<u>Not to be released until the speech starts!</u>

Speech for the Annual General Meeting of
Heidelberger Druckmaschinen AG

– Translation for Convenience –

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Congress Center Rosengarten, Mannheim

Dr. Gerold Linzbach
Chief Executive Officer

<u>The spoken word applies!</u>

Motto: Print is more.

Dear shareholders,

Dear shareholders' representatives,

Dear guests,

Welcome!

My name is Gerold Linzbach and I've been CEO of Heidelberg since September last year. I suspect most of you have known Heidelberg longer than I have.

What I'd like to do today is tell you my Heidelberg story. It's a story that ends with something toward which I'm working – a sustainably positive annual result.

Slide 2: Agenda

But before I start talking about the future, I'd like to briefly explain where we are coming from as I see it. I'll then address the question of where we are today. The answers to these two questions will pave the way for my answer to the third question – where do we want to go? That will bring me back to the future.

Two important aspects of my Heidelberg story are your trust and my responsibility for that trust.

I cannot and do not wish to judge the company's past. My task is to get Heidelberg set for the future. It's a task that I'm not tackling alone but with the other members of the Management Board and our employees.

Our aim is to once again become profitable and to remain so. We not only want to be a company that deserves your trust. We also want this trust to bring you financial rewards.

Where are we coming from?

Slide 3: Economic crisis hits the printing press industry

Financial year 2007/2008 brought a global economic crisis. It was global in many respects – it hit far and wide, and it hit hard. The crisis didn't simply hit Heidelberg. It hit the printing industry and Heidelberg in particular. This slide shows how and where Heidelberg was affected. Sales fell by more than a third between 2008 and 2010. We've recovered slightly since 2010 but are still a long way from the sales and result we achieved in 2008. And we're now assuming that the market has changed permanently.

Slide 4: Crisis impacts new machine sales

You can also see that our segments were affected to different extents. New machine sales suffered more and for longer than service operations. In the two years following the onset of the financial crisis, new machine sales almost halved.

For service operations, on the other hand, sales remained stable despite the crisis. There is one main reason for this.

Slide 5: Print volume

Despite the structural upheaval and the financial crisis, the global print volume has remained more or less stable over the years. The proportion of the total print volume accounted for by “our” most important printing technology – offset printing – has also remained stable. Both service operations and consumables depend more or less directly on print volume. That’s the good news.

In all probability, this will remain the case. Despite all the rumors to the contrary, print is far from being dead. This stability is the reason why we’ve continued to expand this segment in recent years and are looking to strengthen it further still in the future. It already accounts for around 40 percent of our sales. Service operations relate to the installed base. This business is stable, benefiting from a long cycle and less fierce competition. Customer loyalty also makes it the foundation for business involving new equipment.

What has changed forever, though, is the market situation for new equipment. That’s the potentially bad news, but it doesn’t need to be if we respond correctly to the new situation.

<u>Slide 6: Number of print shops in Germany</u>

Although the global print volume has remained stable, the number of print shops (customers) has not. In Germany, for example, the number of print shops has fallen by more than 12 percent since 2008. In other words, there are around 1,300 fewer printing companies. In industrialized nations, we are now seeing fewer but larger businesses with high-performance equipment. These larger companies now print the same volume as numerous small print shops in the past. Ultimately, though, fewer print shops means fewer presses. Since business based on consumables and service operations is related to volume, it remains largely stable. In the established industrialized nations, however, consolidation of the print shop market will continue unabated, thereby putting machine sales under further pressure. As a result, our situation differs from other industries that have recovered since the crisis, albeit perhaps only temporarily.

Ladies and Gentlemen,

The question for us all back then was how to deal with these changes. Where to generate our sales in the future. And in which sectors. How to become profitable again despite these changes. These questions remain relevant, because our markets are changing all the time.

<u>Slide 7: Assembly in Qingpu</u>

One of the biggest changes is the market’s geographical distribution. The total market volume remained stable despite consolidation in industrialized nations because emerging markets were growing and will continue to grow, China in particular. We had to follow our customers to where they were printing, so we established a presence in emerging markets. This included China, where we built our own production facility in Qingpu, near Shanghai, in 2006.

<u>Slide 8: Growth markets</u>

In 2000, emerging markets accounted for 15 percent of the total print volume. Within 10 years, this share had doubled to 30 percent. By 2015, it is expected that 40 percent of the sheetfed offset print volume will be produced in emerging markets. Heidelberg already generates 45 percent of its sales in these regions. We will systematically gear our sales, our products, and our entire setup toward the growth opportunities in these markets.

