activities within a single function. We expect this to generate considerable synergies.

In the area of **PRODUCT DEVELOPMENT**, we work in close cooperation with system partners and concept customers in order to ensure that products are geared towards actual market conditions right from the start. Our Group-wide Quality Gate process

Qualifications of R&D employees

Figures in percent



Doctoral degree	5
Master's degree/ state graduate exam	54
Master craftsman/ technician	18
Vocational training	22
Other training	1

integrates all participating areas into the product development process. Among other things, we also use this process to optimize product life cycles and to ensure that environmental aspects are taken into account systematically at all levels. You can learn more about this in the Glossary.

Future focus: Flexibility and workflow optimization

Our aim is to offer our customers innovative products and services that add value to the economic implementation of their business model. In light of the downward trend in terms of average print runs, the focus is increasingly shifting from maximum productivity towards the topics of flexibility and workflow optimization.

Our core business will account for a large proportion of expenditures in the current and the next financial year. In the area of packaging, we will develop tailored offerings for packaging printers with a view to item management, the handling of special inks and the optimization of production line applications. In the current financial year, we are also focusing on our Prinect software: We will integrate management information systems (MIS) into the production workflow in order to ensure that all information comes from redundancy-free, consistent data sources. We will also expand the production workflow to include digital printing and press ahead with the integration of Internet portals with the production workflow and MIS.

In our Innovation Gallery at the research and development center at our Heidelberg production site, we show customers the printing applications of the future; we are developing suitable utilization models for applications within the printing industry as well as for other industrial applications. This includes the use of inkjet technology for 3D decoration; laser drying that allows immediate finishing without protective coatings or expensive UV inks; UV LED – energy-saving solutions for UV printing using highly reactive inks; the Cristala finish for high-end optical and haptic effects and additional finishing technologies such as haptic coatings and microembossing. The first applications are now available in the area of printed electronics, such as an intelligent shelving system, a "smart shelf", for identifying items using printed guide structures.

Five-year overview – research and development

	2008/2009	2009/2010	2010/2011	2011/2012	**2012/2013**
Research and development costs in € millions	186	121	121	129	118
– in percent of sales	6.2	5.2	4.6	5.0	4.3
R&D employees	1,511	1,265	1,135	1,103	1,017
Patent applications	148	80	92	96	117

Cooperations

> Long-term partnerships and cooperations
> Focus on digital printing, logistics, workflow and R&D
> Looking to the printing applications of the future

We consider our **COOPERATIONS** to be an important strategic factor in our success. For a number of years, we have been working with selected companies and institutes along our entire value chain. We enter into long-term partnerships with our **SYSTEMS SUPPLIERS** and include them in development processes at an early stage. This allows us to benefit from their experience and development activities. Innovative strength is a key criterion when it comes to selecting our suppliers.

At the start of the financial year, we entered into a strategic partnership with the **LANDA CORPORATION**, Rehovot, Israel. We are examining the possibilities of cooperating on the development of printing machines based on Landa's Nanographic Printing™ technology, and hence expanding our digital printing portfolio for short-run printing.

In the field of printing plates we cooperate with **FUJI**, Japan. Following intensive customer-specific go-to-market studies, we have approved a particularly innovative and environmentally friendly printing plate for the market and have begun marketing it as part of our Saphira Eco product line in selected markets.

In the area of **DIGITAL PRINTING**, we have worked in close cooperation with **RICOH** since 2011. Since the drupa trade show in May 2012, we have offered our fully integrated and combined digital and offset solutions worldwide, and the printing systems for the digital printing of small print runs and variable data for commercial print shops have been available under the name Heidelberg Linoprint C 901 and Heidelberg Linoprint C 751. The C stands for commercial. Both systems are standardly equipped with the new Prinect Digital Print Manager. Even without integration within the entire workflow, this provides customers with a highly efficient, transparent digital printing workflow. If customers fully integrate their digital printing systems into our Prinect print shop workflow, they can manage both offset and digital print jobs using a single workflow.

As part of our **SERVICE LOGISTICS NETWORK**, we cooperate with partners such as DHL and Schenker. We have entrusted them with the operation of our four centrally managed service parts warehouses around the world. As part of an innovative logistics concept, we are working closely with LGI in Hall 11 at the Wiesloch-Walldorf production site. LGI handles the vast majority of the production logistics tasks at this site. These measures allow us to supply our customers around the world with service parts as quickly as possible, while reducing inventory and increasing cost flexibility.

Within our partnership program for the **PRINECT WORKFLOW**, we are working at an international level with four providers of Web-to-Print software solutions: MS-Visucom, Neo7even, Pageflex and EFI. We ensure access to our Prinect print shop workflow for the partner products. As a result, Heidelberg customers of every size benefit from suitable offerings for the various business options in the Web-to-Print sector.

In the area of **RESEARCH AND DEVELOPMENT**, we exchange expert knowledge with a number of partners in order to bring about innovation more quickly. Partnerships with institutes and universities supplement our in-house research projects. We test new developments before market launch in cooperation with selected customers. We are working on a research project with the **TECHNICAL UNIVERSITY OF DARMSTADT** that focuses on printing applications of the future that will allow print shops to set themselves apart from their competition, e. g. through special effects for packaging. Our predevelopment projects include decorative elements and simple display elements based on electroluminescence, for example. We have also realized new effects through textured coatings and special optical effects. An application for increased differentiation in traditional sheetfed offset printing has already reached market maturity: The creative concept "Cristala" makes new finishing effects possible.

Sustainability

> Group-wide environmental policy provides binding framework
> New cogeneration plant reduces CO_2 emissions at the Wiesloch-Walldorf production site
> Environmental performance in the print room as a unique selling point

www.heidelberg.com/eco
Further information on our commitment to sustainability, our environmental policy and the figures for our production sites can be found on the Internet at www.heidelberg.com/eco

For Heidelberg, sustainability means taking ecology, economy and social responsibility into account simultaneously. Environmental targets form part of our standards of conduct and our environmental standards – with regard to our products and our production processes alike.

Values, Code of Conduct and environmental policy apply worldwide

Compliance with standards of conduct and environmental standards is mandatory throughout the Group and is set out in the Heidelberg Group's environmental policy, among other things. Our product development process is designed in such a way that safe and environmentally sound solutions are found for the entire product life cycle. Environmental protection is integrated into Heidelberg's Group-wide organization. Suppliers and contracting parties are included in our targets at all our production sites and are required to comply with similar standards, including with regard to social and ethical issues. For example, Heidelberg refuses to tolerate discrimination or the use of child labor.

The safety of our employees has top priority: Necessary workplace safety measures are implemented immediately – and this also includes our production sites outside Europe. The number of on-the-job accidents at our largest German production sites has been falling for a number of years. The average figure at Heidelberg is lower than the industry average (peer group comparison based on data from the employers' liability insurance association: same industries and similar company sizes); see the table on the right. Development at our other production sites is similarly positive; further information can be found at www.heidelberg.com/eco.

Heidelberg also meets its social responsibility through projects in the area of education and by supporting integrated social facilities at its respective production sites. As part of its involvement in the "Knowledge Factory – Companies for Germany" initiative, for example, Heidelberg supports educational projects at 15 schools that give children hands-on experience of technology and science. At our international production sites, we also support local projects and institutions that help disadvantaged children and young people, such as the SENA mobile school in Colombia.

On-the-job accidents per 1,000 employees

	2011	**2012**
Heidelberg sites [1]	16.2	13.5
Average (BG) [2]	25.4	27.8

[1] at Heidelberg, Wiesloch-Walldorf, Amstetten and Brandenburg
[2] BG = employers' liability insurance association

Ecological printing: A global market trend

Environmental protection is a global issue that is also becoming increasingly important within the printing industry. A growing number of purchasers of printing materials expect an ecological production process, while demand for climate-neutral printed products is rising continuously. Modern machinery and improved processes are also helping to cut costs.

For print shops, resource-conserving production processes have always been an important criterion for efficiency. When it comes to environmental impact, the most important factor is paper consumption, followed by the energy consumption of the printing press. Process emissions and waste are also important factors. For the products of the Saphira Eco line, we have undertaken to adhere to a catalog of criteria that conform to the strictest regional and international environmental certification programs. In the year under review, for example, we underlined the seriousness of our commitment to the environment at the drupa trade show. Ecological aspects were an integral component of all of the solutions presented, and our appearance at the trade show itself was CO_2 neutral. For a number of years, we have used FSC- or PEFC-certified paper from responsible forestry in printing demonstrations at all of our print media centers and all of our trade show appearances worldwide. As we are the only printing press manufacturer to precisely calculate the CO_2 emissions generated in manufacturing our machines, we can offer our customers the possibility of carbon offsetting for equipment purchased from Heidelberg.

Environmental projects at the production sites

The ECO Council, whose members include the heads of the individual segments, determines the ecological targets for the Group as a whole. The cross-divisional ECO working group advises the ECO Council, proposes an environmental program and monitors its implementation in the individual segments. The measures for manufacturing and assembly are bundled in the ECO Manufacturing and ECO Production working groups. Projects newly initiated by ECO Production include environmental

action days in the area of production and energy concepts for the Heidelberg, Brandenburg and Wiesloch production sites. Our ecologically oriented vehicle fleet policy is being enforced further and we are examining the carbon footprint of purchased parts. In future, green procurement will be a more important factor when it comes to selecting our suppliers. In light of this, we negotiated new contracts during the year under review, particularly in the area of energy procurement.

Most of our German production sites have been certified in accordance with the ISO 14001 environmental management system for more than ten years. Our production sites in Nové Mesto, Slovakia, and Qingpu, China, will also be certified by the end of 2013. Environmental management systems are currently being established at both production sites.

In October 2012, a cogeneration plant went live at our production site in Wiesloch-Walldorf. With two aggregates, it will reduce energy costs at our largest production and assembly site by around 10 percent and prevent environmental pollution to a large extent. Cogeneration plants are among the most efficient forms of energy generation in terms of carbon emissions. Additionally, after having invested € 2.6 million in the cogeneration plant, our annual savings since start of operation in October 2012 until financial year-end will already amount to € 1.1 million, and CO_2 emissions will be reduced by 1,300 tons.

Ecology as a unique selling point

With our sustainability concept, we are pursuing a comprehensive end-to-end approach: All of the stages in the process are taken into account, from product development and manufacture via utilization at the customer through to recycling or disposal. Our environmentally friendly solutions are increasingly proving to be a major unique selling point for our customers.

With our products, we are systematically improving the environmental impact of print rooms: from reducing spoilage and our extensive range of products for alcohol-free printing and the reduction of noise pollution, through to the energy-efficient Star peripherals for our printing machines, such as dryers and air and powder supply systems. Since the year under review, Heidelberg machines have been able to display the current level of energy consumption per 1,000 sheets, thereby ensuring that print shops can print within the energy-efficient range. The printer can use this information to optimize the printing process and job specifications. Being able to measure and control the current energy consumption of printing machines is only part of the solution; we believe it is important to view the process as a whole. For example, our pneumatic sheet travel consumes more energy, but paper waste is reduced significantly. Paper waste is a particularly important factor in a print shop's carbon footprint. As a matter of principle, new developments aimed at improving the overall environmental impact of printing processes are applied to all product lines. In our Heidelberg Services segment, Saphira Eco now offers a broad range of consumables that meet the highest global environmental standards: from chemical-free printing plates, inks and coatings based on renewable resources, and washing agents and dampening solutions with significantly reduced VOC content, through to dispersion adhesives for the manufacture of folding boxes.

One of the aims of the environmental program resolved by the ECO Council in July 2011 is to cut **CO_2 EMISSIONS PER TON OF OUTPUT** throughout the Group by 2014. In order to further reduce this key figure, we intend to concentrate on investments in our most energy-intensive production sites. A range of evaluation projects is currently in progress; we have already achieved the ISO 50001 certification of an energy management system at the particularly energy-intensive Amstetten production site. The foundry in Amstetten is now one of the most advanced facilities in Europe. We are in the process of developing energy concepts for additional production sites in Germany that will be implemented from 2014 onwards. We will introduce CO_2 as an additional "currency" throughout the Group. The aim is to be able to calculate not only the cost savings, but also the potential CO_2 savings generated by leveraging concrete potential for improvement – from material savings and energy consumption through to transportation routes.

Five-year overview – key data ecology

	2008	2009	2010	2011	**2012**
Output emissions in thousands of metric tons of CO_2 [1) 5)]	127.6	87.7	117.9	91.5	104.6
CO_2 (in metric tons) per produced ton of output [2) 3)]		2.0	2.1	1.5	2.0
SO_2 [1)]	0.1	0.1	0.1	0.1	0.1
No_x [1)]	0.1	0.1	0.2	0.2	0.1
Output emissions in metric tons of VOCs	135.9	66.5	76.6	74.1	66.2
Output emissions in metric tons of dust [4)]	7.2	3.6	9.7	24.7	24.7
Input energy in GWh/a	408.1	286.2	365.0	347.0	351.6
Energy consumption (MWh/a) per produced metric ton of output [3)]	5.9	6.8	6.2	5.8	6.5

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

CORPORATE DEVELOPMENT

Underlying Conditions

> Debt crisis in Europe hampering global economy
> Higher growth expected in emerging nations
> Economic expansion in China slightly slower at 7.8 percent

Gross domestic product [1]

Change from previous year in percent

	2011	2012
World	2.7	**2.3**
USA	1.7	2.2
EU	1.6	–0.3
Germany	3.1	0.9
GB	0.8	0.3
Eastern Europe	4.7	2.2
Russia	4.3	3.4
Asia [2]	6.4	5.4
China	9.2	7.8
India	6.8	4.2
Japan	–0.7	2.0
Latin America	4.6	3.0
Brazil	2.7	1.0

[1] Source: Global Insight: WMM; April 2013
[2] Excluding Japan

The development in gross domestic product (GDP) as an indicator of economic growth and thereby of general commercial activity and capacity utilization of print shops plays an important role for us in assessing our regional business performance. Our Heidelberg Equipment segment, which accounts for approximately 60 percent of sales, reacts more strongly and more directly to the respective GDP development than our less cyclical Heidelberg Services segment (around 40 percent of sales). The table on the left shows an overview of the development in GDP.

Global economy: Higher growth in emerging nations

Global economic growth continued to lose momentum in 2012: An increase of 2.3 percent was achieved in 2012 (previous year: 2.7 percent). While the US performed rather robustly, economic development was slowed by the lingering debt crisis in the euro zone in particular. Emerging economies such as China also saw weaker growth than in previous years. The differences between the growth rates of the economies is still substantial: On average, gross domestic product in the industrialized nations rose by 1.4 percent, but the emerging nations posted increases of 4.8 percent. Printing industry demand was therefore again relatively high in the emerging nations.

The uncertainty over the future development of the debt crisis inhibited economic development in **EUROPE**. Following the economies of Greece, Portugal and Italy, Slovenia and Spain also slipped into recession, as did parts of Central and Eastern Europe. In addition to Austria and Sweden, economic performance was also relatively positive in **GERMANY** – though economic momentum visibly contracted as the year progressed. In the UK, however, overall economic development was stagnant.

Some states of Central and **EASTERN EUROPE** are now finding themselves confronted with high unemployment and weak demand. In particular, energy producers such as Russia and Kazakhstan were able to separate themselves from this poor economic development, though the states that are less dependent on the crisis-wracked euro zone, such as the Baltic countries, also posted higher growth rates.

Although the economy in the **US** was a mixed bag, its performance was robust compared to other industrialized nations with an increase in GDP of 2.2 percent. Nevertheless, uncertainty surrounding fiscal policy trends such as tax hikes, spending cutbacks and the dragging process of political conciliation increasingly weighed on economic development at the end of 2012 and in the 2013 calendar year.

In the previous years, **BRAZIL** had ranked among the most dynamic economies in the world – in the year under review it was the only economy in South America to grow by just 1 percent.

The **JAPANESE ECONOMY** ended the calendar year with its GDP up 2 percent, though it was losing some momentum by the end of the year.

China: Moderate slowdown in growth

ASIA has been the fastest-growing economic region for years. In 2012 its economic expansion decelerated somewhat: As there was a drop in export demand in addition to the deliberately initiated economic downturn, GDP in **CHINA** grew by 7.8 percent, around 1.4 percentage points less than in 2011. However, as the rate of overall economic development picked up again in the fourth quarter of 2012, China is believed to have passed its lowest point, especially as the government responded to the cool-down in the fall of 2012 and launched stimulus programs.

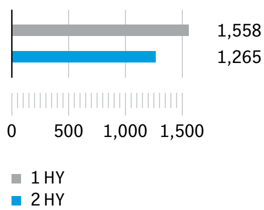
Business Development

- Higher order intake in first half-year
- Net sales up on previous year but below expectations
- China and Germany biggest sales markets

We have adapted our organization in line with the changing market environment, and have also changed segment allocation in this context. Since the fourth quarter of 2012/2013, in the Gallus business area (BA) – together with flexo printing presses – the associated consumables, service parts and technical services have been shown in the Heidelberg Equipment segment. Since the same date, software solutions for the Prinect printing workflow have been allocated to the Heidelberg Equipment segment; these were previously allocated to the Heidelberg Services segment. Figures for the previous year were restated accordingly.

Incoming orders by six-month periods

Figures in € millions



Incoming orders: First half of year in line with expectations, second half stable at previous year's level

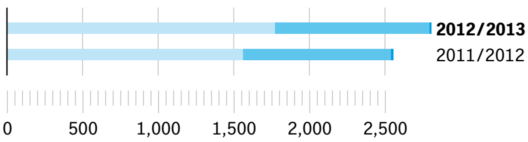
The drupa trade show in May 2012 caused orders to rise briefly in the first quarter: We achieved our highest quarterly figure in four years. Orders were therefore up 17 percent as against the previous year in the first half of the year. However, there was no long-term positive effect on the new equipment market: Incoming orders matched the previous year's level in the second half of the year. Overall, incoming orders in the year under review outperformed the prior-year figure by 10 percent at € 2,822 million.

Orders in the Heidelberg Equipment segment were up 15 percent year-on-year, the Heidelberg Services segment saw only a moderate increase of 4 percent, which fell short of our expectations.

Although new equipment business was on the rise, we again largely accompanied the financing requirements of our customers with third-party financing partners. We also again reduced the financing volume assumed directly by the Heidelberg Financial Services segment.

Incoming orders by segment

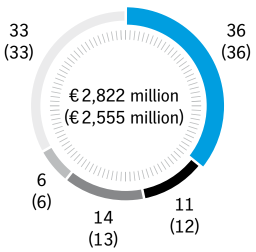
Figures in € millions



	11/12	12/13
HD Equipment	1,561	1,790
HD Services	979	1,021
HD Financial Services	15	11
Heidelberg Group	2,555	**2,822**

Incoming orders by region

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



Figures in € millions

	11/12	12/13
EMEA	913	1,026
Eastern Europe	305	306
North America	326	395
South America	166	156
Asia/Pacific	845	939

Incoming orders increased in the Europe, Middle East and Africa region despite the lingering euro and public debt crisis. The Eastern Europe region matched the previous year's level for incoming orders. Orders rose overall in the North America region – driven by the US and Mexico – though momentum slowed in the second half of the year. The economic growth in Brazil, which fell well short of expectations, caused a drop in incoming orders year-on-year in the South America region. By contrast, a positive rise in orders was generated in the Asia/Pacific region, primarily as a result of the increases in China and Japan.

Sales: China and Germany biggest sales markets

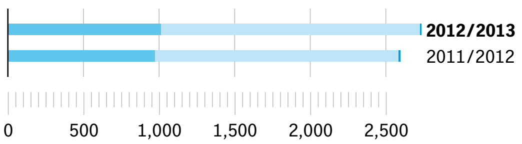
After € 1,217 million in the first half of the year, sales in the second half of the year rose significantly to € 1,517 million. Overall, sales were up by 5 percent on the previous year at € 2,735 million. However, sales did not live up to expectations for the financial year as drupa did not trigger a sustainable expansion in new equipment business as had been hoped for, and individual markets, such as Brazil, saw slower momentum than anticipated. Total operating performance increased slightly by 3 percent.

Overall, sales in the Heidelberg Equipment segment developed positively in the year under review: They rose by 6 percent against the previous year. The Heidelberg Services segment also saw a sales increase of 4 percent. In the Financial Services segment, sales again declined slightly, as planned, as the smaller direct financing portfolio led to lower interest income.

The Europe, Middle East and Africa (EMEA) region generated higher sales than in the previous year. Germany – our biggest market for sales after China – accounted for approximately 14 percent of total sales. Sales also improved in the Eastern Europe region, and in the North America region they outperformed the figure for the previous year by 14 percent. In South America the difficult economic situation in Brazil had a direct effect on sales, which dropped noticeably. We achieved a higher figure than in the previous year in Asia/Pacific; China contributed some 16 percent to total sales.

Sales by segment

Figures in € millions



	11/12	**12/13**
HD Equipment	1,610	1,712
HD Services	972	1,012
HD Financial Services	15	11
Heidelberg Group	2,596	**2,735**

Order backlog: Prior-year level matched; range of 2.2 months

After drupa, the order backlog initially rose sharply before stabilizing in the second and third quarter slightly above and at the previous year's level respectively. We generated the highest quarterly sales for the reporting year in the fourth quarter, a further rise on the high figure for the previous year. As a result, our order backlog declined by 31 percent to € 502 million and is therefore on a par with the level of the previous year. The notional length of the order backlog for the Group is 2.2 months; this figure is reduced by the length of the order backlog in Heidelberg Services where time between order and delivery is usually very short. In Heidelberg Equipment, the length of order backlog was just under 3.3 months as of the end of the reporting year.

Five-year overview – business development

Figures in € millions

	2008/2009	2009/2010	2010/2011	2011/2012	**2012/2013**
Incoming orders	2,906	2,371	2,757	2,555	2,822
Sales	2,999	2,306	2,629	2,596	2,735

Results of Operations

- Significantly positive result of operating activities excluding special items
- Financial result improved year-on-year
- High net loss due to special items and financing costs

After a significant operating loss was generated in the first half of the year, we generated a high positive operating result in the second half of the reporting year as planned. Overall, we achieved our goal of a clearly positive result of operating activities excluding special items. In addition to higher sales, this development was supported in particular by the savings generated by Focus 2012. With the help of this program, we will achieve annual cost savings of around € 180 million in the 2013/2014 financial year. We succeeded in implementing Focus 2012 more quickly than planned in the year under review and have already achieved more than a third of savings. The fall in profit contributions was partially offset in this way – because sales fell short of our expectations in the year under review. Overall, the result of operating activities excluding special items climbed to € 28 million in the year under review after € 3 million in the previous year. Extraordinary expenses of € 65 million were incurred as part of the Focus 2012 program and its expansion in the fourth quarter. The financial result improved slightly year-on-year and, as a result of the non-recurring special item of the recognition of interest on tax reimbursements, was better than expected at € – 82 million. Overall, the effects of special items and the financial result were severe enough that the Company again posted a high net loss of € – 110 million despite tax income of € 9 million. This net loss was down by € 120 million as against the previous year.

Sales and result of operating activities per HY period

Figures in € millions

	1 HY	2 HY	**Total**
Net sales	1,217	1,517	2,735
EBIT [1]	– 57	85	28

[1] Excluding special items

Income statement: Result of operating activities and EBITDA improve significantly against previous year

The result of operating activities for the first half of the year was reduced by the costs of drupa and was highly negative at € – 57 million. In the second half of the year it rose significantly by € 85 million on account of higher sales and savings from Focus 2012. Overall, the result of operating activities excluding special items amounted to € 28 million in the year under review; it improved by € 25 million as against the figure for the previous year. EBITDA excluding special items was € 111 million and rose by € 21 million year-on-year.

The result of operating activities excluding special items at Heidelberg Equipment benefited above all from the savings achieved thanks to the measures implemented in the Focus 2012 program and improved from € – 71 million in the previous year to € – 45 million in the year under review.

The operating result of the Heidelberg Services segment improved year-on-year and climbed from € 60 million to € 65 million. In turn, the operating result at the Heidelberg Financial Services segment was again positive at € 9 million; the decline of € 5 million against the previous year is mainly due to the fact that we downsized the segment's portfolio in line with planning, which meant that our interest income was in decline. The risk provision result also fell to a normal level.

Income statement

Figures in € millions

	2011 / 2012	**2012 / 2013**
Net sales	2,596	**2,735**
Change in inventories / Other own work capitalized	26	– 45
Total operating performance	2,622	**2,690**
EBITDA excluding special items	90	**111**
Result of operating activities excluding special items	3	**28**
Special items	– 142	– 65
Financial result	– 90	– 82
Income before taxes	– 229	**– 118**
Taxes on income	1	– 9
Net loss	– 230	**– 110**

Income statement: Slight improvement in financial result

Heidelberg's total operating performance increased slightly by 3 percent against the previous year. The COST OF MATERIALS also rose with an increase in sales volumes and a change in the product mix. The ratio of cost of materials to total operating performance was virtually unchanged as against the previous year at 47.5 percent (previous year: 46.9 percent). This was due in part to sustainable cost management and the positive effects of the consolidation of the supplier base. We consolidated the supplier base in order to keep the development in materials prices below the rise in comparable commodity-based sector indices.

STAFF COSTS matched the previous year's level in the year under review, largely thanks to the use of reduced working hours. In order to achieve long-term savings, we reduced headcount by around 1,200 in the reporting year. By the middle of 2014, payroll will be downsized to well below 14,000. The effects of the Focus 2012 program can already be clearly seen in the **STAFF COST RATIO** in relation to total operating performance. This declined from 34.5 percent in the previous year to 33.5 percent in the year under review. The **PER CAPITA SALES** figure climbed from € 168 thousand to € 192 thousand in the reporting year – and was therefore better than in the "pre-crisis year" of 2007/2008 (€ 187 thousand).

