Annual Report
2013/2014

This is what we want.

HEIDELBERG

Our **Strategy**

We want to achieve more!

We have achieved **much**

We have re-entered **the profit zone**

We want to achieve **more**

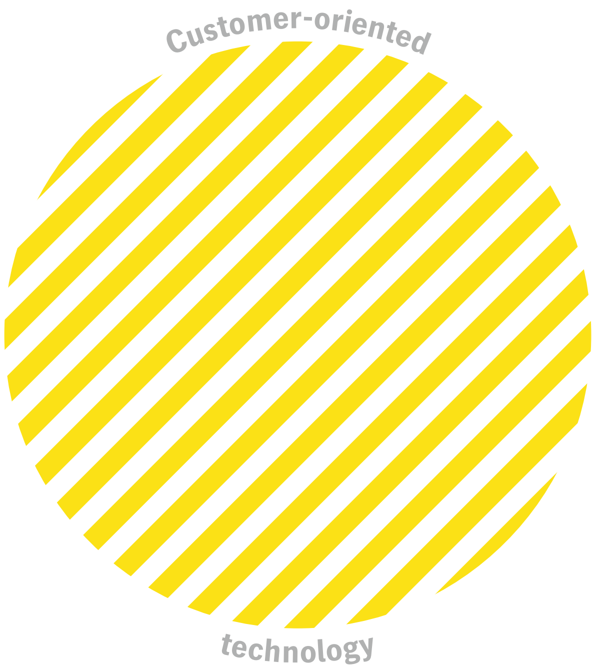
We have **focused our strategy** on the print of the future