In addition to the geographical shifts, this slide also shows the applications on which our business centered. The appeal of a sector to us is primarily based on the most efficient printing technology for customers to manufacture the end product.

Publishing used to account for around one third of the entire global print volume, for instance, but this proportion is now far smaller. The main reason for this is clear – a move toward electronic media that is changing consumer behavior. The numerous online media that now exist and different reading habits mean fewer newspapers and magazines together with shorter runs.

Fortunately, we moved out of the web offset sector – the printing technology primarily used in publishing – some years ago. In the publishing context, we supply only the part printed on sheetfed offset presses, which is preferred for shorter runs.

Slide 9: Packaging

The packaging sector, on the other hand, offers good growth opportunities. There is also a growing demand for packaging materials in emerging markets. International consumer goods companies are building production facilities in these countries and each new facility normally needs a packaging production operation nearby, as packaging materials can never be transported over longer distances cost-efficiently. In industrialized nations, the technical requirements relating to packaging are increasing all the time. For example, customers use packaging as an additional opportunity to stand out from the crowd or need to comply with a whole host of regulations in sectors such as the food or pharmaceutical industry. Packaging printing's share of sales in our portfolio is roughly equivalent to the make-up of the market as a whole.

Traditionally, commercial printing is our focal point. Through the targeted selection of the right customers and applications, we are able to optimize our business in this sales segment on a permanent basis.

Slide 10: Digital

As for the importance of the various printing technologies, digital technology is currently a hot topic. However, the issue is not one of principle but simply of production costs per page. An offset press also normally processes the original digitally. A printing plate is only produced as an image carrier. In the industrial printing sector, cost factors mean that digital technology is only competitive with run lengths of less than approx. 1,500 copies. This very substantially restricts the appeal of a digital press in this sector, including for press manufacturers. For smaller print formats, we have therefore decided on a sales partnership with Ricoh and are building up global sales expertise.

We are the only manufacturer to offer both technologies. For larger formats, we are also looking to make use of a partnership (for example with Landa Laboratories) – for the imaging component at least. For the actual printing side of things, that is to say the paper transport, surface finishing, and workflow, we would revert to tried-and-tested Heidelberg technology. At the end of the day, though, we must leave this decision to the customer. It must not make any difference to our business whether we use offset or digital technology.

Slide 11: Conclusion

Ladies and Gentlemen,

To sum up, although the market is continuing to change considerably, it is stable in terms of volume. And, for the most part, Heidelberg has the right products with the right customers and in the right applications. The question I know is on everyone's lips and one which needs to be answered is this: If our portfolio follows market trends so systematically, why have we continuously made losses?

On the one hand, our poor financial performance is due to the high costs of covering ongoing losses and restructuring the company.

On the other, we have continued to invest in research and development, albeit to a lesser extent, for example at our factory in China. We are now able to draw strategic benefits from this.

So we've done a lot of things right but, looking back, we've also made a few mistakes.

Although we responded to market changes, we were slow in doing so. We deceived ourselves for too long and hoped for a market recovery that failed to materialize. That compounded our losses. Having said that, it's doubtful whether the company would have survived cutting the workforce by 40 percent in one fell swoop.

Our pricing policy – and that of our industry as a whole – was too defensive. We didn't try hard enough to pass on at least part of our restructuring costs to customers.

Last but not least, the market upheaval also led to very diverse market segments forming – with different customer needs and levels of potential. Looking back, our use of resources was not sufficiently focused on market segments offering attractive profitability.

That's where we are coming from.

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Slide 12: Agenda item 2

Where are we today?

Slide 13: Per capita sales and EBITDA

Five years ago we were profitable, achieving sales of some EUR 3.7 billion with a workforce of around 20,000. In financial year 2012/2013, we generated sales of around EUR 2.7 billion with approximately 14,200 employees. We now have roughly 6,000 fewer staff than five years ago. We were reluctant to make these cuts, but we had no other choice. It was extremely difficult to maintain our global presence and safeguard critical know-how.

Slide 14: Per capita sales and EBITDA

This slide compares 2008 and current sales. It shows that per capita sales are comparable to or even slightly better than in 2008. However, sales are not the same as profitability. We've achieved a great deal in terms of per capita sales, but we still have some way to go with regard to EBITDA, that is to say per capita profitability. Our target is to increase per capita EBITDA from around EUR 8,000 to EUR 14,000 in the short term. This will take us to breakeven point. To ensure lasting profitability, this value needs to increase further still to a per capita figure of EUR 17,000 in the medium term.