DEPRECIATION declined slightly from € 87 million in the previous year to € 83 million. As part of our asset management, we are using facilities for longer and more efficiently. This allows us to carry out all necessary investments with a significantly reduced budget. We are keeping our net investments at a level of around 2 percent of sales. In the year under review, capital expenditure guaranteed production safety and created the requirements for the start of series production for our new products. We also opened our cogeneration plant at the Wiesloch-Walldorf production site. More information on this can be found on page 68 in the section on sustainability. At the Heidelberg production site we renovated the Print Media Center (PMC) for commercial printing, bringing it up to the state-of-the-art and have now expanded it into an end-to-end, fully integrated print shop for commercial printing.

Our sustainable savings measures are also having a proportional effect on **OTHER OPERATING EXPENSES**: In relation to total operating performance, the ratio was again down slightly from 19.8 percent in the previous year to 18.8 percent.

We posted a total expense from **SPECIAL ITEMS** of € 65 million in the year under review, predominantly consisting of staff-related expenses as part of the Focus 2012 program. To further improve Heidelberg's capacity to react to rapid sales fluctuations and to help reduce the cost base while also making it more flexible, the Management Board resolved in the fourth quarter to intensify individual measures in the program. The majority of these measures will target staff-related cost savings: The number of employees is therefore intended to drop significantly to below 14,000. The total annual savings from Focus 2012 will be increased to more than € 200 million from the end of the current financial year by the additional measures.

In contrast to original planning, the **FINANCIAL RESULT** improved slightly as against the previous year. It was reduced further by interest for pension expenses, the bond and the required financing costs with regard to the expenses for Focus 2012. This was offset by positive non-recurring effects from interest on tax reimbursements. After the financial result reduced our earnings by € – 90 million in the previous year, in the year under review this expense was brought down to € – 82 million. We are anticipating a further improvement in the financial result in the coming years, despite the positive non-recurring effects in the reporting year. This is largely a result of the changes in accounting for pension expenses under IAS 19 and the planned reduction of net debt.

As forecast, the **PRE-TAX RESULT** was again negative at € – 118 million. After an expense from taxes on income of around € 1 million in the previous year, we posted income from taxes of € 9 million in the year under review. Overall, we posted a net loss for the year under review of € – 110 million. Earnings per share therefore amounted to € – 0.47 after € – 0.98 in the previous year.

Five-year overview – results of operations

Figures in € millions

	2008/2009	2009/2010	2010/2011	2011/2012	**2012/2013**
Sales	2,999	2,306	2,629	2,596	2,735
Sales per capita (in € thousands)	158	140	166	168	192
EBITDA [1]	51	– 25	104	90	111
Result of operating activities [2]	– 49	– 130	4	3	28
– in percent of sales	– 1.6	– 5.6	0.2	0.1	1.0
Special items	– 179	– 28	2	– 142	– 65
Financial result	– 119	– 127	– 149	– 90	– 82
Net profit/loss	– 249	– 229	– 129	– 230	– 110
– in percent of sales	– 8.3	– 9.9	– 4.9	– 8.9	– 4.0

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

Net Assets

> Capital commitment reduced by comprehensive asset management
> Further cut in volume of directly assumed sales financing
> Net debt kept at low level

Thanks to our comprehensive asset management and the continuation of our net working capital program, we have again reduced our capital commitment while at the same time increasing total operating performance. We are continuing to pursue our proven strategy of many years of externalizing financing arrangements in the Heidelberg Financial Services segment. Receivables from sales financing have reached a new low thanks to a high level of liquidations and repayments. Furthermore, we have succeeded in keeping net debt at the low level of the previous year despite the costs of the Focus 2012 program.

Assets

Figures in € millions

	31-Mar-2012	31-Mar-2013
Fixed assets	835	804
Inventories	786	700
Trade receivables	361	382
Receivables from sales financing	156	118
Other assets	185	177
Cash and cash equivalents	195	157
	2,518	**2,338**

Assets: Capital commitment reduced further by active asset management

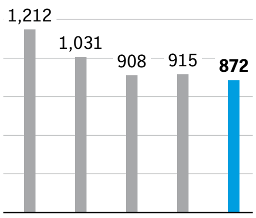
As of March 31, 2013, the **TOTAL ASSETS** of the Heidelberg Group amounted to € 2,338 million – down by € 180 million as against the previous year thanks to our asset management. Over the last four years, we have reduced capital commitment by more than € 500 million in total while maintaining a similar level of sales. **FIXED ASSETS** declined in the financial year because for years we have deliberately been using the resources already available to us for longer periods of time. In addition, as in previous years, we use leasing as a form of financing when it makes good business sense – particularly for vehicle fleets, IT and real estate.

We have come a big step closer to implementing our goal of sustainably lowering net working capital to less than 35 percent of sales. In the first half of the year, net working capital averaged around 36 percent of sales, and in the second half of the year it dropped to an average of around 33 percent of sales, primarily thanks to a sales-driven reduction of inventories. As of the end of the reporting period, **INVENTORIES** were down significantly year-on-year at around € 700 million.

The high level of sales in the last quarter of the financial year is the main reason that **TRADE RECEIVABLES** climbed as against the previous year; as of March 31, 2013 they amounted to € 382 million. We are continuing to pursue our proven strategy of many years of externalizing financing arrangements in the Heidelberg Financial Services Segment. As the volume that we finance directly has fallen again and thanks to high liquidations and repayments, **RECEIVABLES FROM SALES FINANCING** have reached a new low. At € 118 million, they were € 38 million lower than the figure for the previous year. **OTHER ASSETS** were down on the previous year at € 177 million.

Development of net working capital

Figures in € millions
(2008/2009 to 2012/2013)



Equity and liabilities

Figures in € millions

	31-Mar-2012	**31-Mar-2013**
Equity	576	400
Provisions	933	1,000
Financial liabilities	438	419
Trade payables	165	139
Other liabilities	406	380
	2,518	**2,338**

Equity and liabilities: Net debt still low

The reduction of equity to approximately € 400 million was due firstly to the net loss, which was dominated by the extraordinary expenses for Focus 2012 and the negative financial result, and secondly to the change in the relevant interest parameters for pensions. The lower discounting rate used in calculating pension assets also caused pension provisions to rise as against the end of the prior-year reporting period. The **EQUITY RATIO**, which relates to total assets, also declined to 17 percent. In the medium term, we want to raise the equity ratio tangibly on the basis of a return to sustainable profitability.

Primarily as a result of increased provisions for pensions, **PROVISIONS** climbed from € 933 million in the previous year to € 1,000 million in the year under review. As of March 31, 2013, **TRADE PAYABLES** amounted to € 139 million, and therefore declined by 16 percent on the previous year.

As at the balance sheet date, our **FINANCIAL LIABILITIES** had decreased to € 419 million over the period under review.

NET DEBT remained at a low level of around € 261 million as of the end of the reporting period. We have come closer to achieving our medium-term goal of lowering leverage (net debt in relation to EBITDA) to less than 2.0.

Five-year overview – net assets

Figures in € millions

	2008/2009	2009/2010	2010/2011	2011/2012	**2012/2013**
Total assets	3,241	2,879	2,643	2,518	2,338
Overall contribution	3,078	2,178	2,598	2,622	2,690
Total assets against overall contribution	105 %	132 %	102 %	96 %	87 %
Net working capital	1,212	1,031	908	915	872
– in percent of sales	40.4 %	44.7 %	34.5 %	35.2 %	31.9 %
Shareholders' equity	796	579	869	576	400
– in percent of total assets	24.6 %	20.1 %	32.9 %	22.9 %	17.1 %
Net financial debt [1]	681	695	247	243	261
Leverage [2]	13.4	n. a.	2.4	2.7	2.4

[1] Balance of financial liabilities and cash and cash equivalents
[2] Net financial debt in relation to EBITDA excluding special items

Financial Position

> Free cash flow excluding payments for Focus 2012 clearly positive
> Financing sources appropriately diversified
> Stable liquidity framework

In the year under review, free cash flow was reduced in particular by payments as part of the Focus 2012 program. Adjusted for these costs of € 62 million, we again generated a positive free cash flow of € 44 million. Our financing structure is appropriately diversified – both with regard to the sources of financing and in terms of instrument maturity. The revolving credit facility of originally € 500 million, which is available until the end of the 2014 calendar year, has been reduced to € 475 million since July 1, 2012.

Statement of cash flows: Free cash flow excluding expenses for Focus 2012 clearly positive

As a result of the lower net loss, the cash flow improved considerably as against the previous year, but was still negative at around € – 40 million.

OTHER OPERATING CHANGES resulted in a cash inflow of € 73 million. The reduction of net working capital allowed a cash inflow of € 57 million. The welcome trend in receivables from sales financing led to a cash inflow of € 40 million.

At € 51 million, **CASH USED IN INVESTING ACTIVITIES** matched the previous year's level in the year under review. The cash outflow from investing activities was essentially due to the re-equipping of the Print Media Center in Heidelberg with innovations presented at the drupa trade show, the completion of the combined heating and power station at the Wiesloch-Walldorf production site and the start of series production for new products.

FREE CASH FLOW was slightly negative in the year under review at € – 18 million. The main reason for this were the non-recurring payments in connection with Focus 2012 of around € 62 million. Overall, this clearly shows that we have sufficient internal financial power to finance payments for Focus 2012 in the short term and that we can further reduce net debt in the medium term. Our asset management and net working capital management will help us to achieve these goals in the medium term.

Five-year overview – financial position

Figures in € millions

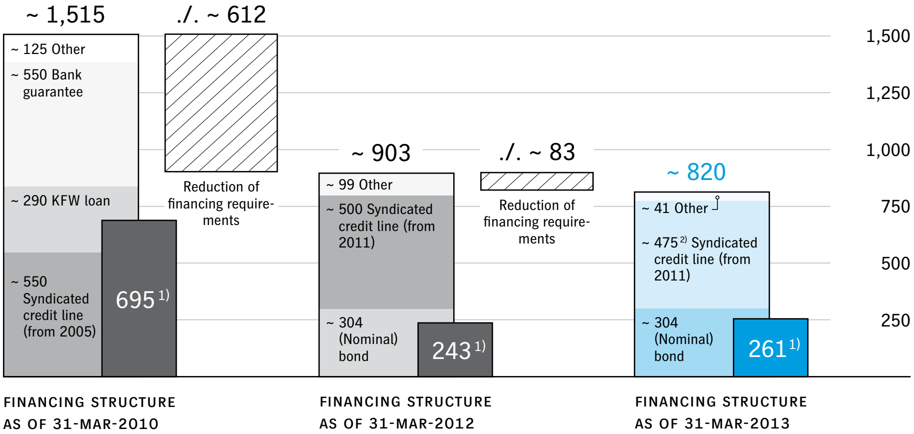
	2008/2009	2009/2010	2010/2011	2011/2012	**2012/2013**
Cash flow	– 238	– 179	– 41	– 130	– 40
Other operating changes	234	138	141	186	73
of which: net working capital	43	186	125	24	57
of which: receivables from sales financing	63	66	32	29	40
of which: other	128	– 114	– 16	133	– 24
Cash used in investing activities	– 197	– 22	– 25	– 46	– 51
Free cash flow	– 201	– 62	75	10	– 18

Financing structure: Credit lines and bond ensure Heidelberg's liquidity in the medium term

On April 7, 2011, we issued a high-yield, unsecured bond in the nominal amount of € 304 million with a term of seven years and a coupon of 9.25 percent annually – we described this in detail in our 2010/2011 Annual Report. At the same time, a new revolving credit facility arranged with a banking syndicate for € 500 million maturing at the end of 2014 entered into effect. The financing agreements contain standard financial covenants concerning the financial situation of the Heidelberg Group. In addition, as of the end of March 2013, Heidelberg has a loan of nominally around € 41 million, secured by usufructuary rights to three developed properties, with an amortizing progression until March 2018.

Development of the financial structure

Figures in € millions



[1] Net financial debt
[2] Initial credit line: € 500 million; reduced by € 25 million since July 1, 2012

We supplement our financing with operating leases where economically appropriate. Other off-balance-sheet financing instruments do not have any significant influence on the economic position of the Group.

Heidelberg's financing structure is appropriately diversified both in terms of the sources of financing and the maturity of instruments. Heidelberg also has a stable liquidity framework.

ROCE and Value Added

> Clear improvement in ROCE in financial year
> Cost of capital down, but still negatively affects value added

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Please visit our Web site for information on our products, application examples and comprehensive solutions.

ROCE stands for "return on capital employed". We calculate this figure by comparing the result of operating activities excluding special items plus net investment income in relation to average capital employed. We determine our cost of capital using our weighted average cost of capital of currently 9 percent.

After positive ROCE in the two previous years 2010/2011 and 2011/2012, as anticipated, we generated a significantly improved ROCE of around € 26 million in the year under review and were thereby up € 22 million on the figure for the previous year.

Both in the previous years and the reporting year, we carried out investments, among other things in our production site in China, and replacement investments. Nonetheless, we reduced operating assets in the last five years on comparable sales significantly – by around 35 percent – thanks to our asset management. We have continued to reduce our net working capital as a percentage of sales in recent years to an average of 33 percent in the second half of the 2012/2013 financial year. We have also succeeded in further externalizing customer financing. At € 118 million as of March 31, 2013 this figure was again significantly lower than the previous year's level of € 156 million. As a result, operating assets (average) declined by a total of around € 140 million as against the previous year to € 1,133 million.

ROCE therefore rose to 2.3 percent of operating assets in the reporting year. The cost of capital was also significantly below the previous year's level at around € 100 million and reached its lowest level of recent years. Nonetheless, value added was negative as forecast at € –77 million.

With the help of our Focus 2012 program and optimized structures, we intend to achieve a net profit in the 2013/2014 financial year. In order to further increase the return on capital employed we are aiming to further reduce and more efficiently use operating assets and generate positive economic value added after deducting the cost of capital.

www.heidelberg.com/eco
You can read more about the ecological advantages of our offerings at www.heidelberg.com/eco and on pages 66 to 69 of this Annual Report.

Five-year overview – ROCE and value added

Figures in € millions

	2008/2009	2009/2010	2010/2011	2011/2012	**2012/2013**
Operating assets (average)	1,771	1,564	1,429	1,272	1,133
ROCE [1]	– 63	– 138	10	4	**26**
– in percent of operating assets	– 3.6	– 8.8	0.7	0.3	2.3
Cost of capital	206	153	142	130	**103**
– in percent of operating assets	11.6	9.8	9.9	10.2	9.1
Value added	– 269	– 291	– 132	– 126	**– 77**
– in percent of operating assets	– 15.2	– 18.6	– 9.2	– 9.9	– 6.8

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

Segment Report

- > Heidelberg Equipment: Operating loss reduced significantly
- > Heidelberg Services: Operating profit improves by 8 percent
- > Heidelberg Financial Services: Strategy remains successful

Heidelberg Equipment segment: Earnings improved but still negative

In the year under review, the Heidelberg Equipment segment accounted for around 63 percent of Group sales after 62 percent in the previous year. All in all, the segment reported **INCOMING ORDERS** of € 1,790 million, an increase of 15 percent as against the previous year. Our customers predominantly invested in complete solutions with higher productivity, including our Prinect networking software. There was strong demand for the innovative new products presented for the first time at the drupa 2012 trade show, which accounted for more than one-third of orders for printing units.

The newly introduced Speedmaster SX models and our new Speedmaster XL 106 attracted particular interest. The structural changes in the printing industry are being reflected in the format classes in demand: on the whole, orders for large-format sheetfed offset printing presses increased, whereas orders for small-format printing presses declined compared with previous years.

Heidelberg Equipment

Figures in € millions

	2011/2012	**2012/2013**
Incoming orders	1,561	1,790
Net sales	1,610	1,712
Order backlog	467	464
Result of operating activities [1]	– 71	– 45
Special items	– 117	– 51
Research and development costs	126	115
Investments	60	65
Employees	10,447	9,585

[1] Excluding special items

Similar to incoming orders, the larger-format sheetfed offset printing presses in particular contributed to an increase in **SALES** for the year as a whole to € 1,712 million; sales for the first half of the year remained at the prior-year level, while sales for the second half of the year were up 11 percent year-on-year as forecast. Over the year as a whole, sales increased by 6 percent as against the previous year. Sales performance in the areas of digital printing and contract manufacturing were in line with our expectations.

The **ORDER BACKLOG** amounted to € 464 million at the end of the reporting period; this corresponds to a forward order book of 3.3 months. Delivery times for our machines vary in terms of demand and product. For machines that are manufactured and configured in line with customer demands, the average time from order placement to delivery is calculated as three to four months. Page 50 describes the methods used to reduce delivery times. We have systematically cut the delivery time for standard equipment, among other things by producing standard machines in Qingpu.

The **RESULT OF OPERATING ACTIVITIES** improved significantly against the previous year to € – 45 million. Sales increased to a lesser extent than originally anticipated, with the low level of sales at the start of the financial year in particular leading to a lack of profit contributions. Additionally, costs for the trade show and product start-up costs for the innovations presented at drupa were incurred. We were able to partially offset these developments thanks to the rapid implementation of the measures under the Focus 2012 program, with more than one-third of the planned savings realized in the year under review. These savings allowed the segment to return to profitability in the third quarter. In the year under review, extraordinary expenses of € 51 million were recognized in the segment for the Focus 2012 program.

We significantly reduced the number of **EMPLOYEES** in the Heidelberg Equipment segment: As a result of our restructuring and flexibilization projects the segment had a workforce of 9,585 as at March 31, 2013 (previous year: 10,447).

We also kept segment **INVESTMENTS** at a low level in the year under review, focusing in particular on replacement investments.

RESEARCH AND DEVELOPMENT COSTS in the segment fell by 9 percent year-on-year.

Heidelberg Services segment: Consumables business strengthened

In the Heidelberg Services segment, **INCOMING ORDERS** increased by 4 percent year-on-year to € 1,021 million. Because the time between order placement and delivery in the Heidelberg Services segment is generally short, the order backlog is a less informative performance indicator.

Heidelberg Services

Figures in € millions

	2011/2012	**2012/2013**
Incoming orders	979	1,021
Net sales	972	1,012
Order backlog	40	38
Result of operating activities [1]	60	65
Special items	– 25	– 14
Research and development costs	3	3
Investments	10	17
Employees	4,914	4,583

[1] Excluding special items

Segment **SALES** rose by 4 percent to € 1,012 million. As planned, this sales development was driven in particular by the consumables business. On the one hand, we recorded organic growth, increasing sales of coatings in particular – while simultaneously expanding our coating production – as well as inks, printing plates and print shop materials. On the other hand, we expanded our sales network through the acquisition of the OFS Group in Switzerland. We also increased sales in the area of technical services and service parts, particularly as a result of new products.

Increased sales and the savings realized contributed to an increase in the **RESULT OF OPERATING ACTIVITIES** excluding special items by 8 percent year-on-year to € 65 million in spite of the non-recurring expenses for the drupa trade show. Special items in the segment totaled € 14 million and related to the Focus 2012 program.

INVESTMENTS in the Heidelberg Services segment were slightly higher than in the previous year.

In this segment, too, we reduced the number of **EMPLOYEES** by a total of 331 as against the previous year. We appointed new employees in the area of consumables and in technical services in growth markets, such as China.

RESEARCH AND DEVELOPMENT COSTS in the segment remained at the prior-year level.

Heidelberg Financial Services

Figures in € millions

	11/12	12/13
Net sales	15	11
Result of operating activities [1]	14	9
Employees	53	47

[1] Excluding special items

Heidelberg Financial Services segment: Continued positive earnings contributions from a reduced portfolio

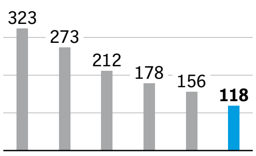
In a capital-intensive sector like the printing industry, financing solutions are crucial to our customers' success. Heidelberg Financial Services has been successfully supporting print shops in implementing their planned investments for a number of years, particularly through its tight-knit network of global financing partners. Where required, we also help our customers – especially in emerging economies – to acquire Heidelberg technologies via direct financing provided by our Group-owned print finance companies.

In the financing-intensive emerging economies, the options for external financing saw positive development in the year under review. In Brazil, for example, a growing proportion of the necessary financing is being provided by global and local partners. One encouraging development: the originally anticipated deterioration in the financing environment in the industrialized nations has largely yet to occur. As a result, we recorded a further significant reduction in **RECEIVABLES FROM SALES FINANCING** of 24 percent to € 118 million. The volume of newly **ASSUMED COUNTER-LIABILITIES** was maintained at a low level.

As expected, the planned strategic reduction in receivables from sales financing was accompanied by a further decline in net interest income. Despite this, the segment's **RESULT OF OPERATING ACTIVITIES** excluding special items remained at a good level of € 9 million. Thanks to effective risk and receivables management, the costs of risk provisioning were kept at below the long-term average.

Receivables from sales financing

Figures in € millions
(2007/2008 to 2012/2013)



Report on the Regions

> Significant drupa trade show orders in EMEA in particular
> Downturn in South America due to economic weakness in Brazil
> China drives growth in the Asia/Pacific region

Europe, Middle East and Africa (EMEA): Incoming orders and sales return to a level of more than € 1 billion

In the EMEA region, we recorded growth in incoming orders of 12 percent and sales growth of 6 percent in the year under review. Both figures returned to a level of more than € 1 billion after having fallen below this threshold in the previous year. German and British customers in particular placed more orders, but positive developments were also visible in the markets of the Middle East and Africa. Business development in Greece, Portugal and Spain, as well as Italy, was weak due to the impact of the public debt and euro zone crisis. In the quarters following the drupa trade show, performance in the region was at the prior-year level.

Our Speedmaster XL 106 with perfecting device, which we presented at drupa, accounted for a large proportion of the growth in orders in the United Kingdom and Belgium – traditionally the most important markets for high-quality industrial commercial printing. Germany saw substantial growth in the 70 × 100 format. In the consumables sector, sales in the region rose sharply by 8 percent; among other things, this was due to the acquisition of the Swiss consumables retailer OFS Group, Pfaffnau, in November 2012.

In the year under review, we combined functions of our sales and services company in Germany with those of the parent company in the region; support functions such as order processing are now bundled centrally and organized more efficiently.

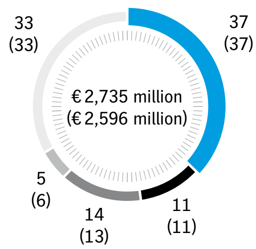
Eastern Europe: Sales and incoming orders at prior-year level

In the Eastern Europe region, we recorded incoming orders of € 306 million and sales of € 304 million in the year under review. We thus repeated our prior-year performance and increased sales slightly in spite of the downturn of around 21 percent in Poland, one of our most important markets in the region. We were able to counteract this development because we recorded smaller increases in almost all of the other markets in the region.

In the consumables sector, development in the region stagnated primarily as a result of the weak figures for prepress. In the other product areas, we are benefiting from the fact that most manufacturers of printing plates, coatings and printing chemicals are not represented with their own sales organization, meaning that we can leverage the benefits of our tight-knit sales and services network. The fact that we are changing as little as possible in our direct contact with customers, focusing

Net sales by region

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



Figures in € millions

	11/12	**12/13**
EMEA	953	1,010
Eastern Europe	296	304
North America	329	375
South America	164	147
Asia/Pacific	854	898

instead on streamlining the overarching structures, is paying off. In some of the smaller markets in the region, we have also been working in cooperation with external sales and services partners since the start of the year, an experience that has so far been positive.

North America: Growth in incoming orders of 21 percent

In the North America sales region, which covers the markets of the US, Canada and Mexico, we increased incoming orders by 21 percent to € 395 million and sales by 14 percent to € 375 million in the year under review.

The printing industry in the US saw the start of a recovery in the second half of the previous year. This trend continued in the year under review, allowing us to generate growth from replacement investments in the 70 × 100 format in particular. In the consumables sector, we reported impressive growth of 16 percent. This development was driven by our new coatings factory in Detroit, which ramped up to full production capacity for local customers in summer 2012. We decided to open a dedicated local production facility as our coatings produced in Europe had already enjoyed extremely good acceptance in the US and Canada. For many customers, local production provides assurance that product expertise is available.

In Canada, we tend to generate a large proportion of our sales from consumables. We acquired a chain of retailers in the country at an early stage, and we enjoy a significant market share. In the year under review, however, the sales volume for consumables and services stagnated due to the slight downturn in the printing volume in Canada in the same period. By contrast, machinery saw considerable growth, particularly in the 70 × 100 format. However, we do not expect this trend to continue in Canada in the current year, whereas we do expect to see a further recovery in the US.

The year under review saw satisfactory development in the Mexican market: while sales remained stable, there was a significant rise in incoming orders. We were particularly successful in the 70 × 100 format, and were able to generate growth in the consumables and services sectors.

South America: Downturn in the year under review

South America is one of the world's growth regions. It is dominated by the Brazilian market, which has seen rapid expansion over recent years. In the year under review, the Brazilian economy suffered from uncertainty due to the change of government, as well as fluctuations in exchange rates and changes in tax law. As a result, GDP growth amounted to just 1.0 percent – the second-lowest figure in the last ten years.

While developments in the smaller markets of the region were extremely positive in some cases, such as in Chile and Argentina, we suffered an overall downturn in incoming orders of 6 percent in the South America region during the reporting year. Equipment sales fell by more than 20 percent. As we have not yet achieved our targets in terms of consumables sales in the region, we were unable to counteract this development in spite of having achieved a leading market position in the prepress sector. As a result, total sales declined by 10 percent, making South America the only sales and services region to record lower sales in the year under review.

The cost-cutting measures that we developed and implemented in the reporting year will start to take effect in the current financial year. Among other things, we have restructured the services organization and product marketing. Over the coming years, we expect to increasingly sell our very latest products and solutions in Brazil. The combination of offset and digital printing will also become increasingly relevant in the Brazilian market.

Asia/Pacific: Continued high level of sales but a slight downturn in momentum

In the year under review, all of the major markets in the Asia/Pacific region reported growth in orders. All in all, incoming orders in the region increased by 11 percent to € 939 million, while sales rose by 5 percent to € 898 million.

Following a tangible slowdown in growth in China in the fourth quarter of the previous year, orders picked up considerably in the first quarter of the year under review, with growth for the year as a whole amounting to 19 percent.