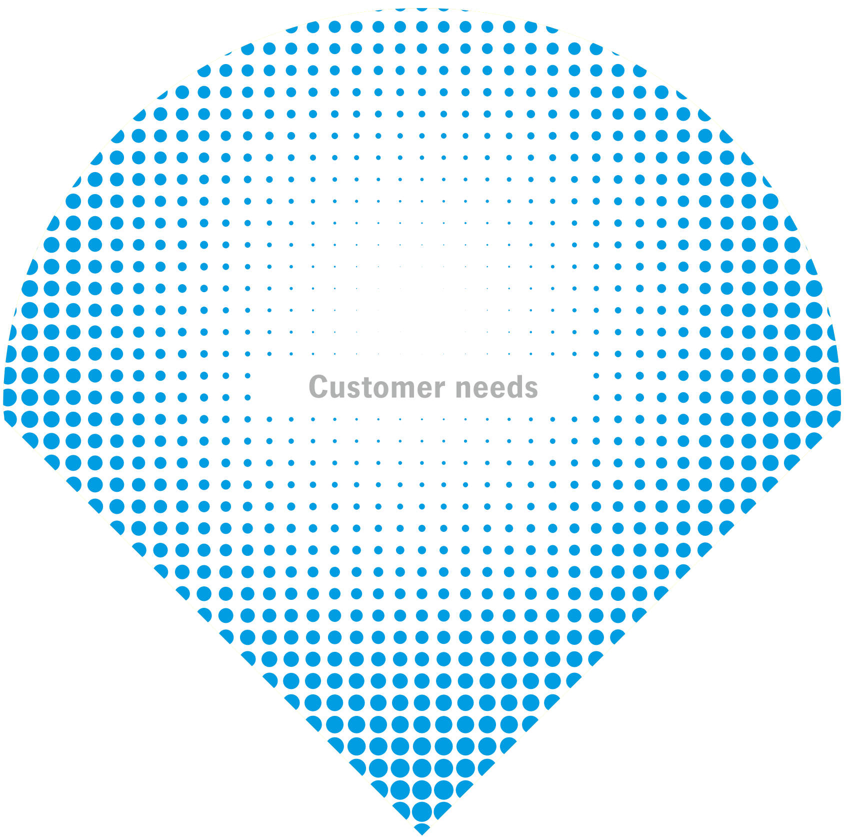
For customer **success**

their success = our success

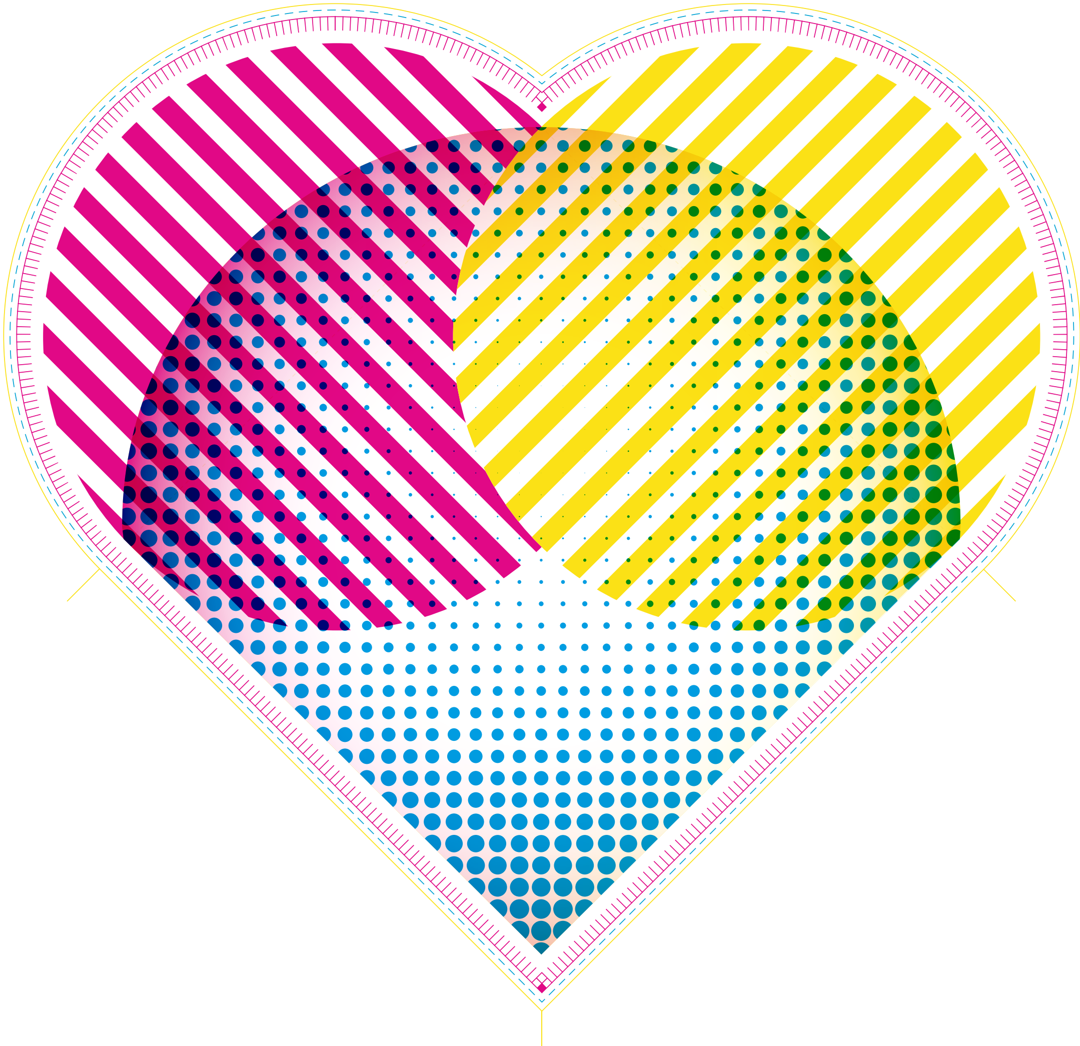

Customer-oriented
services and consumables

This is what we want



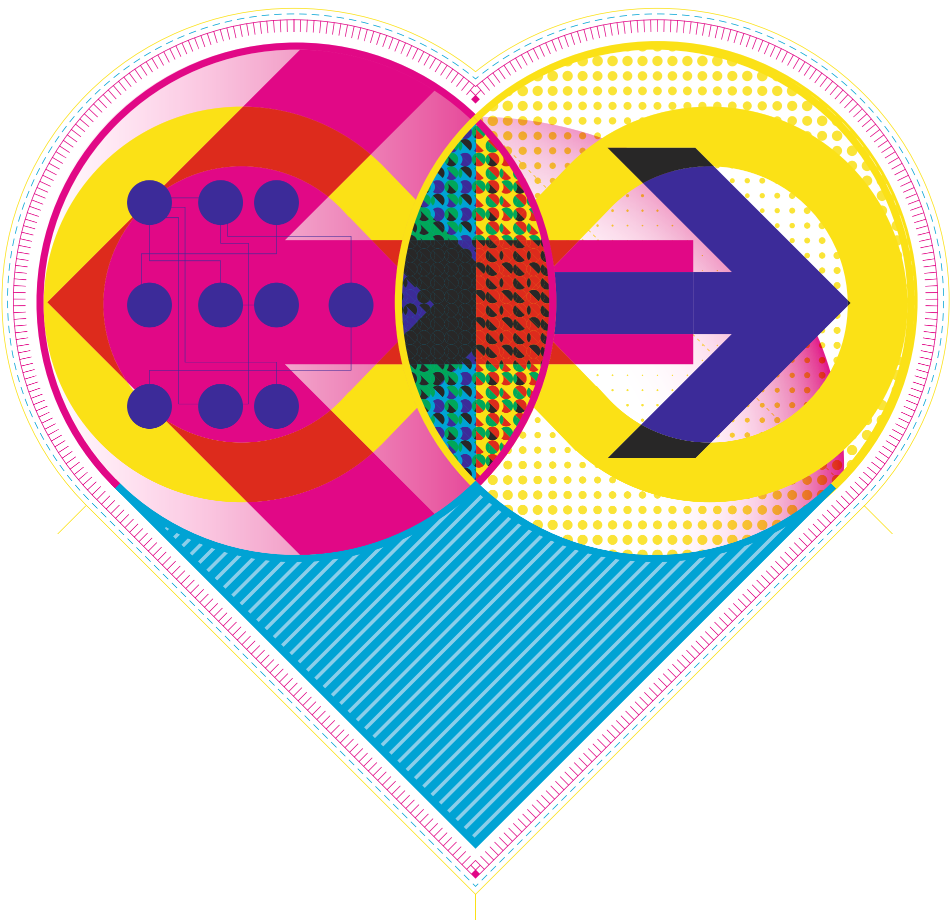

Customer needs

The whole is **more** than the sum of the parts



We have a **heart** for print

To us **more** means continuity *and* change.



To the **printer** we offer

To us

more means

co

ch

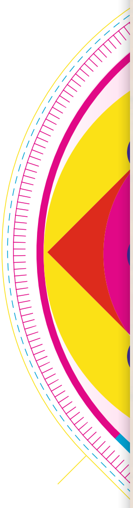
Continuity *and* **change**

This is what we want.