Before I go into detail on how we intend to achieve this level of profitability, allow me to take a brief look at the results for the previous financial year. Detailed information is available in the Annual Report, which is on display for you to consult today and can also be accessed online on our Investor Relations pages.

Before I show you the results, let me answer one specific question:

Are we satisfied with the results for the previous financial year? Obviously not. We won't be happy until we've achieved our goals of ensuring lasting profitability and reducing our debt. We haven't succeeded yet, but we've reached key milestones on the way to doing so.

Slide 15: Key figures

In the previous financial year, we recorded sales of EUR 2.735 billion. We set ourselves the goal of achieving a clearly positive operating result and succeeded in doing so. Our EBITDA climbed from EUR 90 million to EUR 111 million. Due to special items and a negative financial result, however, we still ended up with a negative rather than a positive result. The annual loss for the financial year just closed represented a significant improvement on the previous year's figure but still amounted to EUR 110 million.

Despite restructuring expenses, however, the free cash flow was only slightly negative. Without these one-time payments, it would have been clearly positive at around EUR 44 million. The free cash flow indicates the inflow of funds during the year that are available to the company after all necessary expenditure. Over the past four years, we have succeeded in covering all restructuring expenses with the free cash flow.
This has enabled us to keep the net debt at a low level of around EUR 260 million.

Slide 16: China Print

I'd now like to return briefly to the regional distribution of our sales. Emerging markets accounted for 15 percent of the total print volume in 2000, but 40 percent of the sheetfed offset volume will be produced in these markets by 2015. China leads the way.

Slide 17: Sales by region

With a 16 percent share of sales, China is also our largest sales market, followed by Germany. The entire Asia/Pacific region excluding China enjoyed a 17 percent share of sales, while South America and Eastern Europe together accounted for over 15 percent of the total. Ultimately, this means we generated only around half of our sales in western industrialized nations and North America in the previous financial year.

Slide 18: EBITDA by segment

I'd now like to focus my attention on the operating result. This improved significantly from EUR 90 million the year before to EUR 111 million, including the result of the Financial Services division. If we compare the segments, we can see that the Service segment was far more profitable. Its EBITDA increased from EUR 73 million to EUR 81 million.

Despite the costs of drupa, the Equipment segment improved from EUR 3 million to EUR 21 million, but this was still lower than the expected result. Stagnation in industrialized nations and the associated consolidation will remain a challenge for the Equipment segment in the years ahead. The relatively high volatility of individual markets – such as Brazil at the present time – means that our structures need to be even more flexible.

If you compare our company with other competitors, however, you'll see that no distinction is normally made between equipment and service operations. The results are consolidated.

Slide 19: Balance sheet

A look at the balance sheet clearly shows the impact of our asset management activities.

The balance sheet total was EUR 180 million lower than in the previous year at the same time as sales increased. Looking back four years, we have succeeded in cutting working capital by more than EUR 500 million.

We've also achieved a further significant reduction in net working capital thanks to lower inventories. In the area of net working capital in particular, we see further potential for freeing up additional funds and further reducing our debt.

On the liabilities side of the balance sheet, there has been a further decrease in shareholders' equity. An additional negative factor in this respect was the actuarial reduction of the interest rate on investments to safeguard pensions. While the current shareholders' equity of EUR 400 million is no cause for concern, our goal is clear. We intend to strengthen our equity base as quickly as possible by returning to lasting profitability.

Slide 20: Financing framework

Now let's take a look at the company's financing, which is still on a stable footing.

At the beginning of July, our successful issue of a EUR 60 million convertible bond enabled us to further diversify our financial instruments and maturity dates. Together with the EUR 300 million high-yield bond, this means the majority of our debt is now covered by long-term capital market instruments. The additional capital requirements resulting from business fluctuations in the course of the year and both cash and non-cash requirements of international day-to-day business operations are covered by a syndicated credit line.

Ladies and Gentlemen,

Figures alone don't show the whole picture, though. We've introduced a great many measures that will quickly improve our figures on a lasting basis. A great deal has already been said about the Focus 2012 efficiency program. I'd like to give you two further examples of large-scale projects that will also improve our position.