In Japan, sales growth was driven in particular by the 70 × 100 format – despite the strong local competition from Japanese peer group companies in this area.

We expect India to become an interesting market for our range of offerings in the medium term; however, the order volume remained low in the year under review. Uncertain economic and political conditions are continuing to prevent print shops from making significant investments in high-quality equipment, while the weak currency has also prompted them to postpone major investments. Orders from the smaller markets in the region were satisfactory.

We have adjusted the sales and services structures in the region. The administration of our sales units in the Philippines and Taiwan has been bundled, as have the administrative functions in Singapore and Malaysia. We have further reduced the strength of our sales and services team in Australia, an extremely mature market that is controlled by an extremely small number of large print firms.

CONTROL SYSTEM, RISKS AND OPPORTUNITIES

Control System

Clear values, principles, and guidelines help us manage the Group. Our internal auditors examine compliance with all guidelines and accounting standards on a regular basis using random samples. 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 other things via 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 the risks identified are dealt with.
> Control activities: Senior executives establish regular activities to monitor compliance with their performance targets. They must 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 **PRINCIPLE OF DUAL CONTROL** 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 process, the responsible financial heads confirm that all significant risks have been recorded in full, and that the internal control system has been complied with.

The effectiveness of the internal control system at the processing level is monitored by the internal auditors using random sampling. The effectiveness of the risk management system is also regularly monitored by the internal auditors. Finally, the Audit Committee deals with the effectiveness of the internal control system and the internal audit system, examines their functionality and arranges for regular reporting on audit planning and findings.

Risk and Opportunity Management

Risk and opportunity management system

Risk and opportunity management is solidly integrated as part of our strategic five-year planning. The efficiency of our risk management system is controlled regularly by our Internal Audit team. Our risk early identification system satisfies the legal requirements of the German Corporate Sector Supervision and Transparency Act (KonTraG).

All cross-sector committees are required to periodically analyze risks and opportunities from all angles. This applies in particular to non-quantifiable risks. 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 fields of business; 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.

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.” 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 as well as 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 set 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 that they fill out, partially 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 are circulated to the entire Management Board as well as to the Audit Committee of the Supervisory Board.

The central Corporate Treasury department manages the Group's financing activities and ensures its liquidity. We systematically minimize liquidity risks throughout the Group. We pinpoint the potential funding needs of affiliates and the resulting potential liquidity risks at an early stage with the help of our rolling liquidity planning system that is generated on a monthly basis. Corporate Treasury identifies risks arising from changes 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 in note 32 of the notes to the Consolidated Financial Statements. The functional and physical separation of trading, processing and risk controlling in the Corporate Treasury department is ensured. Furthermore, this department 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 Basel II standard, these comprise both debt-specific and transaction-specific components. 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.

Internal control and risk management system relating to the Group accounting process

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 against 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 Group management report.

Central consolidated accounting responsibilities are undertaken by Financial Steering & Reporting (FR) on behalf of the entire Group – for example, the consolidation of the financial figures and the review of recognized goodwill. FR also regularly monitors whether the accounts are properly maintained and if the Group-wide

Heidelberg Accounting Rules are adhered to, thereby ensuring that the financial information complies with regulatory requirements. In addition, our Internal Audit team, which has access to all data, examines individual areas and affiliates throughout the Group on the basis of random sampling. In doing so, it examines, among other things, whether the internal control system has been implemented in this regard or whether transactions have been controlled, and whether the principle of dual control 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 also reviewed. 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 segments and regions report their financial data for consolidation to the Group in accordance with a reporting calendar that applies uniformly 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 team.

Risk and Opportunity Report

- Overall risk virtually unchanged
- Weak economic performance still biggest risk
- Opportunities from economic developments and strategic measures

Development of risk groups

Change from previous year	
Economic situation and markets	
Industry and competition	
Products	
Finance	
Performance	
Overall risk	

■ Increased risk
■ No change in risk
■ Decreased risk

99

Our planning premises can be found in the “Future Prospects” section on page 99.

Details on how we handle interest, currency and liquidity risks are included in the notes starting on page 158.

Risks with a probability of more than 50 percent are integrated into our planning process and are therefore not discussed in the risk report. As our management focuses on financial performance indicators, we closely monitor early warning indicators that suggest a rise in non-quantifiable risk.

General statement by the Management Board on risks and opportunities

No risks to the Heidelberg Group as a going concern are discernible for the foreseeable future. This applies both to the results of business activities already implemented and to operations that we are planning or have already introduced.

In order to determine our **OVERALL RISK**, we bundle individual risks with similar content. We do not offset them against opportunities. The overall risk situation of the Heidelberg Group has hardly changed as against the previous year. The biggest risk to not achieving our earnings targets is still that our sales in the Heidelberg Equipment division could be weaker than forecast owing to general economic conditions.

We regard our **STRATEGIC RISKS** as low: It is assumed that the share of the printing volume produced using the sheetfed offset process will remain stable. As the barriers to market entry are enormously high in sheetfed offset printing, no significant competition from Chinese providers is anticipated. Sheet travel is a core competence at Heidelberg, which makes us an ideal partner for providers of new technologies – also because we have a strong sales and services network worldwide. Before we invest in possible new ventures, we weigh the risks and opportunities on the basis of various scenarios. The Management Board and the Supervisory Board deal with risks that could arise from organization, management or planned changes. For further information, please see our detailed “Corporate Governance Declaration” on the Internet.

Economic and market risks virtually unchanged on previous year

We are assuming moderate growth in the global economy in our planning with consistent demand for printing presses worldwide. If the global economy were to grow less than expected – or if key markets such as China were to suffer an unexpected economic collapse – we may not be able to achieve the planned sales performance in our Heidelberg Equipment and Heidelberg Services segments. China now has the highest sales of any of our individual markets, hence the conditions there are highly important to us. Expanding our production site in Qingpu has further reduced the effects of various national risks – such as higher import duties or exchange rate fluctuations – on our business performance.

Industry and competition risks: Falling competitive pressure

The competitive situation in the printing press area eased somewhat in the year under review as capacity throughout the industry as a whole has been reduced considerably. Accordingly, the risk has also diminished that prices come under pressure in this area and thereby threaten our sales targets.

Exchange rates were mostly favorable for European manufacturers in the year under review. If the exchange rate situation again shifts in the favor of Japanese manufacturers, this could boost our Japanese competitors and weaken our market position, particularly in the 70×100 format. By expanding our purchasing and production outside of the euro zone – we manufacture 70×100 format printing presses, among other things, in China – we are reducing the influence of exchange rate fluctuations in the medium term.

Product risks at low prior-year level

The products and solutions that we presented at drupa follow the trends that determine the ongoing development of the print media industry around the world; they offer print shops quantifiable cost and competitive advantages. We have therefore already been very successful with our new products since the trade show, especially with the Speedmaster 106 XL-P and the Speedmaster CX 102. We are also not anticipating any notable risks in new business areas at this time.

In order to avoid undesirable developments, our priority in all research and development projects focuses strictly on customer benefit. We protect the results of our research and development work with our own property rights.

Cumulative risk of financial and legal risks unchanged

The Group's financing, and thereby its **LIQUIDITY**, is secure 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 82. There, we also explain that financing is linked to standard financial covenants that we have committed to comply with over the term of the financing. If the Group's results of operations and financial position were to deteriorate to such a degree that we would fail to satisfy these financial covenants and if we were unable to modify them, this would have an adverse financial impact on the Group. There are currently no indications of such a development.

In sales financing there are still risks of default due to industry, customer, residual value and country risks; the volume of expected defaults and of items past due has declined again as against the previous year. The risks arising from counter-liabilities that we have assumed decreased again year-on-year. A larger share of our portfolio consists of receivables from customers in emerging nations; exchange rate developments had no negative impact on repayments in US dollars or euros; however, a potential shift in exchange rates still poses a risk in this area.

We have hedged against the risk of fluctuating exchange rates of our principal foreign currencies for foreign currency volumes, particularly the volatile US dollar and Japanese yen. Nonetheless, currency risks are a factor and have increased slightly as against the previous year – especially in light of the euro debt crisis. We are monitoring and assessing these risks at all times.

We reduce legal risks from individual agreements by utilizing standardized master agreements wherever possible. We protect our interests in the area of patents and licenses in a targeted manner. We limit additional risks, such as compliance risks, by means of systematic controls of adherence to our comprehensive guidelines in all areas. More information on this topic can be found on pages 189 and 190.

Performance risks virtually unchanged

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. We work continuously on our supply methods, design 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 continued our purchasing activities in foreign currencies during the year under review in order to reduce risks associated with exchange rate fluctuations. As we generate just under three-quarters of our sales outside the euro zone, we are continuing to expand our global procurement, thereby making the Group less dependent on exchange rate effects; we also use the advantages of differences in wage levels. In the consumables area of the Heidelberg Services Segment, we generally pursue a dual vendor strategy, which allows us to prevent unilateral dependencies. We deviate from this only in cases where mutual exclusivity is assured, and then, under appropriate market and competitive conditions, we also assume the sale of our partners' entire product range.

As we are increasingly looking to global strategic partnerships, the effects of the termination of a **SALES PARTNERSHIP** in the various areas on our business development have also risen.

We are assuming that we will implement the measures as part of the **FOCUS 2012 PROGRAM** rapidly and within the planned time frame, thereby reducing headcount to significantly less than 14,000 by the middle of 2014. A possible delay increases the risks in **HUMAN RESOURCES**. In addition, stepping up the program drives up the risk that employees whom we wish to retain resign, and that non-quantifiable success factors, such as employee motivation, are temporarily impaired.

We efficiently utilize our existing facilities to keep our **INVESTMENTS** low. We have also made strategically important investments, necessary replacement investments and investments for improving environmental protection in previous years. We implemented necessary replacement investments and thereby guarantee **PRODUCTION SAFETY**.

We do not anticipate any serious risks of failure in our **IT** systems: The probability that losses could result from viruses was significantly reduced by extensive preventative measures. In the year under review we invested more extensively in our IT infrastructure, thereby increasing system security overall – though performing software updates could lead to process downtime and delays. We do not anticipate any notable **ENVIRONMENTAL** risks as we minimize risks with our highly effective environmental management, both in product design and production.

Opportunities: Mainly economic opportunities

The biggest opportunity to Heidelberg lies in a significantly more positive economic performance than is currently forecast. A shift in exchange rates in our favor would also have a positive effect on our sales and earnings planning. There are opportunities – and risks – that social and political changes, government intervention, customs regulations and changes in legislation could influence our business development in several countries. Furthermore, there will also be opportunities for Heidelberg arising from our **STRATEGIC MEASURES**, which we have described in detail in the section on strategy on pages 48 to 53. Above all, these include the transformation of the segments and business areas, our regional differentiation and concentration on fields of business less prone to economic developments, complexity management and the expansion of promising cooperations in all fields.

OUTLOOK

Expected Underlying Conditions

- Global economic growth at previous year's level
- Regional differences with greater momentum in emerging nations
- Print production volumes still stable

Gross domestic product[1)]

Change from previous year in percent

	2011	2012	**2013 e**
World	2.7	2.3	**2.2**
USA	1.7	2.2	2.0
EU	1.6	–0.3	–0.2
Germany	3.1	0.9	0.7
GB	0.8	0.3	0.7
Eastern Europe	4.7	2.2	2.4
Russia	4.3	3.4	3.0
Asia[2)]	6.4	5.4	5.8
China	9.2	7.8	8.1
India	6.8	4.2	6.0
Japan	–0.7	2.0	0.8
Latin America	4.6	3.0	3.4
Brazil	2.7	1.0	2.9

[1)] Source: Global Insight: WMM; April 2013
[2)] Excluding Japan
e estimate

It is generally expected that **GLOBAL ECONOMIC GROWTH** will be roughly just as high in 2013 as in 2012 at 2.2 percent. Even if the recession continues in some euro zone nations, this is expected to be more moderate. Overall, stagnation is forecast for the euro area. While economic growth is expected to be slightly lower in the US and significantly lower in Japan as compared to 2012, it is forecast that the emerging and developing nations will see slightly more dynamic growth than in the previous year.

An overview of the forecast developments in the various regions and our most important markets can be seen on the left. Economic research institutions, the Bundesbank and the Council of Experts have issued varying forecasts for economic growth in **GERMANY** in 2013. Higher growth than in 2012 is assumed in **THE UK** at 0.7 percent, while the **US** is expected to see growth of only 2.0 percent in 2013 on account of the budget cutbacks. Economic growth in **CHINA** is still very robust at around 8.1 percent, and is expected to remain so in the current year.

Industry trend: Industrialized and emerging nations developing differently

The structural change in the printing industry will continue in the industrialized Western nations. Investments may therefore be postponed to a later date given the sometimes difficult financing options for customers. Overall, investments in the industry are hardly expected to change in the current financial year. It is assumed that the printing industry will continue to expand production capacity in the **EMERGING NATIONS**, and these economies are expected to see a more dynamic performance than in the year under review. The global print production volume will remain constant or increase slightly driven by the emerging nations.

Future Prospects

> Sales expected to match prior-year level
> Significant improvement in EBIT in current financial year – targeting return to positive net result
> Sustainable increase in profitability in the medium term

Overall, Heidelberg sees the general conditions for the printing industry as stable in the current financial year: The market in which we operate is robust, and the global print production volume will remain constant or increase slightly. We therefore anticipate that global demand for printing presses and consumables will develop accordingly. In light of this, we are assuming that sales will match the level of the year under review in the 2013/2014 financial year. As in the previous year, we forecast that the share of sales will again be significantly higher in the second half of the year.

The developments on the global markets and the individual submarkets will differ structurally in line with global economic trends. We describe this in detail in the section Expected Underlying Conditions (page 98). Customers are facing competitive and consolidation pressure in the INDUSTRIALIZED NATIONS on account of their stagnant to slightly contracting market development. In the EMERGING NATIONS, we are forecasting an increase in investments as a result of the growth in printed products. The China Print trade show in the middle of May is expected to generate additional stimulus for order volumes in our key market of China.

Our HEIDELBERG EQUIPMENT segment, which contributes around 60 percent of consolidated sales, will also be influenced by overall economic conditions in addition to structural effects. A more volatile business performance is therefore assumed in this segment, which makes it difficult to give a specific sales forecast for this segment.

The HEIDELBERG FINANCIAL SERVICES segment supports global customer investments in our printing presses. We will continue to mainly broker financing services and are again planning lower interest income. The segment contributes around 1 percent to the Group's sales.

The HEIDELBERG SERVICES segment's share of consolidated sales of around 40 percent will be much less influenced by the economy than our new equipment business. Thanks to the stable print production volume, the service and consumables requirements of print shops will remain constant or grow slightly. We intend to further expand our business with consumables, including by way of cooperations.

Focus on profitability

We are striving to generate additional sales only if they increase our profitability. The far-reaching action plan to sustainably reduce our cost base and the concentration of our business on market changes and operations less prone to economic fluctuation should ensure that we can achieve our profitability targets while sales remain stable.

Earnings development in the 2013/2014 financial year: Aiming for net profit

The forecast sales breakdown between the first and second halves of the year will also influence the result of operating activities over the year. In the first quarter, we are still expecting a clearly negative result, though this should be above the figure for the previous year. Results will improve further in the subsequent quarters. The intended savings under the Focus 2012 program of € 180 million will develop their full effect for the first time over the course of the 2013/2014 financial year. Overall, we are planning to improve the **RESULT OF OPERATING ACTIVITIES EXCLUDING SPECIAL ITEMS** significantly against the year under review. As regional fluctuations are still anticipated in economic developments and cost hikes are expected in staff costs and cost of materials, we will continue to systematically adjust cost structures. We already recognized the majority of the costs for expanding the Focus 2012 program in the past financial year. Nevertheless, we expect that extraordinary expenses could be incurred again in the current financial year while implementing activities. The financial result benefited from non-recurring income from tax reimbursements in the reporting year. In the coming year we predict a further slight improvement in the financial result – despite the positive non-recurring effects in the year under review and taking into account the plan income of the IAS 19 transition. With the help of the measures that have been initiated, we thus intend to achieve our most important goal in the 2013/2014 financial year: We are aiming to generate a net profit again for the first time since the crisis year of 2008/2009.

Medium-term planning: Securing an earnings target of an EBITDA margin above 8 percent and reducing leverage to less than 2x

We are assuming stable to slightly rising sales in the years after the 2014/2015 financial year. In addition to initiatives to raise margins and optimize the portfolio, we will also continue to reduce our cost base in future in order to achieve our medium-term margin target of above 8 percent EBITDA on sales.

We will also continue our measures to lower net working capital. We will keep the investment rate at around 2 percent of sales in the current financial year. The planned earnings improvements, together with the measures to reduce, and more efficiently use, our capital commitment should boost our capital structure and return our **NET DEBT** to a level not more than twice EBITDA in the medium term (leverage). This way, we intend to further increase profitability by means of the return on capital employed (ROCE) so that after deduction of capital costs we will generate positive economic value added.

At the Annual General Meeting we will propose a dividend if we have achieved our medium-term objectives for profitability and the capital structure and if it seems appropriate given the Group’s outlook. We will not propose the distribution of a dividend for the year under review at the Annual General Meeting.

LEGAL DISCLOSURES

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

> New structure for Management Board remuneration system from year under review
> Remuneration system for Supervisory Board unchanged in reporting year; amendment to Supervisory Board remuneration from 2013/2014 financial year

The Supervisory Board discussed the appropriateness of Management Board remuneration and the structure of the remuneration system on several occasions during the year under review. This was also done in connection with the agreement and review of target agreements with Management Board members. The parameters for measuring the variable remuneration components were also discussed and, in respect of the long-term variable remuneration components, adjusted in line with the requirements of the current loan agreement and its financial covenants.

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

The overall structure and amount of remuneration of the Management Board are determined at the recommendation of the Human Resources Committee of the Supervisory Board of Heidelberger Druckmaschinen Aktiengesellschaft and reviewed at regular intervals. In each case, Management Board remuneration amounts to a maximum of 280 percent of fixed annual basic remuneration, divided into 100 percent for fixed annual basic remuneration and a maximum of 180 percent for the variable remuneration components, i. e. a maximum of 90 percent each for the variable single-year remuneration and variable multi-year remuneration.

The remuneration of the Management Board consists firstly of a fixed annual salary paid in equal installments at the end of each month, variable single-year and multi-year remuneration, which is calculated on the achievement of certain three-year targets using defined parameters, and secondly of benefits in kind and a company pension scheme (in addition to share-based pension benefits).

The remuneration structure of the Management Board is undergoing a series of **CHANGES** from the year under review.

In the future, the variable single-year remuneration will also be dependent on the Group's success in that financial year, the benchmarks for this have been defined as free cash flow and EBIT. In addition, each member of the Management Board receives a personal, performance-based bonus that is determined by the Supervisory Board at the recommendation of the Human Resources Committee, taking into account their particular duties and responsibilities in addition to any individual targets agreed. If targets are achieved in full, the personal bonus can amount to up to 30 percent of the basic annual salary; the company bonus can also account for up to 30 percent or 60 percent if targets are exceeded. 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

[1)] This Remuneration Report is also part of the Corporate Governance Report completed. Until further notice – starting with the year under review – the 30 percent of the personal bonus will be added on to the company bonus subordinate to the financial targets on which it is based.

The Supervisory Board determines the targets for the multi-year variable remuneration for the forthcoming financial years based on the respective situation. Targets are therefore set each financial year for the coming financial year, and for a new three-year period for the multi-year variable remuneration. The achievement of goals is also checked and ascertained each year. However, the multi-year variable remuneration for the achievement of goals will only be paid after the end of the respective three-year period. Multi-year variable remuneration can amount to 90 percent of the basic annual salary if goals are met in full.

The Management Board and the Supervisory Board have revised and adjusted the goals for future years. In addition, they have agreed to a temporary solution on giving members of the Management Board the opportunity, provided that specific goals have been achieved (including compliance with the financial covenants in particular), to earn at least part of the multi-year variable remuneration in the year under review and in the subsequent year, considering that the long-term component of the bonus for the period to date was partially earned but was not paid on account of the members of the Management Board voluntarily waiving this in the 2011/2012 financial year. As an exception, the assessment period for this transitional phase is therefore just two financial years, i. e. the year under review and the 2013/2014 financial year, with a planned payment in the 2014/2015 financial year, whereby this is based on the same targets as for the first two years of the concurrent first three-year period for multi-year variable remuneration, which comprises the year under review and the two subsequent financial years and is planned for payment in the 2015/2016 financial year. Hence, no long-term bonus was paid in the year under review.

Finally, it was determined that if an agreed minimum goal is achieved, a minimum threshold of 25 percent will be set so that the achievement of a goal will be assessed within a corridor of 25 percent to 100 percent in the future and no longer between 0 percent and 100 percent. The previous structure of Management Board remuneration was otherwise unchanged in the year under review.

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

Moreover, 10 percent of both the variable single-year and multi-year remuneration (before deduction of personal taxes) will be invested in shares of the Company that members of the Management Board can only dispose of after a holding period of 24 months. Thus, as before, the multi-year variable remuneration and now the single-year variable remuneration as well will provide a long-term performance incentive, increasingly gearing the remuneration structure towards sustainable business development.

Remuneration in kind essentially consists of the value of the use of a company car, deductible in accordance with tax provisions.

Remuneration of the individual members of the Management Board:

Figures in € thousands

		Non-performance-related components			Performance-related remuneration	Components with long-term incentive		Total remuneration
		Base salary	Renunciation of salary	Benefits in kind	Bonus for the reporting year	Multiyear long-term bonus	Renunciation of bonus	
Dr. Gerold Linzbach[1]	2012/2013	321	0	9	289[2]	193	0	812
	2011/2012	0	0	0	0	0	0	0
Bernhard Schreier[3]	2012/2013	208	0	6	184	125	0	523
	2011/2012	500	– 50	14	270	300	– 177	857
Dirk Kaliebe	2012/2013	350[4]	0	15	329[5]	210	0	904
	2011/2012	350	– 35	16	259	210	– 182	618
Marcel Kiessling	2012/2013	350[4]	0	11	329[5]	210	0	900
	2011/2012	350	– 35	26	189	210	– 115	625[6]
Stephan Plenz	2012/2013	350[4]	0	11	329[5]	210	0	900
	2011/2012	350	– 35	10	224	210	– 150	609

1) CEO since September 1, 2012
2) For the 2012/2013 financial year, the Company bonus is guaranteed in full on a pro rata temporis basis.
3) Bernhard Schreier's term as a member of the Management Board ended on August 31, 2012; his contract of employment with Heidelberger Druckmaschinen Aktiengesellschaft ends on June 30, 2013. The figures for 2012/2013 relate to the period from April 1, 2012 to August 31, 2012.
4) From April 1, 2013: € 370 thousand
5) Includes a special bonus of € 20 thousand
6) Marcel Kiessling's cash remuneration was calculated on the basis of his full annual salary of € 350,000

The **REMUNERATION OF MEMBERS OF THE MANAGEMENT BOARD WHO LEFT IN THE YEAR UNDER REVIEW** is as follows: The term in office of **BERNHARD SCHREIER** as a member of the Management Board ended on August 31, 2012; his service agreement with Heidelberger Druckmaschinen Aktiengesellschaft ends on June 30, 2013. He served the Company in an advisory capacity in the period from September 1, 2012 to December 31, 2012. He has been released from work for the period from January 1, 2013 to June 30, 2013; this will also settle his remaining vacation entitlement. Until June 30, 2013, he is entitled to his monthly basic salary and his single-year and multi-year variable remuneration. His cash remuneration for the period from September 1, 2012 to June 30, 2013 comprises – pro rata temporis – his basic salary of € 417 thousand, non-cash remuneration of € 5 thousand, variable single-year remuneration for the 2012/2013 financial year of € 258 thousand and variable multi-year remuneration for the 2012/2013 financial year of € 175 thousand.

Pension plan for the individual 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	Service cost
Dr. Gerold Linzbach [3]	2012/2013	288	288	311	311
	2011/2012	–	–	–	–
Bernhard Schreier	2012/2013	–	–	– [4]	60 [5]
	2011/2012	–	–	5,054	132
Dirk Kaliebe	2012/2013	768	123	1,023	126
	2011/2012	625	123	817	108
Marcel Kiessling	2012/2013	555	123	732	126
	2011/2012	419	133	552	137
Stephan Plenz	2012/2013	692	123	951	126
	2011/2012	551	123	752	119

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 Dr. Gerold Linzbach, Dirk Kaliebe, Marcel Kiessling and Stephan Plenz, the pension contribution for the reporting year is calculated on the basis of 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 for Bernhard Schreier. From July 1, 2013, he will receive an annual pension of € 375 thousand on the basis of this commitment (previous year: € 371 thousand from retirement age).
3) Chairman of the Management Board since September 1, 2012
4) Bernhard Schreier's term as a member of the Management Board ended on August 31, 2012; his contract of employment with Heidelberger Druckmaschinen Aktiengesellschaft ends on June 30, 2013.
5) For the period from April 1, 2012 to August 31, 2012

POST-EMPLOYMENT BENEFITS for members of the Management Board are as follows:

DR. GEROLD LINZBACH has been appointed as an ordinary member of the Management Board, the Chief Executive Officer and Personnel Director for the duration of five years. His pension agreement provides for a defined contribution plan that is essentially consistent with the defined contribution plan for executive staff. On July 1 of each year, the Company pays a corresponding contribution based on the relevant basic salary retroactively for the previous financial year into an investment fund. In deviation from the 35 percent usually set for members of the Management Board, the fixed pension contribution for Dr. Gerold Linzbach is only 22 percent of his eligible remuneration. In return for this reduced pension contribution, at the start of his employment he was granted a performance-based pension commitment to be paid in cash at the end of his contractual term in office on August 31, 2017; this will be paid pro rata temporis in the event of his early departure.