1 } 5

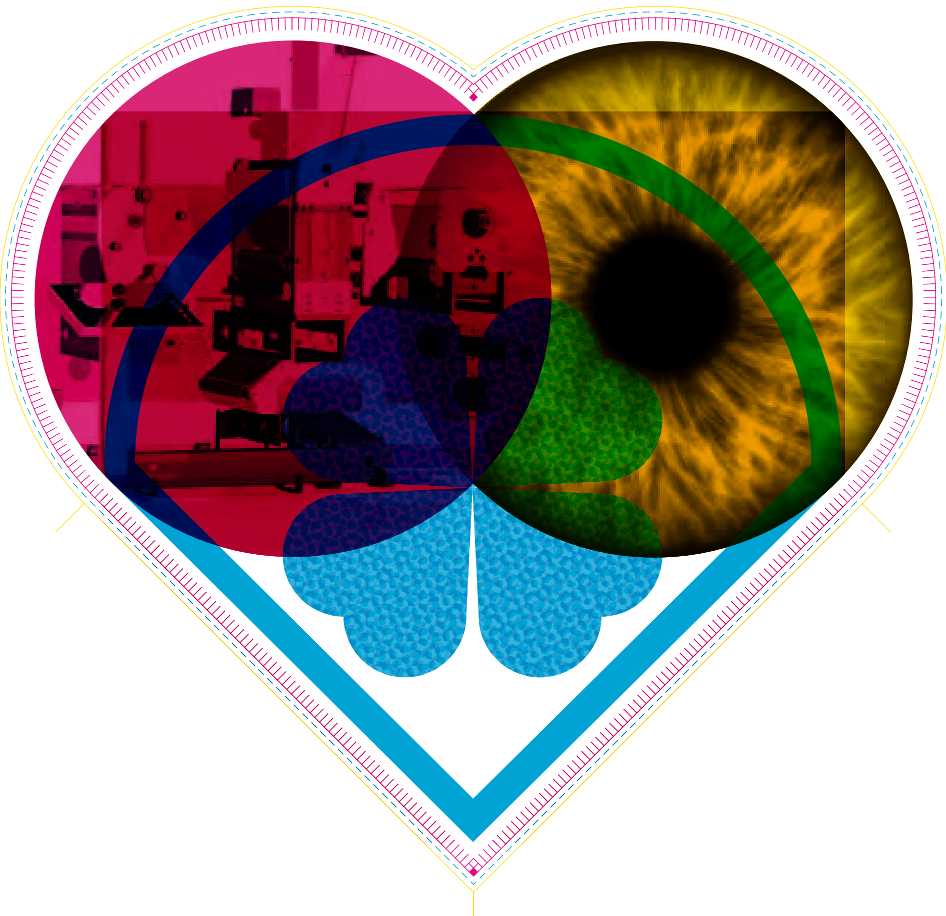
➡ **At Heidelberg, we have to know the ever-changing trends** driven by the wide variety of individuals which comes from our global diverse customer base and their customers. We can only do that if we reflect this diversity within our own employee base. We must listen carefully to our individual customers to understand how we can contribute to their success. And we must also listen to employees who have decades of accumulated know-how in building quality machines and delivering quality service.

➡ **Heidelberg defines value in terms of sustainability.** Sustainability means that today's products and services are developed with a vision of the future based on long years of experience. We deliver unchanging quality for changing printers' needs. Heidelberg accepts the challenge to change, but it will not compromise on the quality that made its printing presses and its services famous.



To the **printer** we offer unchanging quality for changing customer needs.

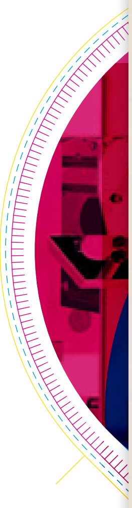
To us **more** means leveraging our strengths *with* strong partners.



2 } 5

To the **printer** we offer

To us **more** means le
st
st



Our strengths *and* strong partners

This is what we want.

2 } 5

➡ **There was a time when companies thought that** the only way to remain strong and ensure long-term success was to do everything yourself. That time is behind us. To succeed tomorrow you do not have to do everything yourself. But everything you do has to make your customer's business better. And you have to do this better than the competition.