Slide 21: Complexity management

- We have initiated a company-wide complexity management program. The term itself sounds complex, but the idea behind it is simple. Once again taking 2008 as the reference year, we now generate around EUR 1 billion less in sales with the same machine portfolio/production program, i.e. far lower or insufficient sales per part. To regain our previous economies of scale, we need to significantly streamline our portfolio and programs. In concrete terms, we can reduce the number of parts we offer by 30 to 35 percent in terms of order numbers alone. The same applies to the number of different tools used, which can be dramatically reduced by using more common parts. Marginal products can be discontinued and the vertical range of manufacture reduced. All this can be achieved without compromising the quality of our products or services while still improving our effectiveness and thus our competitiveness.

- There is also great potential for reducing the complexity of our sales structures. We are now no longer dealing with an anonymous mass of 200,000 customers.
  Our customer base comprises around 15,000 customers who benefit from our active support and are part of our CRM (customer relationship management) program. This doesn't mean we have less sales potential. Quite the opposite in fact. We're more aware of the customers with the greatest potential. We have more precise details on when they need what and can approach them in a more targeted way. Knowing more about customers will boost the potential for profitability. At the same time, we're streamlining our complex back office structure. Instead of local structures, we'll have national or even international centers.

Slide 22: NWC and debt

Historically, we've adapted our capital expenditure and our research and development resources to the new circumstances, reducing our capital investment in the process.
Our net working capital management program is a further large-scale project to improve our performance across the board and lower our debt. We've succeeded in significantly reducing our net working capital and using the funds this has freed up to cut our capital requirements, thereby lowering the corporate debt.

And while I'm on the subject of the corporate debt, our financing framework is stable. Relatively soon, the net debt should be no more than twice EBITDA (leverage). From the capital market's perspective, this corresponds to a "normal" corporate debt and creates new business flexibility for Heidelberg. The chart shows the situation we have come from and you can see that the leverage has already been significantly reduced. We're currently still at a level of 2.4 times EBITDA but we're confident that we'll achieve our target soon.

Slide 23: Share and bond prices

Something that is of direct and particular interest to you as shareholders is the fact that we're gradually starting to win back the capital market's trust. From the low point of less than EUR 1 in November 2012, the share price exceeded EUR 2 for a while and thus doubled in value. It currently stands at just under EUR 2. Our bond has reached the par value, that is to say it is up on the issue price. We have successfully positioned a convertible bond on the market in a short space of time. This proves that investors are once again interested in Heidelberg.

Allow me to say something about the issue of trust. As the saying goes, there's a time for everything. That also applies to trust. The time for trust is the future. That brings me back to my Heidelberg story, which starts with the future.

Slide 24: Agenda item 3

Ladies and Gentlemen,

I'd now like to turn to what is probably the most important point I have to make.

Where do we want to go?

Slide 25: BA organization

It's clear where we want to go. After five years of losses, we want to return to profitability. Following the positive operating result this year, we aim to start making a profit next year and to maintain this in the years ahead. At the same time, we intend to further reduce our debt.

Naturally, that's easier said than done. As I've already shown you, the global print volume is stable. Stability is all well and good, but it isn't the same as growth. We need to become more profitable in a market that promises stability rather than growth overall. To achieve our goal, we're therefore gearing the entire company toward profitability rather than volume.

Once again, that's easier said than done. Over recent years, we've successfully implemented comprehensive restructuring measures and adapted to changed market conditions. But our markets are still changing. So are our technologies. And so are our customers and their needs. And these changes are permanent. That means we, too, need to make permanent changes. We must adapt to market conditions on an ongoing basis. Our future success depends on our ability to change proactively, creatively, and permanently.

Being creative puts you ahead of the game. And this gains you time. Under the present market conditions, companies that gain time creatively are also the most likely to be profitable.

That's why we introduced a cross-functional business area (BA) organization within the segments at the end of 2012. Our business is complex – too complex to be mastered using one single strategy that is intended for the entire business worldwide.

This new organization can only be successful if clear performance targets and specific responsibilities are in place at the level of each individual business area. In this way, we'll ensure a faster response to market dynamics, firmly establish the associated responsibilities, and highlight business success.

At the same time, all other parts of the company must work with the people responsible for the business areas to identify synergies within the main functions (sales, production, research) when implementing the individual BA strategies and continuously build on these. BAs are virtual organizations to a certain extent. The implementing structures are combined at the level of our Equipment and Service segments.

Slide 26: Strategic categories and performance targets

We categorize the individual BAs according to performance on the one hand and basic strategic category on the other. Accordingly, the various BAs have different strategies and levels of potential. However, we believe that every business area has the potential to be profitable. Each one therefore has its own specific targets to achieve and maintain over the next three to four years.