DIRK KALIEBE, MARCEL KIESSLING and STEPHAN PLENZ have each been appointed as ordinary members of the Management Board for periods of three years. The pension agreements for Dirk Kaliebe, Marcel Kiessling and Stephan Plenz provide for a defined contribution plan that is essentially consistent with the defined contribution plan for executive staff. On July 1 of each year, the Company pays a corresponding contribution based on the relevant basic salary retroactively for the previous financial year into an investment fund. In view of standard market practice and the structure of defined benefit commitments, the annual contribution rate was uniformly set at 35 percent of basic salary in the 2011/2012 financial year. This resulted in an increase in annual contributions of 5 percent for Dirk Kaliebe and 2 percent for Stephan Plenz. Marcel Kiessling's contribution rate will also be 35 percent from the year under review onwards; this marks a reduction of 3 percent.

The pension agreements for all members of the Management Board stipulate that the amount paid can rise depending on the result of operations of the Company. The exact amount of the pension also depends on the investment success of the fund. The pension can be paid as an early pension from the age of 60. In the event of a member of the Management Board leaving the Company, the pension will be paid from the age of 65 or 60 respectively, principally as a non-recurring payment of pension capital. In addition, the agreements also provide for disability and surviving dependents' benefits (60 percent of the disability payment or the pension) contingent on the amount of the last basic remuneration. In the event of a disability pension, in deviation from the defined contribution plan for executive staff, the percentage is based on the length of service with the Company, with a maximum pension percentage of 60 percent due to the attributable time – with the exception of Dr. Gerold Linzbach – for all three other members of the Management Board. If the service agreement expires prior to the start of benefit payments, the claim to the established pension capital at that point in time remains valid. The other pension benefits (disability and surviving dependents' benefits) earned in accordance with Section 2 of the German Company Pension Act (BetrAVG) remain valid on a pro rata temporis basis. Moreover, the statutory vesting periods have been met for Dirk Kaliebe, Marcel Kiessling and Stephan Plenz.

BERNHARD SCHREIER was an ordinary member of the Management Board until August 31, 2012; his service agreement with Heidelberger Druckmaschinen Aktiengesellschaft ends on June 30, 2013. Bernhard Schreier will receive his pension as per his pension commitment from July 1, 2013. His pension commitment provides for a pension based on the amount of his last basic remuneration and surviving dependents' 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 his pension agreement and given his years of service with the Company, the maximum pension rate of 75 percent has already been achieved. The pension will be paid out from the age of 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, the statutory vesting periods have been met. The payment of the retirement pension is secured by a reinsurance policy, with the related claim against Bernhard Schreier pledged as collateral.

In terms of **EARLY TERMINATION BENEFITS**, all service agreements provide for the following uniform regulations in the event of the effective revocation of a Management Board member's appointment or a justifiable resignation by a member of the Management Board: The service agreement ends after the statutory notice period in accordance with Section 622(1), (2) of the German Civil Code (BGB). In event of the effective revocation of a Management Board member's appointment, the member receives compensation at the time of termination of the service agreement in the amount of his or her previous total remuneration as per the service agreement for two years, but not exceeding the amount of the remuneration for the originally agreed remainder of the service agreement. This does not affect the right to extraordinary termination for cause in accordance with Section 626 BGB. The compensation is paid in quarterly installments in line with the originally agreed residual term, but in not more than eight quarterly installments. Other payments received by a then former member of the Management Board, which this former member has agreed to disclose to the Company, must be offset in accordance with Sections 326(2) sentence 2 and 615(2) BGB mutatis mutandis during the originally agreed residual term. If a member of the Management Board becomes unable to work due to disability, the benefits stipulated in the respective pension agreement will be paid.

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, Supervisory Board remuneration comprises two components: fixed annual remuneration of € 18,000 and a variable component based on the dividend. Variable remuneration amounts to € 750 for each € 0.05 by which the dividend per share exceeds € 0.45. This means that the members of the Supervisory Board only receive variable remuneration upwards of a dividend of € 0.50. While fixed remuneration is paid after the end of the financial year, variable remuneration is only payable after the Annual General Meeting that officially approves the actions of the Supervisory Board for the financial year in question. The Chairman, the Deputy Chairman and the chairs and members of committees of the Supervisory Board receive remuneration increased by specific multipliers in view of their additional duties. The Chairman of the Supervisory Board receives double the normal Supervisory Board remuneration, the Deputy Chairman and the committee chairs receive 1.5 times the normal Supervisory Board remuneration and the members of the Supervisory Board committees 1.25 times the normal Supervisory Board remuneration.

A member of the Supervisory Board who holds more than one position only receives remuneration for the position that pays the highest amount. Members of the Supervisory Board who only serve on the Supervisory Board for part of the financial year receive remuneration pro rata temporis. The same applies when applying the multipliers if a member of the Supervisory Board holds an office entitling him or her to greater remuneration for only part of the financial year. The members of the Supervisory Board also receive a general payment of € 500 for each meeting day as reimbursement for expenses incurred in exercising their office, unless proof for greater expenses is provided. Furthermore, any value added tax charged on the remuneration of the members of the Supervisory Board is reimbursed.

By way of resolution of the 2012 Annual General Meeting, the remuneration system of the Supervisory Board has been amended as follows starting from April 1, 2013, i. e. the current financial year:

Each member of the Supervisory Board receives fixed remuneration of € 40,000. The Chairman of the Supervisory Board receives three times this amount, the Deputy Chairman twice this amount. The members of the Management Committee, the Audit Committee and the Committee on Arranging Personnel Matters of the Management Board receive additional remuneration for work on these committees. Each committee member receives remuneration of € 1,500 per meeting for participation in a meeting of these committees. The Chairman of the Audit Committee receives remuneration of € 4,500 per meeting; the Chairman of the Management Committee and the Chairman of the Committee on Arranging Personnel Matters of the Management Board receive remuneration of € 2,500 per meeting. The members of the Supervisory Board also receive an attendance fee of € 500 per meeting for attending a meeting of the Supervisory Board or one of its committees. Furthermore, the expenses incurred by members of the Supervisory Board and value added tax thereon will be reimbursed. In order to boost the Supervisory Board's role as a controlling body, remuneration will no longer include a variable, performance-based component in the future.

Remuneration of the Supervisory Board (excluding VAT)

Figures in €

	2011/2012			**2012/2013**		
	Fixed remuneration [1]	Variable remuneration	Total	Fixed remuneration [1]	Variable remuneration	**Total**
Robert J. Koehler [2]	35,000	0	35,000	39,500	0	39,500
Dr. Mark Wössner [3] [5]	13,500	0	13,500	0	0	0
Rainer Wagner [4]	32,500	0	32,500	32,500	0	32,500
Dr. Werner Brandt [5]	9,500	0	9,500	0	0	0
Edwin Eichler	20,500	0	20,500	21,000	0	21,000
Wolfgang Flörchinger	21,000	0	21,000	21,000	0	21,000
Martin Gauß	24,500	0	24,500	21,000	0	21,000
Mirko Geiger	27,500	0	27,500	28,000	0	28,000
Gunther Heller	21,000	0	21,000	21,000	0	21,000
Jörg Hofmann	20,500	0	20,500	20,000	0	20,000
Dr. Siegfried Jaschinski	20,500	0	20,500	25,875	0	25,875
Dr. Herbert Meyer [6]	19,875	0	19,875	30,875	0	30,875
Dr. Gerhard Rupprecht	25,000	0	25,000	24,500	0	24,500
Beate Schmitt	26,000	0	26,000	25,500	0	25,500
Lone Fønss Schrøder [6]	14,000	0	14,000	20,500	0	20,500
Prof. Dr.-Ing. Günther Schuh	20,500	0	20,500	20,500	0	20,500
Dr. Klaus Sturany [7]	31,500	0	31,500	11,000	0	11,000
Peter Sudadse	21,000	0	21,000	21,000	0	21,000
Total	403,875	0	403,875	383,750	0	**383,750**

[1] Fixed annual remuneration in addition to lump-sum payment of € 500 for each meeting day
[2] Member of the Supervisory Board since July 28, 2011
[3] Member of the Supervisory Board until July 28, 2011
[4] Vice Chairman of the Supervisory Board
[5] Member of the Supervisory Board until July 28, 2011
[6] Member of the Supervisory Board since July 28, 2011
[7] Member of the Supervisory Board until August 31, 2012

The members of the union and Works Council have declared that they will transfer their Supervisory Board remuneration to the Hans Böckler Foundation in accordance with the guidelines of IG Metall.

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

> Disclosures on takeover barriers
> Disclosures including contingent and authorized capital

In accordance with Section 315(4) nos. 1–9 of the HGB, we address all points that could be relevant in the event of a public takeover bid for Heidelberg in the Group management report:

As of March 31, 2013, the **SUBSCRIBED CAPITAL** (share capital) of Heidelberger Druckmaschinen Aktiengesellschaft amounted to € 599,672,166.40 and was divided into 234,246,940 bearer shares. The shares are not subject to any restriction on transferability. As of the end of the reporting period, the Company held 142,919 treasury shares, from which no rights arise for the Company in accordance with Section 71 b of the German Stock Corporation Act (AktG).

The **APPOINTMENT AND DISMISSAL OF MEMBERS OF THE MANAGEMENT BOARD** is based on Sections 84 et seq. AktG in conjunction with Sections 30 et seq. of the German Codetermination Act (MitbestG).

AMENDMENTS OF THE ARTICLES OF ASSOCIATION are made in accordance with the regulations of Sections 179 et seq. and 133 AktG in conjunction with Article 19(2) of Heidelberg's Articles of Association. In accordance with Article 19(2) of the Articles of Association, unless otherwise stipulated by law, resolutions of the Annual General Meeting are passed with a simple majority of the votes cast and, if a capital majority is required by law in addition to a majority of votes, with a simple majority of the share capital represented in the passing of the resolution. In accordance with Article 15 of the Articles of Association, the Supervisory Board is authorized to make amendments and additions to the Articles of Association that affect their wording only.

Heidelberg can only acquire treasury shares in accordance with Section 71(1) nos. 1–6 AktG. With the approval of the Supervisory Board, the Management Board is authorized to use the treasury shares held at the end of the reporting period while disapplying shareholders' preemptive subscription rights as follows:

> for the disposal of treasury shares if sold against cash and at a price not significantly less than the stock market price as defined more precisely in the authorization; the volume of shares sold thus together with other shares issued with preemptive subscription rights disapplied since July 18, 2008 must not exceed the lesser of 10 percent of the share capital on July 18, 2008 in total and 10 percent of the share capital at the time the authorization is exercised;
> to offer and transfer treasury shares to third parties if companies, equity investments in companies or parts of companies are thereby acquired, or if mergers are thereby implemented;
> to end or settle mediation proceedings under company law.

This authorization can be executed in full or in part in each case.

The Management Board also is authorized, with the approval of the Supervisory Board, to withdraw treasury shares without a further resolution by the Annual General Meeting. This authorization can be executed in full or in part in each case.

On July 26, 2012, the Annual General Meeting authorized the Management Board, with the approval of the Supervisory Board, to issue bearer or registered warrants or convertible bonds, profit-sharing rights or participating bonds, or a combination of these instruments (collectively referred to as "bonds") up to a total nominal amount of € 150,000,000.00, dated or undated, on one or several occasions by July 25, 2017, and to grant or impose on the bearers or creditors of option warrants or option profit-sharing rights or option participating bonds, option rights or obligations, or to grant or impose on the bearers or creditors of convertible bonds, convertible profit-sharing rights or convertible participating bonds, conversion rights or obligations to bearer shares of the Company with a pro rata amount of share capital of up to € 119,934,433.28 in total, in accordance with the further conditions of these bonds. Shareholder preemptive subscription rights can be disapplied in accordance with the further conditions of authorization. The share capital was contingently increased by up to € 119,934,433.28 (**"CONTINGENT CAPITAL 2012"**) for this purpose; details of **"CONTINGENT CAPITAL 2012"** can be found in Article 3(3) of the Articles of Association.

The Annual General Meeting on July 26, 2012 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 or non-cash contributions by July 25, 2017 (**"AUTHORIZED CAPITAL 2012"**). Preemptive subscription rights can be disapplied in accordance with the further conditions of authorization. Details of **"AUTHORIZED CAPITAL 2012"** can be found in Article 3(4) of the Articles of Association.

The credit facility that entered into effect on April 7, 2011, in the version applicable at the end of the reporting period, contains standard **"CHANGE OF CONTROL" CLAUSES** that grant the contracting parties additional rights to information and termination in the event of a change in the Company's control or majority ownership structure. The terms of the high-yield bond that was placed on March 31, 2011, and issued on April 7, 2011, include a change of control clause that requires Heidelberger Druckmaschinen Aktiengesellschaft to buy back the respective debt instruments (or parts thereof) from bondholders on demand if certain conditions named in that clause materialize. In this case, the buyback price would be 101 percent of the total nominal amount of the respective debt instruments plus interest accrued but not yet paid.

A technology licensing agreement with a manufacturer and supplier of software products also contains a change of control clause; this grants each party a right of termination with notice of 90 days if at least 50 percent of the shareholdings or voting rights of the other party are acquired by a third party.

An agreement with a manufacturer and supplier of digital production printing systems for the sale of these systems also includes a change of control clause. This clause grants each party the right to terminate the agreement with notice of three months from the time of receipt of notification 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 becomes known. A change of control under the terms of this agreement is considered to have occurred if a third party acquires at least 25 percent of the voting rights of the party concerned or the ability to influence the activities of the party concerned on a contractual basis or based on articles of association or similar provisions that grant the third party corresponding rights.

Corporate Governance Declaration

The Corporate Governance Declaration in accordance with Section 289 a HGB has been made permanently available at www.heidelberg.com under “Corporate Governance”.

Supplementary Report

There were no significant events after the end of the reporting period.

IMPORTANT NOTE:
This Annual Report contains forward-looking statements based on assumptions and estimates by the management of Heidelberger Druckmaschinen Aktiengesellschaft. Even though the management is of the opinion that these assumptions and estimates are accurate, 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, exchange and interest rates, and changes within the print media industry. Heidelberger Druckmaschinen Aktiengesellschaft provides no guarantee and assumes no liability for future development and results deviating from the assumptions and estimates made in this Annual Report. Heidelberg neither intends nor assumes any obligation to update the assumptions and estimates made in this Annual Report to reflect events or developments occurring after the publication of this Annual Report.

FINANCIAL SECTION 2012/2013

Consolidated income statement 2012/2013

Figures in € thousands

	Note	1-Apr-2011 to 31-Mar-2012	**1-Apr-2012 to 31-Mar-2013**
Net sales	8	2,595,670	2,734,646
Change in inventories		15,888	–71,674
Other own work capitalized		10,710	26,649
Total operating performance		2,622,268	2,689,621
Other operating income	9	123,084	105,642
Cost of materials	10	1,231,719	1,278,245
Staff costs	11	904,530	901,473
Depreciation and amortization	12	87,050	82,947
Other operating expenses	13	519,540	504,661
Special items	14	142,274	64,724
Result of operating activities		–139,761	–36,787
Financial income	16	20,475	16,850
Financial expenses	17	110,029	98,543
Financial result	15	–89,554	–81,693
Income before taxes		–229,315	–118,480
Taxes on income	18	778	–8,613
Consolidated net loss		–230,093	**–109,867**
Basic earnings per share according to IAS 33 (in € per share)	35	–0.98	**–0.47**
Diluted earnings per share according to IAS 33 (in € per share)	35	–0.98	**–0.47**

Consolidated statement of comprehensive income 2012/2013

Figures in € thousands

	Note	1-Apr-2011 to 31-Mar-2012	**1-Apr-2012 to 31-Mar-2013**
Consolidated net loss		– 230,093	– 109,867
Pension obligations [1]		– 94,841	– 82,149
Currency translation			
Change in other comprehensive income		35,448	10,792
Change in profit or loss		0	0
		35,448	10,792
Available-for-sale financial assets			
Change in other comprehensive income		– 292	212
Change in profit or loss		0	0
		– 292	212
Cash flow hedges			
Change in other comprehensive income		– 9,631	– 4,864
Change in profit or loss		– 101	10,069
		– 9,732	5,205
Deferred income taxes	23	174	– 1,322
Total other comprehensive income		– 69,243	– 67,262
Total comprehensive income		– 299,336	**– 177,129**

[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, 2013

> Assets

Figures in € thousands

	Note	31-Mar-2012	**31-Mar-2013**
Non-current assets			
Intangible assets	19	245,832	234,676
Property, plant and equipment	20	547,660	530,517
Investment property	20	7,358	6,988
Financial assets	21	27,488	23,590
Receivables from sales financing	22	85,830	63,215
Other receivables and other assets [1]	22	16,598	19,225
Income tax assets		422	345
Deferred tax assets	23	38,646	36,145
		969,834	914,701
Current assets			
Inventories	24	785,726	699,692
Receivables from sales financing	22	70,460	55,049
Trade receivables	22	360,958	381,842
Other receivables and other assets [2]	22	116,418	110,257
Income tax assets		17,428	17,120
Cash and cash equivalents	25	194,556	157,492
		1,545,546	1,421,452
Assets held for sale	20	2,694	2,049
Total assets		2,518,074	**2,338,202**

[1] Of which € 12,127 thousand (previous year: € 8,721 thousand) account for financial assets and € 7,098 thousand (previous year: € 7,877 thousand) for non-financial assets

[2] Of which € 63,784 thousand (previous year: € 54,892 thousand) account for financial assets and € 46,473 thousand (previous year: € 61,526 thousand) for non-financial assets

Consolidated statement of financial position as of March 31, 2013

> Equity and liabilities

Figures in € thousands

	Note	31-Mar-2012	**31-Mar-2013**
Equity	26		
Issued capital		599,308	599,308
Capital reserves and retained earnings		206,482	– 89,846
Consolidated net loss		– 230,093	– 109,867
		575,697	399,595
Non-current liabilities			
Provisions for pensions and similar obligations	27	326,080	415,746
Other provisions	28	284,209	247,259
Financial liabilities	29	339,137	331,235
Other liabilities [3]	31	124,998	121,509
Deferred tax liabilities	23	7,987	8,282
		1,082,411	1,124,031
Current liabilities			
Other provisions	28	322,740	337,263
Financial liabilities	29	98,559	87,628
Trade payables	30	165,051	139,134
Income tax liabilities		2,372	3,086
Other liabilities [4]	31	271,244	247,465
		859,966	814,576
Total equity and liabilities		2,518,074	**2,338,202**

[3] Of which € 81,268 thousand (previous year: € 84,483 thousand) account for financial liabilities and € 40,241 thousand (previous year: € 40,515 thousand) for non-financial liabilities

[4] Of which € 86,924 thousand (previous year: € 117,620 thousand) account for financial liabilities and € 160,541 thousand (previous year: € 153,624 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, 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
April 1, 2012	599,308	27,098	– 203,401	– 160,836	– 1,158
Loss carryforward	0	0	0	0	0
Total comprehensive income	0	0	– 84,058	10,792	212
Consolidation adjustments/ other changes	0	0	0	0	0
March 31, 2013	**599,308**	**27,098**	**– 287,459**	**– 150,044**	**– 946**

1) For further details please refer to note 26

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			
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
−2,059	546,838	179,384	206,482	−230,093	575,697
0	−230,093	−230,093	−230,093	230,093	0
5,792	0	−67,262	−67,262	−109,867	−177,129
0	1,027	1,027	1,027	0	1,027
3,733	**317,772**	**−116,944**	**−89,846**	**−109,867**	**399,595**

Consolidated statement of cash flows 2012/2013 [1)]

Figures in € thousands

	1-Apr-2011 to 31-Mar-2012	**1-Apr-2012 to 31-Mar-2013**
Consolidated net loss	–230,093	–109,867
Depreciation and amortization, write-downs and reversals [2)]	90,801	85,331
Change in pension provisions	14,467	7,052
Change in deferred tax assets/deferred tax liabilities/tax provisions	–4,380	–20,985
Result from disposals [2)]	–712	–1,039
Cash flow	–129,917	**–39,508**
Change in inventories	–25,223	95,022
Change in sales financing	29,385	40,212
Change in trade receivables/payables	73,005	–42,959
Change in other provisions	89,250	–5,647
Change in other items of the statement of financial position	19,485	–13,781
Other operating changes	185,902	**72,847**
Cash used in/generated by operating activities [3)]	55,985	**33,339**
Intangible assets/property, plant and equipment/investment property		
Investments	–65,931	–80,382
Income from disposals	28,492	31,493
Business acquisitions	–6,676	–1,773
Financial assets		
Investments	–2,145	–306
Income from disposals	87	0
Cash used in investing activities	–46,173	**–50,968**
Borrowing of financial liabilities	410,186	126,511
Repayment of financial liabilities	–380,922	–151,079
Cash generated by/used in financing activities	29,264	**–24,568**
Net change in cash and cash equivalents	39,076	**–42,197**
Cash and cash equivalents at the beginning of the year	147,934	**194,556**
Change in scope of consolidation	0	2,174
Currency adjustments	7,546	2,959
Net change in cash and cash equivalents	39,076	–42,197
Cash and cash equivalents at year-end	194,556	**157,492**
Cash generated by operating activities	55,985	33,339
Cash used in investing activities	–46,173	–50,968
Free cash flow	9,812	**–17,629**

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 € 26,092 thousand (previous year: € 12,048 thousand) and € 13,187 thousand (previous year: € 4,185 thousand) respectively. Interest expenses and interest income amount to € 43,659 thousand (previous year: € 41,268 thousand) and € 18,480 thousand (previous year € 27,699 thousand) respectively

FINANCIAL SECTION 2012/2013

Notes to the consolidated financial statements for the financial year April 1, 2012 to March 31, 2013

> Development of intangible assets, property, plant and equipment, and investment property

Figures in € thousands

	Cost						
	As of start of financial year	Change in scope of consolidation	Additions	Reclassifications [1]	Currency adjustments	Disposals	**As of end of financial year**
2011/2012							
Intangible assets							
Goodwill	122,901	0	0	0	339	0	123,240
Development costs	283,492	0	1,085	0	0	8,013	276,564
Software/other rights	126,501	0	1,749	0	613	28,865	99,998
Advance payments	1,250	0	1,466	0	0	0	2,716
	534,144	0	4,300	0	952	36,878	502,518
Property, plant and equipment							
Land and buildings	667,745	0	13,718	9,599	7,797	693	698,166
Technical equipment and machinery	624,779	0	5,672	2,244	2,252	21,302	613,645
Other equipment, operating and office equipment	731,609	0	37,644	4,135	3,860	66,891	710,357
Advance payments and assets under construction	21,177	0	8,326	–19,786	556	1,047	9,226
	2,045,310	0	65,360	–3,808	14,465	89,933	2,031,394
Investment property	8,225	0	5	1,863	–134	0	9,959
2012/2013							
Intangible assets							
Goodwill	123,240	676	0	0	–59	0	123,857
Development costs	276,564	0	1,875	0	0	0	278,439
Software/other rights	99,998	731	4,634	313	–35	811	104,830
Advance payments	2,716	0	1,666	–316	0	0	4,066
	502,518	**1,407**	**8,175**	**–3**	**–94**	**811**	**511,192**
Property, plant and equipment							
Land and buildings	698,166	5	3,370	667	2,609	14,107	690,710
Technical equipment and machinery	613,645	679	14,801	3,751	129	26,849	606,156
Other equipment, operating and office equipment	710,357	330	43,474	3,648	1,936	53,064	706,681
Advance payments and assets under construction	9,226	0	12,075	–6,304	0	797	14,200
	2,031,394	**1,014**	**73,720**	**1,762**	**4,674**	**94,817**	**2,017,747**
Investment property	**9,959**	**0**	**0**	**1**	**–22**	**446**	**9,492**

Cumulative depreciation and amortization								Carrying amounts
As of start of financial year	Change in scope of consolidation	Depreciation and amortization [2) 3)]	Reclassifications [1)]	Currency adjustments	Disposals	Reversals	**As of end of financial year**	**As of end of financial year**
3	0	0	0	0	0	0	3	123,237
169,832	0	19,086	0	0	8,013	0	180,905	95,659
97,642	0	6,642	– 2	352	28,856	0	75,778	24,220
0	0	0	0	0	0	0	0	2,716
267,477	0	25,728	– 2	352	36,869	0	256,686	245,832
433,184	0	11,916	– 323	2,977	528	0	447,226	250,940
473,690	0	16,893	– 605	1,599	15,513	0	476,064	137,581
568,464	0	35,573	313	2,225	46,131	0	560,444	149,913
0	0	0	0	0	0	0	0	9,226
1,475,338	0	64,382	– 615	6,801	62,172	0	1,483,734	547,660
2,561	0	71	0	– 31	0	0	2,601	7,358
3	0	0	0	0	0	0	3	123,854
180,905	0	14,481	0	0	0	0	195,386	83,053
75,778	0	6,089	0	21	761	0	81,127	23,703
0	0	0	0	0	0	0	0	4,066
256,686	**0**	**20,570**	**0**	**21**	**761**	**0**	**276,516**	**234,676**
447,226	0	14,076	298	333	6,650	– 2	455,281	235,429
476,064	273	16,668	536	42	22,264	0	471,319	134,837
560,444	112	33,788	1,019	1,050	35,783	0	560,630	146,051
0	0	0	0	0	0	0	0	14,200
1,483,734	**385**	**64,532**	**1,853**	**1,425**	**64,697**	**– 2**	**1,487,230**	**530,517**
2,601	**0**	**71**	**0**	**– 6**	**162**	**0**	**2,504**	**6,988**

1) Including reclassifications to “Assets held for sale” of € 1 thousand (previous year: € 775 thousand)
2) Including impairment loss of € 2,420 thousand (previous year: € 3,285 thousand), see note 12
3) Including special items of € 2,226 thousand (previous year: € 3,131 thousand)

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 € thousands. 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 the 2012/2013 financial year (April 1, 2012 to March 31, 2013). They were approved for publication by the Management Board of Heidelberger Druckmaschinen Aktiengesellschaft on May 24, 2013.