When it comes to strategic categories, we make the traditional distinction between

- Run for cash (RfC),
- Invest to maintain (ItM), and
- Invest to grow (ItG).

RfC BAs operate in a mature market with few possibilities to stand out through the product itself. Business success primarily depends on the cost position compared with the competition. Since the investment/development outlay is limited, the assumption is that more cash is generated than is needed.

The surplus is used to develop **ItG** business, which has great potential in terms of sales and margins but is still being built up.

In most cases, including our own, **ItM** business is the same as core business. Thanks to its leading technology and excellent level of customer satisfaction, our company has the opportunity to generate enough cash to maintain this business until the next phase of the life cycle (RfC). In an ideal portfolio, ItM accounts for approximately 50 percent of sales, RfC for 30-35 percent, and ItG for the rest.

Notwithstanding measures to boost efficiency, our aim is to work toward a balanced portfolio. With the portfolio model shown here, we can effectively steer our use of resources toward high profitability/a high return.

<u>Slide 27: The people behind the machines</u>

I'd now like to talk about our portfolio from a different perspective.

Technology and technical expertise are important and will remain so. Heidelberg is an undisputed technology leader and this, too, will remain the case. It doesn't always have to be our own technology. If a cooperation agreement gives us faster and more efficient access to a particular technology that helps us provide our customers with a better service – as in the case of Ricoh in the context of digital printing – we will make use of strategic partnerships.

Slide 28: Service engineers

However, it's becoming increasingly difficult to set ourselves apart from the competition through technology alone. At the end of the day, customers will increasingly no longer buy a machine as such but all the know-how they need to be more successful. This includes ensuring the availability of their machine, incorporating our equipment in their workflow, how quickly their problems are solved, and reliable supplies of consumables.

Machines have the technology, but ultimately it's also about the people behind them. Contact with the markets of a globalized world is not the same as contact between machines. It's contact between people. I believe that service will become increasingly important in the future. Machines will become less important, while the people behind them will play a more significant role.

Slide 29: Print shop team

If machines get more and more alike, people will make the difference. We build machines and we build our success on the people behind them. As a business, we can't afford to simply be one of the crowd. Consequently, we must see our Equipment and Service segments as equal pillars of our company and further develop them on this basis. That's why we're glad that – despite the necessary adjustments – we've been able to maintain our global service and sales network. We benefit from proximity to our customers the world over.

Slide 30: Outlook for FY 2013/2014

I'd now like to turn my attention to the outlook. First and foremost, our aim for this financial year of earning at least as much money as we spend – that is to say achieving a net profit – remains unchanged. Things are progressing according to plan at present. Although we're still expecting to record a negative operating result for the first quarter, the result will, as planned, be a big improvement on the first quarter of the previous year.

We want to be profitable by the end of the current financial year. As before, cost savings will play a key role in this respect, but increasing our margins and adapting better to market segments will also be important.

Slide 31: Medium-term profitability target

However, this target is also simply a milestone on the way to truly sustainable profitability. Maintaining the current portfolio, it's possible to achieve an EBITDA margin of over 8 percent in the medium term. This figure is realistic because we've matched or even exceeded it in the recent past. Also, we would already achieve this value in an idealized portfolio. Last but not least, it corresponds to the average achieved by the top half of comparable companies over the past five years.

This target can be achieved more quickly through portfolio optimization, that is to say building up and expanding profitable business operations while scaling down less profitable ones. The average performance (or margin) would then increase further still. The way in which we assess our portfolio and allocate resources will also enable us to continuously optimize it on our way toward this value.

For the time being, however, we're focusing on returning to profitability and reducing our debt. We want to increase our room for maneuver by achieving our short- and medium-term targets. Rome wasn't built in a day – and Heidelberg won't be rebuilt in a day either. We have a huge amount of work ahead of us and no doubt a number of new challenges. We've made a start – and next year we want to be standing here telling you we've made a profit.

Thank you for coming, for listening, and for demonstrating your trust in us.

Important note:

This release contains forward-looking statements based on assumptions and estimations by the Management Board of Heidelberger Druckmaschinen Aktiengesellschaft. Even though the Management Board is of the opinion that those assumptions and estimations are realistic, the actual future development and results may deviate substantially from these forward-looking statements due to various factors, such as changes in the macro-economic situation, in the exchange rates, in the interest rates and in the print media industry. Heidelberger Druckmaschinen Aktiengesellschaft gives no warranty and does not assume liability for any damages in case the future development and the projected results do not correspond with the forward-looking statements contained in this press release.