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 the 2012/2013 financial year:

Standard	Publication by the IASB/IFRS IC	Date of adoption in EU [1]	Published in Official Journal of the EU	Effects
Amendments to standards				
Amendment to IFRS 7: Financial Instruments: Disclosures: Transfers of Financial Assets	7-Oct-2010	1-Jul-2011	23-Nov-2011	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 is not yet compulsory in the 2012/2013 financial year or which have not yet been endorsed 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	Content	Expected effects
Amendments to standards					
Amendments to IAS 1: Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income	16-Jun-2011	1-Jul-2012	6-Jun-2012	> Items of other comprehensive income must be grouped according to whether or not they can be recycled to the income statement; subtotals must be presented for both groups. > Income taxes in connection with items reported before taxes must be shown separately in OCI for each of these two groups.	Currently being examined
Amendments to IAS 12: Income Taxes: Deferred Taxes: Recovery of Underlying Assets	20-Dec-2010	1-Jan-2013	29-Dec-2012	> 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
Amendments to IAS 19: Employee Benefits	16-Jun-2011	1-Jan-2013	6-Jun-2012	> 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.	Anticipated effects are shown below this table
IAS 27: Separate Financial Statements	12-Jun-2011	1-Jan-2014	29-Dec-2012	> The individual standard now only includes the – unchanged – regulations on accounting for interests in subsidiaries, associates and joint ventures in separate financial statements.	None
IAS 28: Investments in Associates and Joint Ventures	12-Jun-2011	1-Jan-2014	29-Dec-2012	> Most of the changes are a result of the inclusion of joint ventures in the scope of IAS 28.	Currently being examined
Amendment to IAS 32: Financial Instruments: Presentation: Offsetting Financial Assets and Financial Liabilities	16-Dec-2011	1-Jan-2014	29-Dec-2012	> The changes include clarifications of regulations on the offsetting of financial assets and financial liabilities.	Currently being examined
Amendments to IFRS 1: First-time Adoption: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	20-Dec-2010	1-Jan-2013	29-Dec-2012	> The amendments relate to additional information for first-time adopters whose currency was subject to hyperinflation on the one hand and the elimination of the set first-time adoption date on the other.	None
Amendments to IFRS 1: Government Loans with a Below-market Rate of Interest	13-Mar-2012	1-Jan-2013	5-Mar-2013	> The amendments relate to accounting for government loans with a below-market interest rate at the time of transition to IFRS.	None
Amendment to IFRS 7: Financial Instruments: Disclosures: Offsetting Financial Assets and Financial Liabilities	16-Dec-2011	1-Jan-2013	29-Dec-2012	> The changes include additional disclosure requirements for netted financial instruments.	Currently being examined
Amendments to IFRS 9 and IFRS 7: Date of Mandatory First-time Adoption and Transition Disclosures	16-Dec-2011	1-Jan-2015	Outstanding	> The standard stipulates that IFRS 9 is only mandatory 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.	Currently being examined

Standards	Publication by the IASB/IFRS IC	Effective date [1]	Published in Official Journal of the EU	Content	Expected effects
Amendments to IFRS 10, IFRS 11 and IFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	28-Jun-2012	1-Jan-2014	5-Apr-2013	> The amendments provide further details on the transition regulations for IFRS 10. > Only the prior-year figures for the immediately preceding period have to be restated on first-time adoption of standards. > The comparative information on periods prior to first-time adoption of IFRS 12 is not required for disclosures on structured entities.	Currently being examined
Amendments to IFRS 10, IFRS 12 and IAS 27: Investment Entities	31-Oct-2012	1-Jan-2014	Outstanding	> The amendments exclude investment entities from the consolidation requirement of IFRS 10. Instead they are accounted for at fair value.	Currently being examined
Improvements to International Financial Reporting Standards for 2009–2011 Cycle	17-May-2012	1-Jan-2013	28-Mar-2013	> Minor and non-urgent improvements are made to IFRS as part of the IASB's annual improvement project.	Currently being examined
New standards					
IFRS 9: Financial Instruments	12-Nov-2009	1-Jan-2015	Outstanding	> 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: Consolidated Financial Statements	12-May-2011	1-Jan-2014	29-Dec-2012	> IFRS 10 creates a uniform basis for the definition of a parent-subsidiary relationship and for the specific definition of the scope of consolidation. > The uniform consolidation model for all companies is based on the parent's control of the subsidiary.	Currently being examined
IFRS 11: Joint Arrangements	12-May-2011	1-Jan-2014	29-Dec-2012	> 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: Disclosure of Interests in Other Entities	12-May-2011	1-Jan-2014	29-Dec-2012	> IFRS 12 compiles the necessary disclosures for entities reporting in accordance with the new standard IFRS 10, IFRS 11 and IAS 28 Investments in Associates and Joint Ventures.	Currently being examined
IFRS 13: Fair Value Measurement	12-May-2011	1-Jan-2013	29-Dec-2012	> 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
New interpretations					
IFRIC Interpretation 20: Stripping costs in the production phase of a surface mine	19-Oct-2011	1-Jan-2013	29-Dec-2012	> IFRIC 20 regulates accounting for stripping costs in the production phase of a surface mine.	None

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

In line with the mandatory adoption of IAS 19 (2011) (Amendments to IAS 19: Employee Benefits) in financial year 2013/2014, the return on plan assets will in future no longer be offset against staff costs at individual entity level up to the amount of expenses for pension claims. As a consequence, in future – ceteris paribus – income estimated at € 25 million to € 30 million will be reclassified from the result of operating activities to the financial result. We expect the replacement of the concept of an expected return on plan assets by the so-called net interest approach to result in a reduction of the anticipated return on plan assets by € 14 million. Additionally, the notes to the consolidated financial statements will include further information.

3 Scope of consolidation

The consolidated financial statements of Heidelberger Druckmaschinen Aktiengesellschaft include a total of 72 (previous year: 70) domestic and foreign companies controlled by Heidelberger Druckmaschinen Aktiengesellschaft within the meaning of IAS 27. Of these companies, 61 (previous year: 59) are located outside Germany.

	2011/2012	**2012/2013**
April 1	75	70
Initial consolidation due to formation	0	0
Initial consolidation due to acquisition	0	3
Merger	4	0
Deconsolidation	0	0
Liquidation	1	1
March 31	70	72

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 in the appendix to these notes (see pages 174 to 177).

The Heidelberg consolidated financial statements as of March 31, 2013, include five (previous year: five) companies whose reporting period ends as of December 31, 2012. If these companies conduct material transactions between December 31 and March 31, they are included in the consolidated financial statements.

The scope of consolidation changed as follows as against the previous year:

> First-time inclusion in consolidation:
In the year under review, Heidelberg acquired the Swiss prepress and consumer materials dealer OFS, a group consisting of the companies OF Schweiz Holding AG, Pfaffnau, Switzerland, OF Schweiz AG, Pfaffnau, Switzerland, and OF Service AG, Pfaffnau, Switzerland. The companies were added to the scope of consolidation in the third quarter of the 2012/2013 financial year.

> Liquidation:
Linotype-Hell Finance Ltd., Brentford, UK, was liquidated as of March 26, 2013.

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 related to these 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. Nonmonetary 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 as a rule 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 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	
	2011/2012 €1 =	**2012/2013 €1 =**	2011/2012 €1 =	**2012/2013 €1 =**
AUD	1.3152	1.2487	1.2836	1.2308
CAD	1.3702	1.2932	1.3311	1.3021
CHF	1.2102	1.2094	1.2045	1.2195
CNY	8.8491	8.0928	8.4089	7.9600
GBP	0.8643	0.8163	0.8339	0.8456
HKD	10.7772	9.9974	10.3705	9.9420
JPY	109.3292	107.4091	109.5600	120.8700
USD	1.3861	1.2889	1.3356	1.2805

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 sufficiently 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 or 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 fair value of investment property is disclosed in the notes to the consolidated financial statements. About half of this figure is calculated by Group-external, independent experts in line with internationally acknowledged valuation methods, such as the discounted cash flow method; otherwise it 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. The operating leases in which we operate as the lessee predominantly relate to leased buildings. Some of the building leases contain prolongation options.

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):

	2011/2012	**2012/2013**
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	6 to 29	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 the 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 financial assets available for sale 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 financial assets available for sale 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 noncurrent financing. In line with IAS 17, these receivables are carried at the net investment value, i. e. at the discounted future minimum lease payments plus any unguaranteed residual values. Lease payments are broken down into repayments and interest income, and interest income is recognized in the consolidated income statement over the term of the leases reflecting a constant periodic return on the net investment.

Receivables from sales financing are assigned to the IAS 39, category loans and receivables and carried at fair value. Measurement in subsequent periods is at amortized cost using the effective interest rate method.

TRADE RECEIVABLES

First-time recognition of trade receivables is at fair value plus directly attributable transaction costs. Measurement in subsequent periods is at amortized cost using the effective interest rate method due to the loans and receivables measurement category.

RECEIVABLES AND OTHER ASSETS

The receivables and other assets item includes both non-financial assets and financial assets including derivative financial instruments. With the exception of derivative financial instruments, financial assets are assigned to the loans and receivables category under IAS 39, and are therefore measured at amortized cost. Non-financial assets are measured in line with the respective applicable standard.

CASH AND CASH EQUIVALENTS

Cash on hand and bank balances are carried at amortized cost. Bank balances have a remaining term of up to three months.

FINANCIAL LIABILITIES

Primary financial instruments include financial liabilities, trade payables and non-derivative other financial liabilities. Trade payables and non-derivative other financial liabilities include accruals for outstanding invoices and for staff.

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 hedging 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 carryforwards 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 28.26 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 (2005G) or comparable foreign mortality tables. Plan assets carried at fair value are offset against defined benefit obligations. The service cost is reported under staff costs and the interest portion of the additions to provisions under net financial income. The return on plan assets is offset from staff costs at the level of the individual company up to the amount of expenses for pension claims. Any excess amount is reported in net financial income.

The discounting rate used to calculate the present value of pension claims is based on the currency-specific returns on high-quality corporate bonds with a similar maturity. 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, including tax provisions (for current tax obligations) 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 production-related full costs, taking into consideration possible cost increases.

Provisions for restructuring measures are recognized to the extent that the criteria of IAS 37 are met.

Non-current provisions with a remaining term of more than one year are carried at the discounted settlement amount at the end of the reporting period on the basis of appropriate interest rates if the time value of money is material. The underlying interest rates depend on the term of the obligation.

ADVANCE PAYMENTS

Advance payments are recognized under liabilities.

DEFERRED INCOME

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 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 3.75 percent or 3.25 percent respectively (previous year: to 4.75 percent or 4.25 percent respectively) would result in a € 37,940 thousand (previous year: € 30,874 thousand) reduction or a € 40,586 thousand (previous year: € 32,936 thousand) increase in domestic pension claims. After income taxes, the losses offset in other comprehensive income would be reduced by € 27,218 thousand (previous year: € 22,096 thousand) or increased by € 29,116 thousand (previous year: € 23,572 thousand) respectively.

The goodwill impairment test is based on the parameters listed in note 19. As in the previous year, increasing the discount rate before taxes by one percentage point to 10.7 percent (previous year: 10.0 percent) for the cash-generating unit Heidelberg Equipment and 10.9 percent (previous year: 10.4 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 € 6,559 thousand (previous year: € 5,891 thousand) and interest income from sales financing and finance leases amounting to € 10,905 thousand (previous year: € 14,581 thousand).

Further information on sales can be found in the Segment Report and the Report on the Regions in the consolidated management report. The classification of sales by segment and sales by region is shown in note 37.

9 Other operating income

	2011/2012	**2012/2013**
Reversal of other provisions and deferred liabilities	51,183	52,421
Recoveries on loans and other assets previously written down	16,935	12,837
Income from operating facilities	12,845	10,027
Hedging/exchange rate gains	13,965	3,675
Income from disposals of intangible assets, property, plant and equipment, and investment property	2,004	1,770
Other income	26,152	24,912
	123,084	**105,642**

10 Cost of materials

	2011/2012	**2012/2013**
Cost of raw materials, consumables and supplies, and of goods purchased and held for resale	1,111,999	1,157,405
Cost of purchased services	117,310	118,692
Interest expense of Heidelberg Financial Services	2,410	2,148
	1,231,719	**1,278,245**

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

11 Staff costs and number of employees

	2011/2012	**2012/2013**
Wages and salaries	762,234	760,171
Retirement benefit expenses [1]	34,268	35,945
Return on plan assets	– 27,880	– 29,582
Other social security contributions and expenses	135,908	134,939
	904,530	**901,473**

[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 € 0 thousand (previous year: € 11,246 thousand).

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

	Average		As of	
	2011/2012	**2012/2013**	31-Mar-2012	**31-Mar-2013**
Europe, Middle East and Africa	10,930	10,136	10,833	9,937
Eastern Europe	624	582	615	551
North America	940	837	882	791
South America	264	261	262	257
Asia/Pacific	2,215	2,181	2,221	2,158
	14,973	13,997	14,813	13,694
Trainees	672	609	601	521
	15,645	**14,606**	15,414	**14,215**

[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 € 85,173 thousand (previous year: € 90,181 thousand) relate to intangible assets (€ 20,570 thousand; previous year: € 25,728 thousand), property, plant and equipment (€ 64,532 thousand; previous year: € 64,382 thousand) and investment property (€ 71 thousand; previous year: € 71 thousand).

Impairment was recognized as follows: € 1,661 thousand on land and buildings (previous year: € 169 thousand), € 759 thousand on other equipment, operating and office equipment (previous year: € 408 thousand) and € 0 thousand on intangible assets (previous year: € 2,708 thousand). Impairment primarily relates to the Heidelberg Equipment Division and is essentially recognized under special items.

13 Other operating expenses

	2011/2012	**2012/2013**
Special direct sales expenses including freight charges	121,954	122,196
Other deliveries and services not included in the cost of materials	111,888	120,710
Rent and leases	62,474	60,179
Travel expenses	43,928	42,632
Bad debt allowances and impairment on other assets	20,590	18,114
Additions to provisions and accruals relating to several types of expense	18,853	15,970
Insurance expense	10,967	10,547
Hedging/exchange rate losses	20,337	9,323
Costs of car fleet (excluding leases)	8,045	7,726
Other overheads	100,504	97,264
	519,540	**504,661**

14 Special items

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

Staff-related expenses of € 55,557 thousand (previous year: € 123,123 thousand) were incurred as part of this program in the reporting period. The remaining expenses of € 9,167 thousand (previous year: € 19,151 thousand) essentially relate to other structural measures in connection with Focus 2012 and include impairment losses on inventories and consulting costs.

15 Financial result

	2011/2012	**2012/2013**
Financial income	20,475	16,850
Financial expenses	110,029	98,543
Financial result	– 89,554	**– 81,693**

16 Financial income

	2011/2012	**2012/2013**
Interest and similar income	14,974	10,813
Income from financial assets/loans/securities	5,501	6,037
Financial income	20,475	**16,850**

17 Financial expenses

	2011/2012	**2012/2013**
Interest and similar expenses	106,465	90,664
– of which: net interest cost of pensions	(34,431)	(36,402)
Expenses for financial assets/loans/securities	3,564	7,879
Financial expenses	110,029	**98,543**

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).

Costs of financial assets/loans/securities include write-downs/reversals of write-downs of € 8 thousand (previous year: € 620 thousand).

18 Taxes on income

Taxes on income are broken down as follows:

	2011/2012	**2012/2013**
Current taxes	– 81,586	– 10,892
of which Germany	(– 85,863)	(– 4,857)
of which abroad	(4,277)	(– 6,035)
Deferred taxes	82,364	2,279
of which Germany	(77,455)	(1,192)
of which abroad	(4,909)	(1,087)
	778	**– 8,613**

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 (12.43 percent; previous year: 12.60 percent) and comparable taxes of the foreign subsidiaries. The nominal total German tax rate is 28.26 percent for the financial year (previous year: 28.43 percent).

No deferred tax liabilities were recognized for temporary differences on shares in subsidiaries of € 277,663 thousand (previous year: € 232,011 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 € 520 thousand in the reporting year (previous year: € 20,576 thousand).

Total tax loss carryforwards for which no deferred tax assets were recognized amount to € 1,099,749 thousand (previous year: € 1,067,871 thousand). Of these, € 0 thousand can be used until 2014 (previous year: € 1,763 thousand until 2013), € 0 thousand until 2015 (previous year: € 7,240 thousand until 2014), € 0 thousand until 2016 (previous year: € 9,428 thousand until 2015), € 106 thousand until 2017 (previous year: € 3,965 thousand until 2016), € 0 thousand until 2018 (previous year: € 2,136 thousand until 2017) and € 1,099,643 thousand until 2019 and later (previous year: € 1,043,339 thousand until 2018 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 recognized in the amount of € 835 thousand in the year under review (previous year: € 63,952 thousand). Deferred tax assets totaling € 0 thousand (previous year: € 1,250 thousand) were recognized in the reporting year on tax loss carryforwards not previously recognized. Deferred tax assets on current tax losses amounting to € 44 thousand (previous year: € 1,007 thousand) were recognized in profit or loss in the reporting year. The existence of tax loss carryforwards is basically an 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 € 7,831 thousand (previous year: € 14,941 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: € 0 thousand).

Unutilized tax credit for which no deferred tax assets have been recognized in the consolidated statement of financial position amounted to € 2,560 thousand (previous year: € 2,454 thousand).

Current taxes were reduced in the reporting year by € 9,864 thousand (previous year: € 4,023 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 € 30,228 thousand (previous year: € 97,376 thousand).

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

	2011/2012	**2012/2013**
Income before taxes:	– 229,315	– 118,480
Theoretical tax rate in percent	28.43	28.26
Theoretical tax income	– 65,194	**– 33,482**
Change in theoretical tax expense/income due to:		
– Differing tax rate	– 7,990	– 4,217
– Tax loss carryforwards [1]	144,003	35,559
– Reduction due to tax-free income	– 10,898	– 6,921
– Tax increase due to non-deductible expenses	12,586	15,533
– Change in tax provisions/taxes attributable to previous years/impairment of deferred tax assets temporary differences	– 74,339	– 17,315
– Other	2,610	2,230
Taxes on income	778	**– 8,613**
Tax rate in percent	– 0.34	**7.27**

[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 € 69,340 thousand (previous year: € 69,319 thousand) or € 54,514 thousand (previous year: € 53,918) 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 or 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 9.7 percent (previous year: 9.0 percent) for the Heidelberg Equipment cash-generating unit and of 9.9 percent (previous year: 9.4 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.

Sensitivity analyses were conducted as part of the impairment test in accordance with the requirements of IAS 36.134; no impairment requirements were identified (see note 7).

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 € 116,372 thousand in the reporting year (previous year: € 127,922 thousand).

20 Property, plant and equipment, investment property and assets held for sale

The carrying amounts of assets capitalized in non-current assets from finance leases in which we are the lessee are € 3,412 thousand (previous year: € 3,917 thousand) for land and buildings and € 4,461 thousand (previous year: € 5,196 thousand) for other equipment, operating and office equipment. The latter are mainly vehicles and IT equipment.

The carrying amounts of assets capitalized in non-current assets from operating leases in which we are the lessor are € 14,461 thousand (previous year: € 14,637 thousand). These assets are reported under technical equipment and machinery. These assets are printing presses leased to customers. The gross carrying amounts were € 29,844 thousand (previous year: € 29,677 thousand) and cumulative depreciation amounted to

€ 15,383 thousand (previous year: € 15,039 thousand). Depreciation of € 4,111 thousand (previous year: € 4,264 thousand) was recognized in the reporting year. Future lease income of € 2,842 thousand (previous year: € 2,444 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 € 1,555 thousand (previous year: € 1,184 thousand), € 1,032 thousand (previous year: € 1,130 thousand) and € 255 thousand (previous year: € 129 thousand) respectively.

In connection with a loan received (carrying amount: € 40,739 thousand; previous year: € 48,548 thousand), the lender was granted usufructuary rights on three developed plots of land (carrying amount: € 34,533 thousand; previous year: € 35,533 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 € 359,682 thousand (previous year: € 362,507 thousand) and € 4,656 thousand (previous year: € 4,939 thousand) respectively.

The carrying amounts of property, plant and equipment that are temporarily 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 € 9,078 thousand (previous year: € 9,390 thousand). As in the previous year, only immaterial current income or expenses were incurred in connection with investment property in the reporting year.

In line with IFRS 5, assets of € 2,049 thousand (previous year: € 2,694 thousand) were classified as held for sale as of March 31, 2013. These essentially relate to three developed plots of land, the sale of which is planned and has been initiated, and which are mostly allocated to the Heidelberg Services segment.

21 Financial assets

Financial assets include shares in subsidiaries totaling € 16,800 thousand (previous year: € 20,659 thousand), other investments of € 3,461 thousand (previous year: € 3,464 thousand) and securities of € 3,329 thousand (previous year: € 3,365 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-2012			31-Mar-2013		
	Current	Non-current	Total	Current	Non-current	Total
Receivables from sales financing	70,460	85,830	156,290	55,049	63,215	118,264
Trade receivables	360,958	0	360,958	381,842	0	381,842
Other receivables and other assets						
Other tax assets	18,039	0	18,039	21,664	0	21,664
Loans	279	7,016	7,295	376	8,528	8,904
Derivative financial instruments	15,406	395	15,801	11,743	28	11,771
Deferred interest	140	0	140	137	0	137
Deferred income	16,061	1,536	17,597	11,847	1,102	12,949
Other assets	66,493	7,651	74,144	64,490	9,567	74,057
	116,418	16,598	133,016	110,257	19,225	**129,482**

In the reporting year, plan assets of € 2,351 thousand (previous year: € 913 thousand) are 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 € 121,779 thousand (previous year: € 91,457 thousand), € 72,824 thousand (previous year: € 98,388 thousand) and € 11,243 thousand (previous year: € 10,598 thousand) respectively.

RECEIVABLES FROM SALES FINANCING

RECEIVABLES FROM SALES FINANCING are shown in the table below:

Contract currency	Carrying amount 31-Mar-2012 in € thousand	Remaining term in years	Effective interest rate in %	Carrying amount **31-Mar-2013** in € thousand	Remaining term in years	Effective interest rate in %
EUR	91,701	up to 9	up to 18	74,083	up to 9	up to 14
AUD	24,944	up to 7	up to 13	18,486	up to 7	up to 12
USD	11,736	up to 5	up to 11	5,132	up to 6	up to 12
KRW	12,299	up to 7	up to 10	9,607	up to 7	up to 10
Other	15,610			10,956		
	156,290			**118,264**		

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 € 16,770 thousand (previous year: € 19,570 thousand) was recognized for receivables from sales financing with a gross carrying amount of € 39,106 thousand (previous year: € 48,972 thousand). The derived market value of the collateral held for receivables from machinery sales was € 114,169 thousand (previous year: € 148,591 thousand) as of the end of the reporting period. This collateral is essentially reservations of title, with the amount of security varying 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-2012	**31-Mar-2013**
Receivables from sales financing neither past due nor impaired	113,976	80,949
Receivables past due but not impaired		
less than 30 days	2,657	6,064
between 30 and 60 days	1,592	1,254
between 60 and 90 days	2,938	783
between 90 and 180 days	2,246	3,063
more than 180 days	3,479	3,815
Total	12,912	14,979
	126,888	**95,928**

The total impairment loss in the period for receivables from sales financing was € 5,798 thousand (previous year: € 9,002 thousand). Of this, impairment amounts booked to allowance accounts developed as follows:

	2011/2012	**2012/2013**
As of the start of the financial year	31,089	23,413
Additions	8,710	5,480
Utilization	– 7,096	– 2,843
Reversals	– 9,505	– 5,631
Change in scope of consolidation, currency adjustments, other changes	215	– 1,333
As of the end of the financial year	23,413	**19,086**

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 € 13 thousand (previous year: € 15 thousand). Leases are subject to the following parameters:

				31-Mar-2012				**31-Mar-2013**
	Up to 1 year	Between 1 and 5 years	More than 5 years		Up to 1 year	Between 1 and 5 years	More than 5 years	
Total lease payments	–	–	–	15,615	–	–	–	15,636
Lease payments received	–	–	–	–13,813	–	–	–	–14,550
Outstanding lease payments	779	1,023	–	1,802	809	277	0	1,086
Interest portion of outstanding lease payments	–76	–38	–	–114	–31	–10	0	–41
Present value of outstanding lease payments (carrying amount)	703	985	–	1,688	778	267	0	**1,045**

On account of the sector we operate in, credit risks arising from receivables from sales financing are concentrated within the print media industry. A significant proportion of receivables from sales financing is due from customers located in emerging countries.

TRADE RECEIVABLES

A specific allowance for impairment losses of € 33,948 thousand (previous year: € 34,316 thousand) was recognized for trade receivables with a gross carrying amount of € 41,767 thousand (previous year: € 44,918 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-2012	**31-Mar-2013**
Trade receivables neither past due nor impaired	239,914	273,068
Receivables past due but not impaired		
less than 30 days	58,447	58,777
between 30 and 60 days	18,219	15,169
between 60 and 90 days	10,197	6,008
between 90 and 180 days	10,487	11,904
more than 180 days	13,092	9,097
Total	110,442	100,955
	350,356	**374,023**

The derived market value of the collateral held for receivables from machinery sales was € 231,423 thousand (previous year: € 183,369 thousand) as of the end of the reporting period. This collateral is essentially reservations of title, with the amount of security varying from region to region.

The total impairment loss in the period for trade receivables was € 11,175 thousand (previous year: € 11,193 thousand). Of this, impairment amounts booked to allowance accounts developed as follows:

	2011/2012	**2012/2013**
As of the start of the financial year	45,275	41,198
Additions	9,743	9,848
Utilization	–7,287	–4,672
Reversals	–7,065	–7,726
Change in scope of consolidation, currency adjustments, other changes	532	2,587
As of the end of the financial year	41,198	**41,235**

Trade receivables in the reporting year did not include a significant concentration of risk.

OTHER RECEIVABLES AND OTHER ASSETS

The carrying amounts of non-current receivables and other financial assets are largely identical to the fair values. Any discrepancies that arise are of minor financial significance.

Specific allowances for impairment losses of € 4,993 thousand (previous year: € 5,162 thousand) and € 5,264 thousand (previous year: € 4,453 thousand) relate to loans (gross carrying amount € 13,897 thousand; previous year: € 12,459 thousand) and other financial assets (gross carrying amount € 47,865 thousand; previous year: € 30,983 thousand) respectively.

Of the impairment recognized on loans in the previous year, € 115 thousand (previous year: € 87 thousand) were utilized and € 22 thousand (previous year: € 3 thousand) were reversed. Additions to impairment losses of € 33 thousand were required (previous year: € 63 thousand). Of the impairment recognized on other financial assets in the previous year, € 0 thousand (previous year: € 0 thousand) was utilized and € 30 thousand (previous year: € 1 thousand) were reversed. Additions to impairment of € 1,110 thousand were required (previous year: € 383 thousand).

€ 425 thousand (previous year: € 818 thousand) of unimpaired loans and other financial assets were past due by more than 180 days.

Derivative financial instruments essentially include positive fair values from cash flow hedges of € 6,650 thousand (previous year: € 13,697 thousand) and from fair value hedges of € 4,996 thousand (previous year: € 1,778 thousand).

23 Deferred tax assets and deferred tax liabilities

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

	31-Mar-2012		**31-Mar-2013**	
	Asset	Liability	Asset	Liability
Tax loss carry-forwards	7,797	0	5,437	0
Assets:				
Intangible assets/property, plant and equipment/investment property/financial assets	9,359	6,719	8,106	6,364
Inventories, receivables and other assets	10,206	1,889	8,305	1,794
Securities	0	0	0	0
Liabilities				
Provisions	12,478	4,136	13,767	5,023
Liabilities	4,586	1,023	5,869	440
Gross amount	44,426	13,767	41,484	13,621
Offsetting	5,780	5,780	5,339	5,339
Carrying amount	38,646	7,987	**36,145**	**8,282**

Deferred tax assets include non-current deferred taxes of € 23,895 thousand (previous year: € 33,228 thousand). Deferred tax liabilities include non-current deferred taxes of € 5,715 thousand (previous year: € 6,220 thousand).

Due to currency translation, deferred tax assets increased by € 910 thousand (previous year: € 220 thousand) in the reporting year. Modifications in the scope of consolidation resulted in a change in deferred tax liabilities not recognized in profit or loss totaling € 105 thousand (previous year: € 0 thousand).

The income taxes recognized in the consolidated statement of comprehensive income break down as follows:

	2011/2012			**2012/2013**		
	Before income taxes	Income taxes	After income taxes	Before income taxes	Income taxes	After income taxes
Pension obligations	– 94,841	– 1,686	– 96,527	– 82,149	– 1,909	– 84,058
Currency translation	35,448	0	35,448	10,792	0	10,792
Financial assets available for sale	– 292	27	– 265	212	0	212
Cash flow hedges	– 9,732	1,833	– 7,899	5,205	587	5,792
Total other comprehensive income	– 69,417	174	– 69,243	– 65,940	– 1,322	**– 67,262**

24 Inventories

	31-Mar-2012	**31-Mar-2013**
Raw materials and supplies	121,925	115,364
Work and services in progress	334,796	292,132
Finished goods and goods for resale	325,264	289,964
Advance payments	3,741	2,232
	785,726	**699,692**

In order to adjust inventories to the net realizable value, impairment of € 3,722 thousand was recognized in the year under review (previous year: € 1,900 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 € 973 thousand (previous year: € 373 thousand) was reported under finished goods and goods held for resale. The repossession of this collateral resulted in cash and cash equivalents of € 733 thousand (previous year: € 797 thousand) at German companies in the reporting period.

The carrying amount of the inventories pledged as collateral in connection with the refinancing of the Heidelberg Group (see note 29) was € 401,712 thousand (previous year: € 468,305 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 € 61,562 thousand (previous year: € 63,644 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 is unchanged from the previous year; it amounts to € 599,672,166.40 and remains divided into 234,246,940 shares. For information on the capital increase performed in the previous year please see “Authorized capital”.

As of March 31, 2013, the Company holds 142,919 shares, as in the previous year. The amount of these shares allocated to share capital is € 366 thousand (previous year: € 366 thousand), with a notional amount of share capital of 0.06 percent as of March 31, 2013 (previous year: 0.06 percent).

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.

At the beginning of the previous year, 257,081 treasury shares were used for an employee share participation program agreed in the 2010/2011 financial year; the shares were issued free of charge for the employees. In the year under review, the employee program did not result in expenses, income (previous year: income of € 1,027 thousand) or an allocation to the capital reserves (March 31, 2012: € 1,339 thousand).

CONTINGENT CAPITAL

On July 26, 2012, the Annual General Meeting authorized the Management Board, with the approval of the Supervisory Board, to issue bearer or registered warrants or convertible bonds, profit-sharing rights or participating bonds, or a combination of these instruments (collectively referred to as "bonds") up to a total nominal amount of € 150,000,000.00, dated or undated, on one or several occasions by July 25, 2017, and to grant or impose on the bearers or creditors of option warrants or option profit-sharing rights or option participating bonds option rights or obligations, or to grant or impose on the bearers or creditors of convertible bonds, convertible profit-sharing rights or convertible participating bonds conversion rights or obligations to bearer shares of the company with a pro rata amount of share capital of up to € 119,934,433.28 in total, in accordance with the further conditions of these bonds. Shareholder preemptive subscription rights can be disapplied in accordance with the further conditions of authorization. The share capital was contingently increased by up to € 119,934,433.28 (Contingent Capital 2012) for this purpose; details of Contingent Capital 2012 can be found in Article 3 (3) of the Articles of Association. The resolution was entered in the commercial register on August 13, 2012.

In accordance with the resolution of the Annual General Meeting of July 20, 2006, the share capital was 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. The Annual General Meeting withdrew Contingent Capital 2006 on July 26, 2012.

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 for 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:

In accordance with the resolution of the Annual General Meeting of July 18, 2008, the share capital was 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 per share of € 2.56 (Contingent Capital 2008/I). The contingent capital increase was for the purpose of granting bearer shares to the bearers or creditors of convertible bonds or bonds with warrants, profit-sharing rights or participating bonds (or combinations of these instruments) that were issued by the Company or one of its direct or indirect Group companies on the basis of the authorization resolved at the Annual General Meeting on July 18, 2008, under agenda item 9a) and that grant a conversion or option right to bearer shares in the Company or that stipulate a conversion obligation.

In accordance with the resolution of the Annual General Meeting of July 18, 2008, the share capital was 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 per share of € 2.56 (Contingent Capital 2008/II). The contingent capital increase was for the purpose of granting bearer shares to the bearers or creditors of convertible bonds or bonds with warrants, profit-sharing rights or participating bonds (or combinations of these instruments) that were issued by the Company or one of its direct or indirect Group companies on the basis of the authorization resolved at the Annual General Meeting on July 18, 2008 under agenda item 10a) and that grant a conversion or option right to bearer shares in the Company or that stipulate a conversion obligation.

On July 26, 2012, the Annual General Meeting withdrew both Contingent Capital 2008/I and Contingent Capital 2008/II.

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).

A capital increase was carried out in the previous year 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' preemptive 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 contributions (**AUTHORIZED CAPITAL 2008**). The capital increase resolution was entered in the commercial register on June 6, 2011.

The Annual General Meeting on July 26, 2012, 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 or non-cash contributions by July 25, 2017 (**AUTHORIZED CAPITAL 2012**). Preemptive subscription rights can be disapplied in accordance with the further conditions of authorization. Details of Authorized Capital 2012 can be found in Article 3 (4) of the Articles of Association. The authorization took effect on entry of the amendment of the Articles of Association in the commercial register on August 13, 2012.

In accordance with the resolution of the Annual General Meeting on July 28, 2011, the Management Board was authorized, 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**). On July 26, 2012, the Annual General Meeting withdrew Authorized Capital 2011 effective from the entry of Authorized Capital 2012.

CAPITAL RESERVES

The capital reserves essentially include amounts from the capital increase in accordance with Section 272 (2) 1 of the German Commercial Code (HGB), from the simplified capital reduction in accordance with Section 237 (5) 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 previous year of the risk provisions recognized for this purpose, thereby increasing retained earnings.

APPROPRIATION OF THE NET PROFIT OF HEIDELBERGER DRUCKMASCHINEN AKTIENGESELLSCHAFT

The net loss of € 30,017,081.24 incurred by Heidelberger Druckmaschinen Aktiengesellschaft in the 2011/2012 financial year was withdrawn in full from other retained earnings in its annual financial statements.

The net loss of € 76,515,071.84 incurred by Heidelberger Druckmaschinen Aktiengesellschaft in the year under review was also 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 € 63,383 thousand (previous year: € 64,136 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 19.58b) are offset outside profit or loss.

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

	2011/2012		**2012/2013**	
	Domestic	Foreign	**Domestic**	**Foreign**
Discount rate	4.50	3.52	3.50	3.50
Expected return on plan assets	5.17	4.60	5.37	4.41
Expected future salary increases	3.00	2.44	3.00	2.43
Expected future pension increases	2.00	2.35	1.75	2.37

The determination of the discount rate, based on Bloomberg data and the adjustment of the expected pension increase, which was carried out for the first time on September 30, 2012, resulted in an overall reduction of actuarial losses at domestic affiliates by € 35,480 thousand as of March 31, 2013. The calculation was based on a discount rate of 3.50 percent (March 31, 2012: 4.50 percent), which without adjustment would also have equally been 3.50 percent, and an expected pension increase of 1.75 percent (March 31, 2012: 2.00 percent).

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-2012	**31-Mar-2013**
Provisions for pensions and similar obligations	326,080	415,746
Reported assets	913	2,351
Net carrying amounts at the end of the financial year	325,167	**413,395**

The net carrying amounts developed as follows:

	2011/2012	**2012/2013**
Net carrying amounts at the start of the financial year	214,014	325,167
Expenses for pension obligations	70,321	65,415
Pension payments	– 8,023	– 12,374
Employer/employee contributions	– 7,232	– 7,296
Actuarial gains (–)/losses (+)	94,841	82,149
Expected return on plan assets	– 42,634	– 41,625
Change in scope of consolidation, currency adjustments, other changes	3,880	1,959
Net carrying amounts at the end of the financial year	325,167	**413,395**

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-2012	**31-Mar-2013**
Present value of defined benefit obligation for employees (funded)	1,140,457	1,256,035
Less fair value of plan assets	– 846,400	– 872,099
	294,057	383,936
Present value of defined benefit obligation for employees (unfunded)	31,110	29,459
Net carrying amount	325,167	413,395
Reported assets included therein	913	2,351
Provisions for pensions and similar obligations	326,080	**415,746**

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

	2011/2012	**2012/2013**
Defined benefit obligation for employees at the start of the financial year	1,037,033	1,171,567
Current service cost	20,215	21,679
Interest expense	49,185	48,445
Pension payments	– 44,954	– 57,925
Actuarial gains (–)/losses (+)	85,710	108,269
Past service cost	2,527	– 3,541
Curtailments	– 1,607	– 1,168
Change in scope of consolidation, currency adjustments, other changes	23,458	– 1,832
Defined benefit obligation for employees at the end of the financial year	1,171,567	**1,285,494**
– of which: funded	1,140,457	1,256,035
– of which: unfunded	31,110	29,459

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

	2011/2012	**2012/2013**
Fair value of plan assets at the start of the financial year	823,019	846,400
Expected return on plan assets	42,634	41,625
Employer contributions	4,176	4,855
Employee contributions	3,056	2,441
Pension payments from funds	– 36,931	– 45,551
Actuarial gains (+)/losses (–)	– 9,131	26,120
Change in scope of consolidation, currency adjustments, other changes	19,577	– 3,791
Fair value of fund assets at the end of the financial year	846,400	**872,099**

The actual return on plan assets is € 67,745 thousand (previous year: € 33,503 thousand).

5) Plan assets break down as follows:

	31-Mar-2012	**31-Mar-2013**
Fixed-income securities	447,306	425,373
Funds	95,141	201,335
Shares	211,262	144,711
Cash and cash equivalents	18,059	33,687
Qualifying insurance policy	29,385	29,537
Real estate	34,986	13,120
Others	10,261	24,336
	846,400	**872,099**

6) Retirement benefit expenses break down as follows:

	2011/2012	**2012/2013**
Current service cost	20,215	21,679
Interest expense	49,185	48,445
Past service cost	2,527	– 3,541
Curtailments	– 1,607	– 1,168
Expenses for pension obligations	70,320	65,415
Expected return on plan assets	– 42,634	– 41,625
Expenses for other pension plans	15,660	15,435
	43,346	**39,225**

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 € 35,945 thousand (previous year: € 34,268 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 19.58b) are € 298,450 thousand as of the end of the reporting period (previous year: € 216,990 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-2009	31-Mar-2010	31-Mar-2011	31-Mar-2012	**31-Mar-2013**
Present value of defined benefit obligation for employees (funded)	832,648	996,681	1,011,907	1,140,457	1,256,035
Less fair value of plan assets	– 702,810	– 806,263	– 823,019	– 846,400	– 872,099
	129,838	190,418	188,888	294,057	**383,936**
Present value of defined benefit obligation for employees (unfunded)	24,324	26,055	25,126	31,110	29,459

	2008/2009	2009/2010	2010/2011	2011/2012	**2012/2013**
Experience adjustments to liabilities	1,223	14,846	5,107	5,203	4,482
Experience adjustments to assets	– 108,105	88,944	– 9,883	– 9,131	26,120

28 Other provisions

			31-Mar-2012			**31-Mar-2013**
	Current	Non-current	Total	Current	Non-current	Total
Tax provisions	25,002	92,951	117,953	13,058	82,118	**95,176**
Other provisions						
Staff obligations	73,812	31,944	105,756	73,428	31,360	104,788
Sales obligations	114,598	13,205	127,803	109,524	14,607	124,131
Other	109,328	146,109	255,437	141,253	119,174	260,427
	297,738	191,258	488,996	324,205	165,141	489,346
	322,740	284,209	606,949	337,263	247,259	**584,522**

	As of 1-Apr-2012	Change in scope of consolidation, currency adjustments, reclassification	Utilization	Reversal	Addition	**As of 31-Mar-2013**
Tax provisions	117,953	486	5,707	29,177	11,621	**95,176**
Other provisions						
Staff obligations	105,756	298	58,372	2,045	59,151	104,788
Sales obligations	127,803	1,479	39,927	32,974	67,750	124,131
Other	255,437	4,221	73,494	23,924	98,187	260,427
	488,996	5,998	171,793	58,943	225,088	489,346
	606,949	6,484	177,500	88,120	236,709	**584,522**

Additions include accrued interest and the effects of the change in discount rates of € 4,669 thousand (previous year: € 10,357 thousand). These relate to expenses of € 2,128 thousand (previous year: € 2,122 thousand) for staff obligations, € 148 thousand (previous year: € 158 thousand) for sales and marketing obligations and expenses of € 2,393 thousand (previous year: expenses of € 8,077 thousand) for miscellaneous other provisions.

As in previous years, **TAX PROVISIONS** primarily recognize the risks of additional assessments. The decline in tax provisions in the year under review resulted from the absence of such risks at foreign Group companies.

STAFF PROVISIONS essentially relate to bonuses (€ 33,132 thousand; previous year: € 30,018 thousand), costs of early retirement payments and the partial retirement program (€ 21,364 thousand; previous year: € 26,465 thousand) and anniversary expenses (€ 16,832 thousand; previous year: € 16,624 thousand).

SALES AND MARKETING PROVISIONS mainly relate to warranties, reciprocal liability and buyback obligations (€ 76,751 thousand; previous year: € 78,468 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. Utilization of these provisions in Germany is predominantly expected over a short- to medium-term horizon. € 7,788 thousand (previous year: € 8,575 thousand) of the reciprocal liability and buyback obligations of € 10,442 thousand (previous year: € 11,236 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 € 35,982 thousand (previous year: € 47,369 thousand). Utilization of the provisions for reciprocal liability and buyback obligations is predominantly expected over a short- to medium-term horizon. In connection with the finance guarantees for sales financing, there are claims against third parties for the transfer of machinery. Outstanding claims were not capitalized.

MISCELLANEOUS OTHER PROVISIONS include provisions for onerous contracts of € 66,426 thousand (previous year: € 68,908 thousand) and research and development obligations of € 10,638 thousand (previous year: € 7,055 thousand). Furthermore, there are provisions of € 148,118 thousand (previous year: € 143,790 thousand) essentially relating to the **FOCUS 2012 EFFICIENCY PROGRAM**. Utilization of these latter provisions is predominantly expected over a short- to medium-term horizon; utilization of the remaining miscellaneous other provisions is predominantly expected over a short- to long-term horizon.

29 Financial liabilities

	31-Mar-2012				31-Mar-2013			
	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 loan	50,000	0	0	50,000	0	0	0	0
High-yield bond[1]	12,966	0	291,244	304,210	12,966	0	292,844	305,810
Amounts due to banks[1]	15,276	32,031	9,072	56,379	57,355	32,420	0	89,775
From finance leases	1,955	4,735	2,055	8,745	2,035	4,596	1,375	8,006
Others	18,362	0	0	18,362	15,272	0	0	15,272
	98,559	36,766	302,371	437,696	87,628	37,016	294,219	**418,863**

[1] Including deferred interest

BORROWER'S NOTE LOANS

The floating-rate borrower's note loan with a nominal amount of € 50,000 thousand outstanding in the previous year included bullet maturity in March 2013 and was repaid accordingly.

HIGH-YIELD BOND

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.

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-2012 in € thousand	Remaining term in years	Effective interest rate in %	Carrying amount **31-Mar-2013** in € thousand	Remaining term in years	Effective interest rate in %
Loans	EUR	98,877	up to 6	up to 6.57	62,429	up to 5	up to 6.57
Loans	Other	4,058	up to 2	up to 16.2	25,759	up to 2	up to 16.2
Others	Other	3,444	up to 1	up to 15.5	1,587	up to 1	up to 14.5
		106,379			**89,775**		

The stated effective interest rates essentially match the agreed nominal interest rates.

The stated carrying amounts essentially correspond to the respective nominal values and for variable interest include contractually agreed interest adjustment terms of up to six months.

In connection with the arranging of a long-term loan of € 40,739 thousand (previous year: € 48,548 thousand), the lender was granted usufructuary rights to three developed properties. The basis of this is a sale (usufructuary 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 usufructuary rights each have a term of 18 years. The usufructuary 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 € 44,689 thousand (previous year: € 52,124 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 € 490,559 thousand (previous year: € 506,001 thousand) can be used as financing for general business purposes and for measures in connection with our Focus 2012 efficiency program (see note 14).

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 the high-yield bond. The financing agreements for the credit facility contain standard financial covenants regarding the financial position 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. Owing to Heidelberg's reduced financing requirements as a result of its successful asset management, the credit facility was also reduced by € 25 million from July 1, 2012.

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

LIABILITIES FROM FINANCE LEASES

Liabilities from finance leases are as follows:

				31-Mar-2012				**31-Mar-2013**
	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				18,480				18,134
Lease payments already made				– 7,268				– 8,177
Outstanding lease payments	2,553	6,253	2,406	11,212	2,573	5,859	1,525	9,957
Interest portion of outstanding lease payments	– 598	– 1,518	– 351	– 2,467	– 539	– 1,262	– 150	– 1,951
Present value of outstanding lease payments (carrying amount)	1,955	4,735	2,055	8,745	2,034	4,597	1,375	**8,006**

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-2012				31-Mar-2013			
	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)	42,597	0	0	42,597	35,976	0	0	35,976
Advance payments on orders	66,145	0	0	66,145	70,570	0	0	70,570
From derivative financial instruments	17,826	0	0	17,826	4,097	0	0	4,097
From other taxes	34,766	0	0	34,766	42,532	0	44	42,576
For social security contributions	8,459	1,547	690	10,696	8,906	813	528	10,247
Deferred income	42,246	22,293	3,616	68,155	42,258	22,056	3,410	67,724
Other	59,205	82,759	14,093	156,057	43,126	80,366	14,292	137,784
	271,244	106,599	18,399	396,242	247,465	103,235	18,274	**368,974**

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments include liabilities from cash flow hedges of € 2,430 thousand (previous year: € 15,946 thousand) and from fair value hedges of € 1,667 thousand (previous year: € 1,880 thousand).

DEFERRED INCOME

Deferred income includes taxable investment subsidies of € 1,728 thousand (previous year: € 2,511 thousand), tax-free investment allowances of € 330 thousand (previous year: € 717 thousand), and other deferred income of € 65,666 thousand (previous year: € 64,927 thousand).

TAXABLE SUBSIDIES essentially comprise funds under the regional economic promotion program for investing in the Brandenburg production site. The subsidies were for Heidelberger Druckmaschinen Aktiengesellschaft in connection with the joint task for the development area totaling € 953 thousand (previous year: € 1,643 thousand).

TAX-FREE ALLOWANCES include allowances in line with the German Investment Allowance Act of 1999/2005/2007/2010 of € 330 thousand (previous year: € 717 thousand), mainly for the Brandenburg production site.

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 € 60,246 thousand (previous year: € 72,807 thousand) compared to the carrying amount of € 78,880 thousand (previous year: € 83,101 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-2012			**31-Mar-2013**
		Current	Non-current	Total	Current	Non-current	Total
Financial assets							
Shares in affiliated companies	AFS	0	20,659	20,659	0	16,800	16,800
Other investments	AFS	0	3,464	3,464	0	3,461	3,461
Securities	AFS	0	3,365	3,365	0	3,329	3,329
		0	27,488	27,488	0	23,590	23,590
Receivables from sales financing							
Receivables from sales financing not including finance leases	L & R	69,757	84,845	154,602	54,271	62,948	117,219
Receivables from finance leases	n. a.	703	985	1,688	778	267	1,045
		70,460	85,830	156,290	55,049	63,215	118,264
Trade receivables	L & R	360,958	0	360,958	381,842	0	381,842
Other receivables and other assets							
Derivative financial instruments	n. a.[2]	15,406	395	15,801	11,743	28	11,771
Other financial assets	L & R	39,486	8,326	47,812	52,041	12,099	64,140
		54,892	8,721	63,613	63,784	12,127	75,911
Miscellaneous other assets		61,526	7,877	69,403	46,473	7,098	53,571
		116,418	16,598	133,016	110,257	19,225	129,482
Cash and cash equivalents	L & R	194,556	0	194,556	157,492	0	157,492

[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 € 125 thousand in short-term hedges (previous year: € 362 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-2012			**31-Mar-2013**		
		Current	Non-current	Total	Current	Non-current	Total
Financial liabilities							
High-yield bond	FLAC	12,966	291,244	304,210	12,966	292,844	305,810
Borrower's note loans	FLAC	50,000	0	50,000	0	0	0
Amounts due to banks	FLAC	15,276	41,103	56,379	57,355	32,420	89,775
Liabilities from finance leases	n. a.	1,955	6,790	8,745	2,035	5,971	8,006
Other financial liabilities	FLAC	18,362	0	18,362	15,272	0	15,272
		98,559	339,137	437,696	87,628	331,235	418,863
Trade payables	FLAC	165,051	0	165,051	139,134	0	139,134
Other liabilities							
Derivative financial instruments	n. a.[2]	17,826	0	17,826	4,097	0	4,097
Other financial liabilities	FLAC	99,794	84,483	184,277	82,827	81,268	164,095
		117,620	84,483	202,103	86,924	81,268	168,192
Miscellaneous other liabilities		153,624	40,515	194,139	160,541	40,241	200,782
		271,244	124,998	396,242	247,465	121,509	368,974

[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: € 0 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-2012	**31-Mar-2013**
Up to 1 year	117,315	106,036
Between 1 and 5 years	155,254	154,858
More than 5 years	357,991	319,585
	630,560	**580,479**

NET GAINS AND LOSSES

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

	2011/2012	**2012/2013**
Financial assets available for sale	2,279	4,383
Loans and receivables	–6,667	–1,513
Financial liabilities at amortized cost	–49,393	–41,747

Changes in the value of available for sale financial assets of € 212 thousand (previous year: € –292 thousand) were also recognized in other comprehensive income.

Net gains and losses include € 7,009 thousand (previous year: € 9,864 thousand) of interest income and € 44,036 thousand (previous year: € 51,367 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 € 0 thousand (previous year: € –774 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 that 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 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-2012	**31-Mar-2013**	31-Mar-2012	**31-Mar-2013**
Currency hedging				
Cash flow hedge				
Forward exchange transactions	280,863	232,695	1,095	4,142
– of which: assets	(167,337)	(121,504)	(3,327)	(6,469)
– of which: liabilities	(113,526)	(111,191)	(–2,232)	(–2,327)
Currency options	475,000	14,457	–2,328	78
– of which: assets	(285,000)	(5,661)	(10,370)	(181)
– of which: liabilities	(190,000)	(8,796)	(–12,698)	(–103)
	755,863	247,152	–1,233	4,220
Fair value hedge				
Forward exchange transactions	291,239	276,384	–102	3,329
– of which: assets	(147,542)	(162,139)	(1,778)	(4,996)
– of which: liabilities	(143,697)	(114,245)	(–1,880)	(–1,667)
Interest rate hedging				
Cash flow hedge				
Interest rate swaps	50,000	0	–1,016	0
– of which: assets	(0)	(0)	(0)	(0)
– of which: liabilities	(50,000)	(0)	(–1,016)	(0)

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.

	31-Mar-2012				31-Mar-2013			
	Up to 1 year	Between 1 and 5 years	More than 5 years	Total undis-counted cash flows	Up to 1 year	Between 1 and 5 years	More than 5 years	Total undis-counted cash flows
Derivative financial liabilities								
Outgoing payments	– 391,843	0	0	– 391,843	– 217,758	0	0	– 217,758
Associated incoming payments	376,006	0	0	376,006	214,120	0	0	214,120
Derivative financial assets								
Outgoing payments	– 403,381	– 7,140	0	– 410,521	– 298,530	0	0	– 298,530
Associated incoming payments	415,112	7,571	0	422,683	308,926	0	0	308,926

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 12 months. Therefore, the remaining term of these derivatives at the end of the reporting period was up to one year. Of the hedges, 34 percent (previous year: 38 percent) of the hedging volume relates to the US dollar and 21 percent (previous year: 15 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 assets of € 6,650 thousand (previous year: € 13,697 thousand) and liabilities of € 2,430 thousand (previous year: € 14,930 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 12 months. In the year under review, no cash flow hedges were terminated early on account of purchasing volumes of subsidiaries no longer highly likely and reclassified from the hedge reserve to the financial result (previous year: € 913 thousand).

FAIR VALUE HEDGE

This is essentially the exchange rate hedge for loan receivables in foreign currencies within the Group. The opposing net gain on the fair value of hedges of € 3,021 thousand (previous year: € 23,770 thousand) and the translation of hedged items at reporting date rates of € 2,811 thousand (previous year: € – 23,954 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). Interest rate swaps were no longer held as of March 31, 2013. In the previous year, the measurement of all transactions resulted in liabilities of € 1,016 thousand, which were recognized in other comprehensive income and reversed to the financial result in the year under review. The expenses from deferred interest included in the fair values of the interest rate swaps of € 11 thousand in the previous year were 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 € 14,774 thousand (previous year: € 24,478 thousand) higher as of the end of the reporting period and the financial result would have been € 41 thousand lower (previous year: € 792 thousand). Assuming a 10 percent decrease in the value of the euro, the hedge reserve would have been € 18,058 thousand (previous year: € 25,544 thousand) lower and the financial result would have been € 50 thousand higher (previous year: € 652 thousand lower).

In accordance with IFRS 7, recognized **INTEREST RATE RISKS** of the Heidelberg Group must also 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 unchanged (previous year: € 370 thousand higher) as of the end of the reporting period and the financial result would have been € 47 thousand lower (previous year: € 119 thousand). Assuming a decrease of 100 basis points in the market interest rate across all terms, the hedge reserve would have been unchanged (previous year: € 380 thousand lower) and the financial result would have been € 47 thousand higher (previous year: € 119 thousand lower).

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 asset 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 warranties and guarantees, amounting to € 7,325 thousand as of March 31, 2013 (previous year: € 4,729 thousand), comprise among others 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-2012				**31-Mar-2013**			
	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	43,628	120,003	81,415	245,046	43,358	117,560	73,560	234,478
Investments and other purchasing requirements	43,055	11,864	0	54,919	35,201	12,496	0	47,697
	86,683	131,867	81,415	299,965	**78,559**	**130,056**	**73,560**	**282,175**

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 € 31,571 thousand (previous year: € 35,069 thousand);
> the Print Media Academy (Heidelberg) in the amount of € 27,036 thousand (previous year: € 32,458 thousand);
> the World Logistics Center (WLC) (Wiesloch-Walldorf plant) in the amount of € 24,122 thousand (previous year: € 28,033 thousand);
> the X-House administrative building (Heidelberg) in the amount of € 7,514 thousand (previous year: € 8,901 thousand);
> the administrative and production building in Rochester, New York, USA, in the amount of € 15,734 thousand (previous year: € 12,923 thousand);
> the administrative and production building in Durham, New Hampshire, USA, in the amount of € 15,312 thousand (previous year: € 16,374 thousand); and
> motor vehicles with a total value of € 23,524 thousand (previous year: € 27,454 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

	2011/2012	2012/2013
Consolidated net loss for the year (€ thousand)	– 230,093	– 109,867
Number of shares in thousands (weighted average)	233,899	234,104
Basic earnings per share (€)	– 0.98	– 0.47
Diluted earnings per share (€)	– 0.98	– 0.47

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 234,104 thousand (previous year: 233,899 thousand). The weighted number of shares outstanding was influenced by 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. There were still 142,919 treasury shares as of March 31, 2013 (March 31, 2012: 142,919).

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 finacial 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.

€ 8,175 thousand (previous year: € 4,300 thousand) of investments in intangible assets, property, plant and equipment and investment property relates to intangible assets, € 72,207 thousand (previous year: € 61,626 thousand) to property, plant and equipment and € 0 thousand (previous year: € 5 thousand) to investment property. Investments do not include additions from finance leases of € 1,513 thousand (previous year: € 3,734 thousand). € 12 thousand (previous year: € 9 thousand) of income from the disposal of intangible assets, property, plant and equipment and investment property relates to intangible assets and € 31,481 thousand (previous year: € 28,483 thousand) to property, plant and equipment. The cash used in intangible assets, property, plant and equipment and investment property includes investments of € 3,713 thousand (previous year: € 18,104 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 (€ 157,492 thousand; previous year: € 194,556 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-2011 to 31-Mar-2012 [2]	**1-Apr-2012 to 31-Mar-2013**	1-Apr-2011 to 31-Mar-2012 [2]	**1-Apr-2012 to 31-Mar-2013**	1-Apr-2011 to 31-Mar-2012 [2]	**1-Apr-2012 to 31-Mar-2013**	1-Apr-2011 to 31-Mar-2012 [2]	**1-Apr-2012 to 31-Mar-2013**
External sales	1,609,506	1,711,583	971,583	1,012,158	14,581	10,905	2,595,670	2,734,646
Depreciation and amortization	74,117	66,600	12,776	16,150	3	3	86,896	82,753
Non-cash expenses	307,722	228,751	83,103	82,491	13,208	7,404	404,033	318,646
Special items [1]	117,495	50,568	24,534	14,124	245	32	142,274	64,724
Result of operating activities (segment result)	– 188,760	– 96,023	35,606	50,578	13,393	8,658	– 139,761	– 36,787
Investments	59,755	64,660	9,907	17,230	3	5	69,665	81,895

[1] Expenses (+); income (–)
[2] Prior-year figures restated accordingly (please refer to explanations below)

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 is 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, spare parts and remarketed equipment business are bundled in the Heidelberg Services segment. The Heidelberg Financial Services segment comprises sales financing business. Further information on the business activities, products, and services of the individual segments can be found in the chapters "Management and Control" and "Segments and Business Areas" in the Group management report.

As part of the adjustment of our organization in line with the changing market environment in the year under review, in the Gallus business area (BA) – together with flexo printing machinery – the associated consumables, spare parts and technical services have been shown in the Heidelberg Equipment segment since the fourth quarter of financial year 2012/2013. Since the same date, software solutions for the Prinect printing workflow, previously assigned to Heidelberg Services, have been allocated to Heidelberg Equipment. Figures for the previous year were restated accordingly.

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 Report" and "Report on the Regions" in the Group management report. Transfer prices for internal Group sales are determined using a market-driven approach, based on the principle of dealing at arm's length.

NOTES ON SEGMENT DATA

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

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

Inter-segment sales are of minor financial significance.

INVESTMENTS comprise investments in intangible assets, property, plant and equipment and investment property.

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

	1-Apr-2011 to 31-Mar-2012	**1-Apr-2012 to 31-Mar-2013**
Result of operating activities (segment result)	– 139,761	– 36,787
Financial income	20,475	16,850
Financial expenses	110,029	98,543
Financial result	– 89,554	– 81,693
Income before taxes	– 229,315	**– 118,480**

INFORMATION BY REGION

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

	1-Apr-2011 to 31-Mar-2012	**1-Apr-2012 to 31-Mar-2013**
Europe, Middle East and Africa		
Germany	387,708	393,922
Other Europe, Middle East and Africa regions	564,991	616,401
	952,699	1,010,323
Asia/Pacific		
China	412,523	429,435
Other Asia/Pacific regions	441,371	468,382
	853,894	897,817
Eastern Europe	296,417	303,774
North America	328,643	375,340
South America	164,017	147,392
	2,595,670	**2,734,646**

Of the non-current assets, which comprise intangible assets, property, plant and equipment and investment property, € 531,522 thousand (previous year: € 546,055 thousand) relates to Germany and € 240,660 thousand (previous year: € 254,795 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, pages 82 to 83). 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:

	2011/2012	**2012/2013**
Equity	575,697	399,595
– Net deferred taxes	30,659	27,863
Adjusted equity	545,038	**371,732**
Annual average	650,501	458,385
Pension provisions	326,080	415,746
+ Tax provisions	117,953	95,176
+ Net tax receivables/liabilities	1,249	6,533
+ Non-operating financial liabilities	409,605	396,524
Liabilities	854,887	**913,979**
Annual average	824,264	884,433
Adjusted total capital	1,399,925	**1,285,711**
Annual average	1,474,765	1,342,818

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 from € 575,697 thousand to € 399,595 thousand. Based on total assets, the equity ratio therefore dropped from 22.9 percent to 17.1 percent.

As a result of the payments in connection with the Focus 2012 efficiency program and the greater capital requirements to settle the drupa orders, net debt were up year-on-year at € 261,371 thousand (previous year: € 243,140 thousand). The net debt are the total financial liabilities and cash and cash equivalents.

Heidelberg is not subject to any capital requirements arising from its Articles of Association.

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.

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 the high-yield bond.

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. Owing to Heidelberg's reduced financing requirements as a result of its successful asset management, the credit facility was also reduced by € 25 million from July 1, 2012.

One of the covenants of this credit line is the minimum equity criterion that the Heidelberg Group must comply with.

39 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 under Corporate Governance. Earlier declarations of compliance are also permanently available here.

40 Executive bodies of the Company

The basic characteristics of the remuneration system and amounts of remuneration for the members of the Management Board and Supervisory Board are presented in the remuneration report. The remuneration report is part of the Group management report (see pages 102 to 109) and the corporate governance report.

The members of the Supervisory Board and the Management Board are listed in the separate overview presented on pages 178 to 180 (Supervisory Board) and page 181 (Management Board).

The total cash remuneration (= total remuneration) of the Management Board for the year under review including non-cash remuneration amounted to € 4,039 thousand (previous year: € 2,709 thousand), comprising variable single-year remuneration of € 1,460 thousand (previous year: € 942 thousand) and variable multi-year remuneration of € 948 thousand (previous year: € 306 thousand).

The IFRS service cost for members of the Management Board amounted to € 834 thousand in the year under review (previous year: € 496 thousand).

As in the previous year, members of the Management Board held no stock options as of the end of the reporting period.

The total cash remuneration (= total remuneration) for former members of the Management Board and their surviving dependents amounted to € 3,810 thousand (previous year: € 3,064 thousand); this comprises € 882 thousand (previous year: € 876 thousand) in obligations to former members of the Management Board and their surviving dependents of Linotype-Hell Aktiengesellschaft, which were assumed in the 1997/1998 financial year under the provisions of universal succession.

The pension obligations (defined benefit obligations) to former members of the Management Board and their surviving dependents amount to € 50,783 thousand (previous year: € 40,687 thousand); € 9,330 thousand (previous year: € 9,188 thousand) of this relates to pension obligations of the former Linotype-Hell Aktiengesellschaft, which were assumed in the 1997/1998 financial year 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.

The Heidelberg Group has not undertaken any contingent liabilities for either the members of the Management Board or the Supervisory Board.

As in the previous year, fixed remuneration (plus a flat rate reimbursement of € 500 per meeting day) of € 384 thousand (previous year: € 404 thousand), but no variable remuneration, was paid to the members of the Supervisory Board for the year under review; these payments do not include value added tax.

41 Related party transactions

Business relations exist between numerous companies and Heidelberger Druckmaschinen Aktiengesellschaft and its subsidiaries in the course of ordinary business. This also includes associated companies, which are regarded as related companies of the Heidelberg Group. Related parties include members of the Management Board and the Supervisory Board.

In the 2012/2013 financial year, transactions were carried out with related parties that resulted in liabilities of € 6,879 thousand (previous year: € 9,502 thousand), receivables of € 15,846 thousand (previous year: € 17,872 thousand), expenses of € 17,009 thousand (previous year: € 16,229 thousand) and income of € 8,089 thousand (previous year: € 19,386 thousand), which essentially includes sales. Write-downs of € 0 thousand were recognized on receivables from related parties (previous year: € 648 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 € 616 thousand (previous year: € 1,070 thousand) from Heidelberger Druckmaschinen Aktiengesellschaft and its consolidated companies in the year under review for consulting, service and hiring agreements.

42 Exemption under Section 264 (3) and 264 b of the German Commercial Code

The following subsidiaries exercised the exemption provisions of Section 264 (3) and 264 b HGB with regard to the preparation and disclosure of financial statements in the period under review:

- Heidelberger Druckmaschinen Vertrieb Deutschland GmbH, Heidelberg [1)2)];
- Heidelberg Postpress Deutschland GmbH, Heidelberg [1)2)];
- Heidelberg China-Holding GmbH, Heidelberg [2)];
- Heidelberg Boxmeer Beteiligungs-GmbH, Heidelberg [2)];
- Heidelberg Print Finance International GmbH, Heidelberg [3)];
- Heidelberg Consumables Holding GmbH, Heidelberg [2)];
- Heidelberger Druckmaschinen Real Estate GmbH & Co. KG, Walldorf [1)2)].

1) Exempt from preparing a management report in accordance with Section 264 (3) or Section 264 b HGB
2) Exempt from disclosing annual financial statements in accordance with Section 264 (3) or Section 264 b HGB
3) Exempt from disclosing annual financial statements and a management report in accordance with Section 264 (3) in conjunction with Section 340 a (2) sentence 4 HGB

43 Auditor's fees

In the reporting year, the following expenses were incurred for services by the auditor:

Fees for	2011/2012	**2012/2013**
Audits of financial statements	866	744
Other assurance services	35	36
Tax advisory services	4	1
Other services	742	678
	1,647	**1,459**

44 Events after the end of the reporting period

There were no significant events after the end of the reporting period.

Heidelberg, May 24, 2013

HEIDELBERGER DRUCKMASCHINEN AKTIENGESELLSCHAFT
The Management Board


Dr. Gerold Linzbach


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, 2013

HEIDELBERGER DRUCKMASCHINEN AKTIENGESELLSCHAFT
The Management Board

Dr. Gerold Linzbach   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, 2012, to March 31, 2013. The preparation of the consolidated financial statements and the Group management report in accordance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315 a (1) 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 315 a (1) of the Handelsgesetzbuch 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 27, 2013

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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

FINANCIAL SECTION 2012/2013

LIST OF SHAREHOLDINGS

List of shareholdings as per Section 285 no. 11 and Section 313 para. 2 (in relation to Section 315a para. 1) of the German Commercial Code

Name	Country/Domicile		Shareholding in %	Equity in € thousands	Net result after taxes in € thousands
Affiliated companies included in the consolidated financial statements					
DOMESTIC					
Gallus Druckmaschinen GmbH	D	Langgöns-Oberkleen	30	2,045	–5,867
Gallus Stanz- und Druckmaschinen GmbH	D	Weiden	30	4,611	–9,918
Heidelberg Boxmeer Beteiligungs-GmbH [1]	D	Heidelberg	100	153,720	1,016
Heidelberg China-Holding GmbH [1]	D	Heidelberg	100	58,430	38,450
Heidelberg Consumables Holding GmbH [1]	D	Heidelberg	100	20,025	–1,603
Heidelberg Postpress Deutschland GmbH [1]	D	Heidelberg	100	25,887	–15,837
Heidelberger Druckmaschinen Real Estate GmbH & Co. KG	D	Walldorf	100	116,310	5,828
Heidelberger Druckmaschinen Vermögensverwaltungsgesellschaft mbH	D	Walldorf	100	21	–1
Heidelberger Druckmaschinen Vertrieb Deutschland GmbH [1]	D	Heidelberg	100	54,901	6,403
Heidelberg Print Finance International GmbH [1]	D	Heidelberg	100	34,849	5,802
Saphira Handelsgesellschaft mbH	D	Waiblingen	100	26	–1,346
ABROAD [2]					
Baumfolder Corporation	USA	Sidney, Ohio	100	3,419	–2,161
Europe Graphic Machinery Far East Ltd.	PRC	Hong Kong	100	597	17
Gallus Ferd. Rüesch AG	CH	St. Gallen	30	47,713	3,609
Gallus Holding AG	CH	St. Gallen	30	80,603	8,817
Gallus Inc.	USA	Philadelphia, Pennsylvania	30	1,321	294
Heidelberg Americas, Inc.	USA	Kennesaw	100	109,779	–5,241
Heidelberg Asia Pte. Ltd.	SGP	Singapore	100	14,261	487
Heidelberg Baltic Finland OÜ	EST	Tallinn	100	9,412	813
Heidelberg Boxmeer B.V.	NL	Boxmeer	100	62,414	543
Heidelberg Canada Graphic Equipment Ltd.	CDN	Mississauga	100	7,459	–219
Heidelberg China Ltd.	PRC	Hong Kong	100	23,338	7,015
Heidelberg do Brasil Sistemas Graficos e Servicos Ltda.	BR	São Paulo	100	11,082	–3,374
Heidelberg France S.A.S.	F	Tremblay-en-France	100	6,409	1,760
Heidelberg Grafik Ticaret Servis Limited Sirketi	TR	Istanbul	100	5,753	692
Heidelberg Graphic Equipment (Shanghai) Co. Ltd.	PRC	Shanghai	100	74,501	14,919

Name	Country/Domicile		Shareholding in %	Equity in € thousands	Net result after taxes in € thousands
Heidelberg Graphic Equipment Ltd. – Heidelberg Australia –	AUS	Notting Hill, Melbourne	100	15,366	–3,388
Heidelberg Graphic Equipment Ltd. – Heidelberg New Zealand –	NZ	Auckland	100	5,286	606
Heidelberg Graphic Equipment Ltd. – Heidelberg UK –	GB	Brentford	100	12,399	3,611
Heidelberg Graphic Systems Southern Africa (Pty) Ltd.	ZA	Johannesburg	100	2,309	141
Heidelberg Graphics (Beijing) Co. Ltd.	PRC	Beijing	100	1,420	741
Heidelberg Graphics (Thailand) Ltd.	TH	Bangkok	100	7,666	1,646
Heidelberg Graphics (Tianjin) Co. Ltd.	PRC	Tianjin	100	9,131	9,395
Heidelberg Graphics Taiwan Ltd.	TWN	Wu Ku Hsiang	100	5,356	856
Heidelberg Group Trustees Ltd.	GB	Brentford	100	0	0
Heidelberg Hong Kong Ltd.	PRC	Hong Kong	100	14,926	1,217
Heidelberg India Private Ltd.	IN	Chennai	100	6,857	799
Heidelberg International Finance B.V.	NL	Boxmeer	100	2,030	30
Heidelberg International Ltd. A/S	DK	Ballerup	100	36,694	1,314
Heidelberg International Trading (Shanghai) Co. Ltd.	PRC	Shanghai	100	334	174
Heidelberg Japan K.K.	J	Tokyo	100	20,958	6,528
Heidelberg Korea Ltd.	ROK	Seoul	100	3,833	–1,891
Heidelberg Magyarország Kft.	HU	Kalasch	100	6,427	394
Heidelberg Malaysia Sdn Bhd	MYS	Petaling Jaya	100	–368	–1,316
Heidelberg Mexico Services, S. de R.L. de C.V.	MEX	Mexico City	100	1,670	615
Heidelberg Mexico, S. de R.L. de C.V.	MEX	Mexico City	100	9,517	2,054
Heidelberg Philippines, Inc.	PH	Makati City	100	6,105	652
Heidelberg Polska Sp z.o.o.	PL	Warsaw	100	10,103	711
Heidelberg Praha spol s.r.o.	CZ	Prague	100	1,803	737
Heidelberg Print Finance Americas, Inc.	USA	Portsmouth	100	11,947	231
Heidelberg Print Finance Australia Pty Ltd.	AUS	Notting Hill, Melbourne	100	48,870	1,532
Heidelberg Print Finance Korea Ltd.	ROK	Seoul	100	15,656	3,426
Heidelberg Print Finance Osteuropa Finanzierungsvermittlung GmbH [1]	A	Vienna	100	31,961	107
Heidelberg Schweiz AG	CH	Bern	100	3,178	5,228
Heidelberg Shenzhen Ltd.	PRC	Shenzhen	100	6,657	1,115
Heidelberg Slovensko s.r.o.	SK	Bratislava	100	2,514	126

Name	Country/Domicile		Shareholding in %	Equity in € thousands	Net result after taxes in € thousands
Heidelberg Sverige AB	S	Solna	100	6,379	940
Heidelberg USA, Inc.	USA	Kennesaw	100	111,427	9,574
Heidelberger CIS OOO	RUS	Moscow	100	– 2,998	– 630
Heidelberger Druckmaschinen Austria Vertriebs-GmbH	A	Vienna	100	77,637	3,368
Heidelberger Druckmaschinen Osteuropa Vertriebs-GmbH [1)]	A	Vienna	100	70,183	4,543
Heidelberger Druckmaschinen WEB-Solution CEE Ges.m.b.H	A	Vienna	100	2,066	– 63
Hi-Tech Coatings International B.V.	NL	Zwaag	100	10,747	396
Hi-Tech Coatings International Limited	GB	Aylesbury, Bucks	100	7,972	543
Hi-Tech Coatings Limited	GB	Aylesbury, Bucks	100	120	0
Linotype-Hell Ltd.	GB	Brentford	100	3,842	0
Modern Printing Equipment Ltd.	PRC	Hong Kong	100	3,587	– 515
MTC Co., Ltd.	J	Tokyo	99.99	8,603	– 6
OFS Holding AG	CH	Pfaffnau	100	1,706	– 11
OF Service AG	CH	Pfaffnau	100	438	– 115
OF Schweiz AG	CH	Pfaffnau	100	933	38
P.T. Heidelberg Indonesia	ID	Jakarta	100	5,394	1,939
Affiliated companies not included in the consolidated financial statements					
DOMESTIC					
D. Stempel AG i. A. [3)]	D	Heidelberg	99.23	137	– 48
Heidelberg Catering Services GmbH [1)]	D	Wiesloch	100	386	– 1,854
Heidelberg CSAT GmbH	D	Eggenstein-Leopoldshafen	100	1,545	22
Heidelberg Direkt Vertriebs GmbH [3)]	D	Heidelberg	100	333	37
Menschick Trockensysteme GmbH	D	Renningen	30	343	– 12
Kurpfalz Asset Management GmbH [1)]	D	Heidelberg	100	26	– 1
Sporthotel Heidelberger Druckmaschinen GmbH [1)]	D	Heidelberg	100	26	– 133
ABROAD [2)]					
Cerm Benelux NV	BE	Oostkamp	100	981	361
CSAT Germany Inc.	USA	Longmont	100	3	0
CSAT America LLC	USA	Louisville	100	55	52
Gallus Ferd. Ruesch (Shanghai) Co. Ltd.	PRC	Shenzhen	30	178	– 113

Name	Country/Domicile		Shareholding in %	Equity in € thousands	Net result after taxes in € thousands
Gallus Printing Machinery Corp.	USA	Philadelphia	30	–868	–286
Gallus Australia Pty Ltd.	AUS	Bayswater	30	119	8
Gallus India Private Limited	IN	Mumbai	30	0	0
Gallus Scandinavia A/S	DK	Glostrup	30	–546	–118
Gallus South East Asia Pte. Ltd.	SGP	Singapore	30	119	–37
Gallus-Group UK Ltd.	GB	Royston	30	334	128
Heidelberg Asia Procurement Centre Sdn Bhd	MYS	Petaling Jaya	100	–581	–101
Heidelberg East Africa Ltd.	KE	Nairobi	99.99	–4,682	–30
Heidelberg Graphic Systems Ltd.	CY	Nicosia	99.99	2	–3
Heidelberg Lebanon	LB	Beirut	99.96	1,104	5
Heidelberg Postpress Slovensko spol. s r.o.	SK	Nové Mesto nad Váhom	100	4,598	961
Heidelberg Used Equipment Ltd. [3]	GB	Brentford	100	560	30
Heidelberger Druckmaschinen Ukraina Ltd.	UA	Kiev	100	–1,257	78
Inline Cutting L.L.C.	USA	Baltimore	30	–1,348	0
Associated companies not accounted for using the equity method					
ABROAD [2]					
Heidelberg Middle East FZ Co.	AE	Dubai	50	1,330	0
Print Media Academy Ceska Republika a.s.	CZ	Pardubice	24	0	0
Other shareholdings (>5%)					
DOMESTIC					
InnovationLab GmbH	D	Heidelberg	8.33	840	336
SABAL GmbH & Co. Objekt FEZ Heidelberg KG	D	Munich	99.90	–3,887	–551
Minor shareholdings					
DOMESTIC					
KITZ Kieler Innovations- u. Technologiezentrum GmbH [3]	D	Kiel	3.08	389	0
Printpromotion Gesellschaft	D	Frankfurt a. M.	2	473	111

[1] Result prior to profit and loss transfer
[2] Disclosures for companies outside Germany in accordance with IFRS
[3] Prior-year figures; financial statements not yet available

THE SUPERVISORY BOARD*

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

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

Edwin Eichler
Member of various Supervisory Boards, Düsseldorf
a) SGL Carbon SE
SMS Holding GmbH
b) Member of the Board of Trustees at the Düsseldorf Technical University

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-Württemberg region, Stuttgart
a) Daimler AG
Robert Bosch GmbH

Dr. Siegfried Jaschinski
Member of the Management Board of MainFirst Bank AG, Frankfurt
a) Adcapital AG

* At the end of December 2012, the Management Board of Heidelberger Druckmaschinen Aktiengesellschaft initiated status proceedings in accordance with section 97 AktG by way of a corresponding announcement that the number of members of the Supervisory Board of the Company was no longer consistent with the provisions of the German Codetermination Act. According to this statement, the number of employees at the German sites of the Company has been permanently less than the threshold of 10,001 since December 2012. Following the Annual General Meeting in July 2013, the Supervisory Board is therefore expected to only consist of 12 members rather than the current number of 16.

Dr. Herbert Meyer
Member of the Auditor Oversight Commission (AOC), Berlin
a) HT Troplast GmbH
MainFirst Bank AG
WEBASTO AG
b) Verlag Europa Lehrmittel GmbH
(Member of the Advisory Board)
MainFirst Holding AG, Switzerland

Dr. Gerhard Rupprecht
Member of various Supervisory Boards, Gerlingen
a) Fresenius Management SE
Fresenius SE & Co. KGaA
Euler Hermes Deutschland AG
b) Allianz France SA, France

Beate Schmitt **
Member of the Works Council, Heidelberg/Wiesloch-Walldorf

Lone Fønss Schrøder
Member of various Supervisory Boards, Hornbaek, Denmark
a) Bilfinger Berger SE
b) AKER Solutions ASA, Lysaker/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)

Prof. Dr.-Ing. Günther Schuh
Professor and holder of the chair in production engineering at RWTH Aachen University, Aachen
a) 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
– through August 13, 2012 *** –
Member in various Supervisory Boards, Dortmund
a) Bayer AG
Hannover Rückversicherung AG
b) Sulzer AG, Switzerland (Member of the Administration Board)

Peter Sudadse **
Deputy Chairman of the Central Works Council, Heidelberg/Wiesloch-Walldorf

** 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

COMMITTEES OF THE SUPERVISORY BOARD

MANAGEMENT COMMITTEE

Robert J. Koehler (Chairman)

Rainer Wagner

Martin Gauß

Mirko Geiger

Dr. Gerhard Rupprecht

Prof. Dr.-Ing. Günther Schuh
– since July 15, 2012 –

Dr. Klaus Sturany
– through July 15, 2012 –

MEDIATION COMMITTEE UNDER ARTICLE 27 PARAGRAPH 3 OF THE CODETERMINATION ACT

Robert J. Koehler

Rainer Wagner

Wolfgang Flörchinger

Dr. Gerhard Rupprecht

COMMITTEE ON ARRANGING PERSONNEL MATTERS OF THE MANAGEMENT BOARD

Robert J. Koehler (Chairman)

Rainer Wagner

Dr. Gerhard Rupprecht

Beate Schmitt

AUDIT COMMITTEE

Dr. Herbert Meyer (Chairman)
– since July 15, 2012 –

Dr. Klaus Sturany (Chairman)
– through July 15, 2012 –

Dr. Siegfried Jaschinski
– since July 15, 2012 –

Mirko Geiger

Rainer Wagner

NOMINATION COMMITTEE

Robert J. Koehler (Chairman)

Dr. Gerhard Rupprecht
– since July 15, 2012 –

Dr. Klaus Sturany
– through July 15, 2012 –

STRATEGY COMMITTEE

Robert J. Koehler (Chairman)

Rainer Wagner

Edwin Eichler

Mirko Geiger

Dr. Siegfried Jaschinski

Dr. Herbert Meyer

Dr. Gerhard Rupprecht

Lone Fønss Schrøder

Prof. Dr.-Ing. Günther Schuh

THE MANAGEMENT BOARD

Dr. Gerold Linzbach
– since September 1, 2012 –
Frankfurt am Main
Chief Executive Officer and
Chief Human Resources Officer
** Heidelberg Americas, Inc., USA
(Chairman of the Board of Directors)
Heidelberg USA, Inc., USA
(Chairman of the Board of Directors)

Bernhard Schreier
– through August 31, 2012 *** –
Walldorf
Chief Executive Officer and
Chief Human Resources Officer
* ABB Aktiengesellschaft
Universitätsklinikum Heidelberg
(institution under public law)
Heidelberger Druckmaschinen
Vertrieb Deutschland GmbH
(Chairman)
** Heidelberg Graphic Equipment Ltd., UK
(Chairman of the Board of Directors)
Heidelberg Japan K.K., Japan
Heidelberg Americas, Inc., US
(Chairman of the Board of Directors)
Heidelberg USA, Inc., US
(Chairman of the Board of Directors)

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

Marcel Kiessling
Heidelberg
Head of the Heidelberg
Sales and Services Segment
* Heidelberger Druckmaschinen Vertrieb
Deutschland GmbH
(Chairman)
** Heidelberger Druckmaschinen Austria
Vertriebs-GmbH
(Member of the Advisory Board)
Heidelberger Druckmaschinen Osteuropa
Vertriebs-GmbH
(Member of the Advisory Board)
Heidelberg Graphic Equipment Ltd.,
Heidelberg Australia, Australia
Heidelberg Japan K.K., Japan

Stephan Plenz
Sandhausen
Head of the Heidelberg
Equipment Segment
** Gallus Holding AG, Switzerland
(Chairman 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
*** As of the date of retirement

REPORT OF THE SUPERVISORY BOARD

Robert J. Koehler

Chairman of the Supervisory Board

DEAR SHAREHOLDERS,

The past year at Heidelberg has been dominated by the Focus 2012 efficiency program – capacity was reduced further and the Company's sales and services area was restructured in particular. Dr. Gerold Linzbach assumed the office of Chief Executive Officer on September 1, 2012 and has examined all of the Group's areas and processes since then. Heidelberg will continue to change so as to be able to react flexibly to unavoidable fluctuations in business without again having to resort to comprehensive restructuring programs. The first successes of the new structure were apparent by the end of the year under review. The price of the Heidelberg share is also an indication of this: While the share price for the first time had slipped below the threshold of one euro in the middle of the 2012 calendar year, it rebounded energetically in the opening months of 2013 and in the meantime temporarily surpassed the two-euro mark once again. The same applies to the Heidelberg bond which, following a strong upward trend, traded at par at financial year-end. The Supervisory Board is continuing to monitor developments at Heidelberg closely, and we recently advised and supported the Management Board on the ongoing development of its strategy in particular.

ONGOING STRATEGIC DEVELOPMENT OF ORGANIZATION AND STRUCTURES

In an uncertain economic environment, Heidelberg laid the foundation for its return to positive territory in the 2012/2013 financial year with new products, a new organization and stable financing. The goal is to be sustainably profitable in core business and to successfully market the Company's development, production and service competence – inside and outside the industry. The basis for this is cutting costs and capacity in addition to the reorganization as part of the Focus 2012 efficiency program – in which the Company is right on schedule. The financing structure is appropriately diversified – both with regard to the sources of financing and in terms of the maturity profile. Heidelberg therefore has a stable liquidity framework in the medium to long term.

In addition, thanks to the reallocation of Management Board duties as of June 1, 2012 and the Management Board reshuffle as of September 1, 2012, Heidelberg has focused on the further development of its Business Areas, on the optimization of global sales and services, and on boosting activities in growth regions.

OUTLOOK FOR 2012/2013 AND 2013/2014 FINANCIAL YEARS CONFIRMED

Economic uncertainty has risen again overall as a result of the smoldering euro and public debt crisis. Until the middle of 2013, the development of the global economy is still being determined by the effects of the crises in the euro zone. At the start of the year it had seemed as if the economy would overcome the lingering down phase, though by the time of the rising risk premiums on Spanish and Italian government bonds and the increasing concern over the future of Greece and Cyprus, it was clear that the European debt and confidence crisis was still unresolved.

The Focus 2012 cost cuts will take full effect for the first time in the current financial year, leading to annual savings of around € 180 million. The objective of achieving profitability by the end of the 2013/2014 financial year has been pursued systematically. The same is true of the optimization of operating assets and the reduction of debt: Substantial progress has been achieved.

However, it is clear to all of us that Heidelberg's future will not be ensured by a one-off cost-cutting program like Focus 2012. Just like our successful customers, we have to dynamically gear our portfolio towards profitable segments. We are ensuring this with our organization into Business Areas. The implementation of Focus 2012 is revealing potential opportunities for us to keep on making our structures and processes more efficient. We cannot stand against changes in the industry – we must absorb them quickly and leverage the opportunities that arise from them.

CLOSE COOPERATION BETWEEN MANAGEMENT BOARD AND SUPERVISORY BOARD

In this further difficult financial year, the Supervisory Board has again fully supported the Management Board in implementing the necessary adjustments and in solving the problems these entailed. In our regular Supervisory Board meetings and in committee meetings, in addition to numerous other meetings of shareholder representatives, we consulted with the Management Board and intensively discussed all significant issues with each other and prepared key 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 monitored the Management Board in its management of the Company and the performance of transactions; we fulfilled all the duties incumbent on us under legal provisions and the Articles of Association. The good cooperation between the Management Board and Supervisory Board was demonstrated not just in the five regular Supervisory Board meetings, in which the Management Board informed us in detail of current developments and business trends, but also in the many discussions with the new CEO, the CFO and their colleagues on the Management Board between meetings. In this manner, the Supervisory Board was always promptly informed with the necessary accuracy about the Company's business development and financial position. During the reporting year, I maintained close contact with the CEO and the other members of the Management Board, thereby ensuring that I was informed of significant developments and upcoming decisions at an early stage. Together with the CEO, 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 promptly and extensively involved in all significant decision-making processes at all times. We passed resolutions by way of written procedure for urgent issues; this occurred once in the year under review.

No member of the Supervisory Board took part in less than half of the meetings.

MAJOR TOPICS OF THE SUPERVISORY BOARD MEETINGS

Our discussions in the year under review focused on the ongoing strategic development of the Company, necessary organizational adjustments and the market and competitive environment on the one hand and the net assets and results of operations, the liquidity situation and the progress in the implementation of the Focus 2012 restructuring program on the other; we also discussed safeguarding the capital structure of the Company. The development of sales and earnings and Heidelberg's financial position were also always a subject of discussion by the Supervisory Board in the year under review.

At drupa 2012, the Supervisory Board learned about Heidelberg's product range and the competitive environment at first hand. At the Supervisory Board meeting held on the trade show grounds on May 11, 2012, Management Board remuneration and its underlying system were also discussed in detail.

In its meeting on June 1, 2012, the Supervisory Board approved the consolidated and annual financial statements for the 2011/2012 financial year after hearing and discussing the auditor's report, thereby following the recommendation of the Audit Committee. It also approved the agenda for the 2012 Annual General Meeting. Furthermore, the Supervisory Board discussed the remuneration of the Management Board, ascertained the fulfillment of targets, defined new targets and approved the amended remuneration system.

On July 19, 2012, following prior discussion by the Personnel Matters Committee, the Supervisory Board resolved the appointment of the new CEO Dr. Gerold Linzbach.

At the meeting before the Annual General Meeting on July 26, 2012, the Supervisory Board ruled to amend its Rules of Procedure on account of the new recommendations of the German Corporate Governance Code. In each meeting held in the year under review, the Supervisory Board discussed the reporting of the Management Board on the business situation and the progress in the Focus 2012 project; it also approved the final details of the target agreements with the Management Board. In addition, the meeting served as preparation for the Annual General Meeting that followed.

The Supervisory Board meeting on November 28, 2012 initially focused on the presentation of the current business situation. Moreover, the Supervisory Board discussed the results of its most recent efficiency review, which was performed by a renowned consulting company that specializes in such efficiency reviews. The most important finding was that, as the Company becomes increasingly more stable, the Supervisory Board should and would like to focus more on its advisory function once again. The Supervisory Board resolved to form a Strategy Committee, which dealt specifically with the Company's strategy at its own meeting on March 18, 2013. Finally, the 2012 Declaration of Compliance was approved in this meeting.

The topic of the Supervisory Board's last meeting of the reporting year, on March 25, 2013, was the planning for the coming financial year and projections for the following years. The Supervisory Board acknowledged and approved the planning presented without objections. It also dealt with Management Board remuneration. The Management Board informed the Supervisory Board in detail of the strategy presentations in the Strategy Committee of the Supervisory Board on March 18, 2013.

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 revised in 2012. We updated our Rules of Procedure once in the year under review to take these amendments to the Code into account. Further information on the Company's corporate governance and related activities by the Supervisory Board is provided in the Corporate Governance Report. This report can be found on our Web site www.heidelberg.com under Corporate Governance.

WORK IN THE COMMITTEES

The Supervisory Board has formed five committees in order to perform its duties efficiently and to aid a focused discussion of issues. Our committees significantly assisted the Supervisory Board in its work by preparing its discussions and resolutions, thereby facilitating the proceedings of the Supervisory Board meetings. In individual cases, the Supervisory Board may grant the committees decision-making authority. At meetings of the Supervisory Board, the chairmen of the committees regularly report on their work in detail, covering all the significant committee discussions. The composition of the committees is presented in the notes.

The Personnel Matters Committee met four times in the 2012/2013 reporting year. Its work focused on remuneration issues, the transition from the former CEO Mr. Bernhard Schreier to Dr. Gerold Linzbach, his appointment as the new CEO and other issues concerning members of the Management Board. The Audit Committee held five meetings. It examined questions pertaining to the respective quarter and event-driven matters relating to net assets, the financial position, the results of operations and the Company's risk reporting. Furthermore, together with the auditor, this committee also focused intensively on the non-consolidated and consolidated financial statements as well as the interim financial statements and the accounting policies applied. The general tax conditions and other aspects of the annual and consolidated financial statements of the Heidelberg Group were also discussed in depth. Other issues discussed included the liquidity situation of the Heidelberg Group, risk management, the internal controlling and audit system, compliance, investment controlling, Focus 2012, the recoverability of assets, the recognition of defined benefit obligations and sales financing. The Nomination Committee did not meet and the Mediation Committee in accordance with Section 27(3) of the German Codetermination Act (MitBestG) did not have to be convened. Special committees were not formed in the reporting year.

AUDIT OF THE NON-CONSOLIDATED AND CONSOLIDATED FINANCIAL STATEMENTS

The Annual General Meeting on July 26, 2012 appointed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft as the auditor. This company audited the non-consolidated financial statements for the 2012/2013 financial year, the management report of Heidelberger Druckmaschinen Aktiengesellschaft and the consolidated financial statements and Group management report of the Heidelberg Group prepared by the Management Board and issued each with unqualified opinions. We awarded the audit mandate at the Supervisory Board meeting on July 26, 2012. The non-consolidated financial statements, the consolidated financial statements, the management report of the Company and the management report of the Heidelberg Group were submitted to the Supervisory Board immediately on their completion. The reports of the auditors were distributed to all the members of the Supervisory Board in time before the accounts meeting of the Supervisory Board on June 5, 2013. The auditors who signed the audit reports took part in the Supervisory Board's discussions. During the meeting, they reported on the results and on the fact that there are no significant weaknesses in the internal controlling or risk management system as regards the accounting process. They were available to the members of the Supervisory Board to answer questions in greater detail. The auditor furthermore informed on services that were provided in addition to the audit of the financial statements and confirmed that there were no circumstances giving rise to concern over its impartiality. The audit report does not include any comments or indications of any inaccuracies in the declaration of compliance with the German Corporate Governance Code.

The Audit Committee recommended the approval of the non-consolidated and consolidated financial statements at the meeting of the Supervisory Board on June 5, 2013. We examined and accepted the annual financial statements, the consolidated financial statements, the management report of Heidelberger Druckmaschinen Aktiengesellschaft and the management report of the Heidelberg Group prepared by the Management Board. We thereby concurred with the audit findings of both sets of financial statements, adopted the non-consolidated financial statements and approved the consolidated financial statements as of March 31, 2013.

COMPOSITION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

The composition of the Supervisory Board changed in the year under review following the Annual General Meeting on July 26, 2012. The former Chairman of the Supervisory Board, Dr. Klaus Sturany, who was the Chairman of the Audit Committee for many years, resigned from office as of August 31, 2012. The Supervisory Board and the Management Board thank him for his many years of valuable advice. The long-serving CEO Bernhard Schreier left the Management Board by amicable arrangement on August 31, 2012. His successor, Dr. Gerold Linzbach, has been the CEO since September 1, 2012. The Supervisory Board is scheduled to be reduced in size to 12 members in the current financial year – even in its new form, it will continue to monitor the Company's interests and its long-term development and work towards its wellbeing.

APPRECIATION BY THE SUPERVISORY BOARD

The Supervisory Board thanks the former members of the Supervisory Board and the Management Board for their many years of work for the good of the Company. This year again, my particular thanks go to the employees of Heidelberg and their representatives in the Supervisory Board, the Works Councils and the Speakers Committee for all their work. I would expressly like to include the members of the Management Board as well, who have done everything possible in difficult times to turn Heidelberg into a healthy and profitable enterprise once again.

Wiesbaden, June 5, 2013

FOR THE SUPERVISORY BOARD

Robert J. Koehler
Chairman of the Supervisory Board

CORPORATE GOVERNANCE AND COMPLIANCE

> Recommendations of the German Corporate Governance Code implemented with few exceptions
> Conditions established for a smaller Supervisory Board
> Compliance activities anchored in Heidelberg Group by Code of Conduct

The standards of good corporate governance set out in the German Corporate Governance Code were again an important guideline for the Management Board and the Supervisory Board of Heidelberger Druckmaschinen Aktiengesellschaft in the 2012/2013 financial year. At the 2013 Annual General Meeting, the Supervisory Board is scheduled to be reduced in size from 16 to 12 members, thereby complying with legal requirements. The recommendations and suggestions of the Code are still largely complied with. Ensuring effective management and control in an evolving corporate structure remains the priority. It is regularly checked to ensure that all laws and regulations are complied with throughout the Group and that recognized standards and recommendations are followed in addition to the Company’s values, Code of Conduct and corporate guidelines.

DECLARATION OF COMPLIANCE IN ACCORDANCE WITH SECTION 161 OF THE GERMAN STOCK CORPORATION ACT

The Management Board and the Supervisory Board issued the following declaration of compliance on November 28, 2012:

“Since issuing its last declaration of compliance on November 25, 2011, Heidelberger Druckmaschinen Aktiengesellschaft has complied with all recommendations of the Government Commission of the German Corporate Governance Code as amended May 26, 2010 and as promulgated by the German Federal Ministry of Justice in the official section of the electronic Federal Gazette on July 2, 2010, in the period prior to June 14, 2012 and, moreover, with all recommendations of the Government Commission of the German Corporate Governance Code as amended May 15, 2012 and as promulgated by the German Federal Ministry of Justice in the official section of the electronic Federal Gazette on June 15, 2012, in the period from June 15, 2012 to November 28, 2012, with the following exceptions, and will continue to comply with these recommendations in the future with the following exceptions:

One member of the Supervisory Board of the Company, who is a member of the management board of a listed company, held three supervisory board mandates in listed companies outside the Group since the last declaration of compliance was issued on November 25, 2011. Furthermore, this member of the Supervisory Board held another supervisory board mandate on the supervisory body of a company with similar requirements as defined by item 5.4.5 of the Code. The member already held all these mandates at the time of the amendment of the Code relevant to the number of mandates in 2010, and even as early as 2009. Thus, the recommendation of item 5.4.5 of the Code that a maximum of three such mandates be held was not and is not complied with. Nevertheless, Heidelberger Druckmaschinen Aktiengesellschaft does not believe that this results in any impairment of the due performance of responsibilities as the member of the Supervisory Board has adequate time to perform his mandate at Heidelberger Druckmaschinen Aktiengesellschaft, particularly as the number of supervisory board mandates was already 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 Aktiengesellschaft deviated from the recommendations in items 4.1.5, 5.1.2 sentence 2 and 5.4.1 (2) of the Code as amended May 26, 2010 and as amended May 15, 2012, and will also continue to deviate from these in the future to the extent that an appropriate consideration or participation of women is intended or provided for. 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. However, the Supervisory Board and the Management Board will continue to be guided exclusively by the abilities and qualifications of the available candidates in recommendations and decisions in personnel matters in the future, and not to accord the candidates' gender any special or emphasized significance. The Supervisory Board and the Management Board also still wholly welcome all efforts to counter discrimination based on gender or any other form of discrimination and to appropriately promote diversity."

The Management Board and the Supervisory Board intend to update the annual declaration of compliance on November 27, 2013 following due examination.

ALL DECLARATIONS OF COMPLIANCE are made permanently available on our Web site www.heidelberg.com under Corporate Governance. The current **DECLARATION OF COMPLIANCE** of November 28, 2012 can also be found there; it is included in the current, detailed **CORPORATE GOVERNANCE DECLARATION**, in which we present the essential elements of our corporate governance structures. This declaration is likewise permanently available on our Web site www.heidelberg.com under Corporate Governance.

COMPLIANCE MANAGEMENT

The compliance activities of the Heidelberg Group are intended to ensure Group-wide compliance with all laws relevant to Heidelberg's business processes and its internal guidelines. The Code of Conduct, which was introduced on June 1, 2005 and has remained largely unchanged since then, forms the foundation of the compliance culture at Heidelberg. This is supplemented by a comprehensive system of values, principles, general and other internal guidelines hierarchically structured as a pyramid.

The aim of these regulations is to provide the executive bodies and employees of the Heidelberg Group with guidance on how to comply with and practice these rules in day-to-day operations with respect to the general public, customers and suppliers, competitors, other business partners and shareholders, including other Heidelberg employees as well.

Heidelberg has always taken a preventative and risk-based approach to compliance. Compliance checks are carried out for identified compliance risks in certain compliance areas (e.g. environmental and product safety) with the responsible operational compliance experts to determine any need for further improvement. This centers around a threat analysis, knowledge of the legal requirements, the level of organization and documentation, the functionality of processes in the compliance area concerned and the tracking of prior audit findings. Where necessary, measures in addition to ordinary training requirements can be arranged. Several compliance areas are subjected to cursory checks at the smaller Heidelberg production sites in the context of compliance checks at production sites.

Other compliance issues such as antitrust law, corruption prevention, capital market law or conduct in the event of official investigations are addressed by targeted information, speakers at management meetings, specific training sessions or specially formed committees or working groups, such as the Ad Hoc Committee.

Independently of this, Heidelberg executives are responsible for ensuring that their own conduct and that of their employees in their areas and organizational units is compliant.

In its meetings, the Audit Committee of the Supervisory Board regularly discusses compliance issues and activities. The Compliance Officer issues a comprehensive compliance report semiannually on behalf of the Management Board.

Heidelberg, May 24, 2013

FOR THE SUPERVISORY BOARD
Robert J. Koehler

FOR THE MANAGEMENT BOARD
Dr. Gerold Linzbach

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.

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.

CMYK (CYAN, MAGENTA, YELLOW, BLACK)
The color model usually employed in printing technology which uses the primary colors cyan, magenta and yellow. The fourth “color” black is used to ensure a visually satisfying black tone.

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.

CORPORATE GOVERNANCE
System by which corporations are directed and controlled. The governance structure specifies the distribution of rights and responsibilities in the corporation and specifies national and international rules and procedures for making decisions in corporate affairs.

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.

FINANCIAL COVENANTS
Contractually binding assurances by a borrower or bond debtor during the term of a loan.

FINISHING (POSTPRESS)
Processes or operations performed on a printed product after the print run itself. Depending on the type of product, these processes can include folding, collating or trimming of the printed sheets, as well as binding or bundling/packing.

FLEXO PRINTING
A relief printing process using elastic, polymer printing plates and inks with very low viscosity. Flexo(graphic) printing is used especially in the printing of packaging and multicolor labels.

GUTENBERG, JOHANNES
1397 – 1468, born Johann Gensfleisch. Between 1440 and 1450 he invented mechanical movable type printing – letterpress printing. His invention was based

on cast type, a corresponding manual casting instrument, a suitable metal alloy and a printing press. Gutenberg's method, which is today considered the trigger for one of the greatest revolutions in human history, spread throughout the world within a matter of years.

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.

PREPRESS

All the steps required to prepare the printing plate for the actual printing process, including the provision of text, graphic elements, images and design.

PRINECT

With its Prinect workflow software, Heidelberg provides the most complete software offering in the print media industry. 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.

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.

QUALITY GATES

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

REMOTE SERVICES TECHNOLOGY

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

SHEETFED OFFSET PRINTING

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

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

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.

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FINANCIAL CALENDAR 2013/2014

JUNE 13, 2013	Press Conference, Annual Analysts' and Investors' Conference
JULY 23, 2013	Annual General Meeting
AUGUST 13, 2013	Publication of First Quarter Figures 2013/2014
NOVEMBER 5, 2013	Publication of Half-Year Figures 2013/2014
FEBRUARY 5, 2014	Publication of Third Quarter Figures 2013/2014
JUNE 11, 2014	Press Conference, Annual Analysts' and Investors' Conference
JULY 24, 2014	Annual General Meeting

Subject to change

Five-year overview – Heidelberg Group

Figures in € millions

	2008/2009	2009/2010	2010/2011	2011/2012	**2012/2013**
Incoming orders	2,906	2,371	2,757	2,555	**2,822**
Net sales	2,999	2,306	2,629	2,596	**2,735**
Foreign sales share in percent	81.0	83.8	84.9	85.1	**85.6**
EBITDA [1]	51	– 25	104	90	**111**
Result of operating activities [2]	– 49	– 130	4	3	**28**
– in percent of sales	– 1.6	– 5.6	0.2	0.1	**1.0**
Income before taxes	– 347	– 286	– 143	– 229	**– 118**
Net profit/loss	– 249	– 229	– 129	– 230	**– 110**
– in percent of sales	– 8.3	– 9.9	– 4.9	– 8.9	**– 4.0**
Research and development costs	186	121	121	129	**118**
Investments	198	62	79	70	**82**
Total assets	3,241	2,879	2,643	2,518	**2,338**
Net working capital [3]	1,212	1,031	908	915	**872**
Receivables from sales financing	273	212	178	156	**118**
Equity	796	579	869	576	**400**
– in percent of total equity and liabilities	24.6	20.1	32.9	22.9	**17.1**
Financial liabilities	760	816	395	438	**419**
Net debt [4]	681	695	247	243	**261**
Cash flow	– 238	– 179	– 41	– 130	**– 40**
– in percent of sales	– 7.9	– 7.8	– 1.6	– 5.0	**– 1.4**
Free cash flow	– 201	– 62	75	10	**– 18**
– in percent of sales	– 6.7	– 2.7	2.9	0.4	**– 0.6**
ROCE in percent	– 3.6	– 8.8	0.7	0.3	**2.3**
Return on equity in percent [5]	– 31.3	– 39.6	– 14.8	– 39.9	**– 27.5**
Earnings per share in €	– 3.20	– 2.94	– 0.83	– 0.98	**– 0.47**
Dividend in €	–	–	–	–	**–**
Share price at financial year-end in € [6]	2.29	3.36	3.34	1.50	**1.80**
Market capitalization at financial year-end	284	416	779	351	**422**
Dividend yield in percent [7]	–	–	–	–	**–**
Number of employees at financial year-end	18,926	16,496	15,828	15,414	**14,215**

[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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