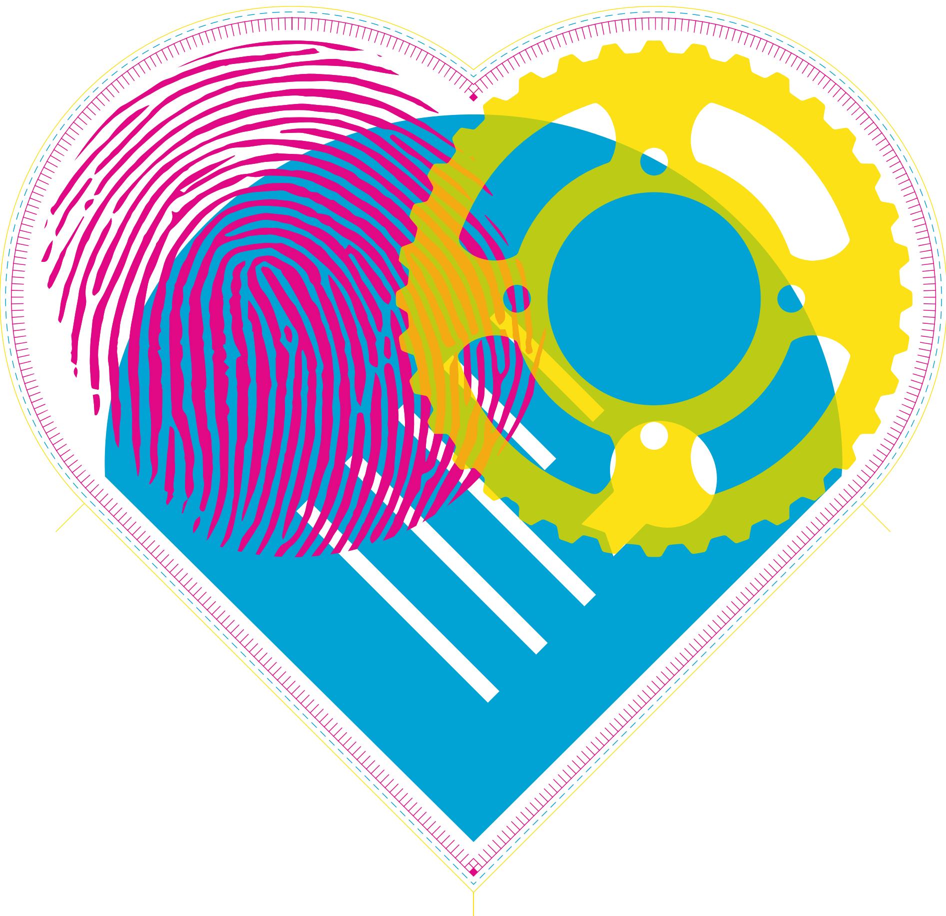
➡ **At Heidelberg, we consider our partnerships a strategic strength.** A strategic partnership can save time to market, ensure the quality we are known for, and cut costs at the same time. We have the proven engineering expertise and the global presence to attract some of the world's best companies.

➡ **This year we entered a partnership** with the globally renowned Fujifilm Corporation. We will combine their cutting-edge inkjet technology with our engineering competency and market strength to pioneer new ways in digital printing.

➡ **In the future partnerships will continue to be part of our success.** We will pursue partnerships whenever they can make our strengths even stronger.

To the **printer** we offer tomorrow's technologies faster *and* more economically.

To us **more** means machine *and* man.



3 } 5

To the **printer** we offer

To us

more means

m

m

Machine *and* **man**

This is what we want.

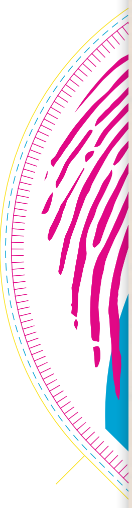
3 } 5

➡ **Once upon a time technology determined the market** and was the single most important factor in achieving success. But markets change and technology changes. Technological mastery alone no longer assures success in the market.

➡ **In the past success was determined by product quality and expensive R&D activities** driven too often by what is technologically possible. Today, technology alone is not sufficient to distinguish one company from another; the way that technology is used in a given application is becoming increasingly important.

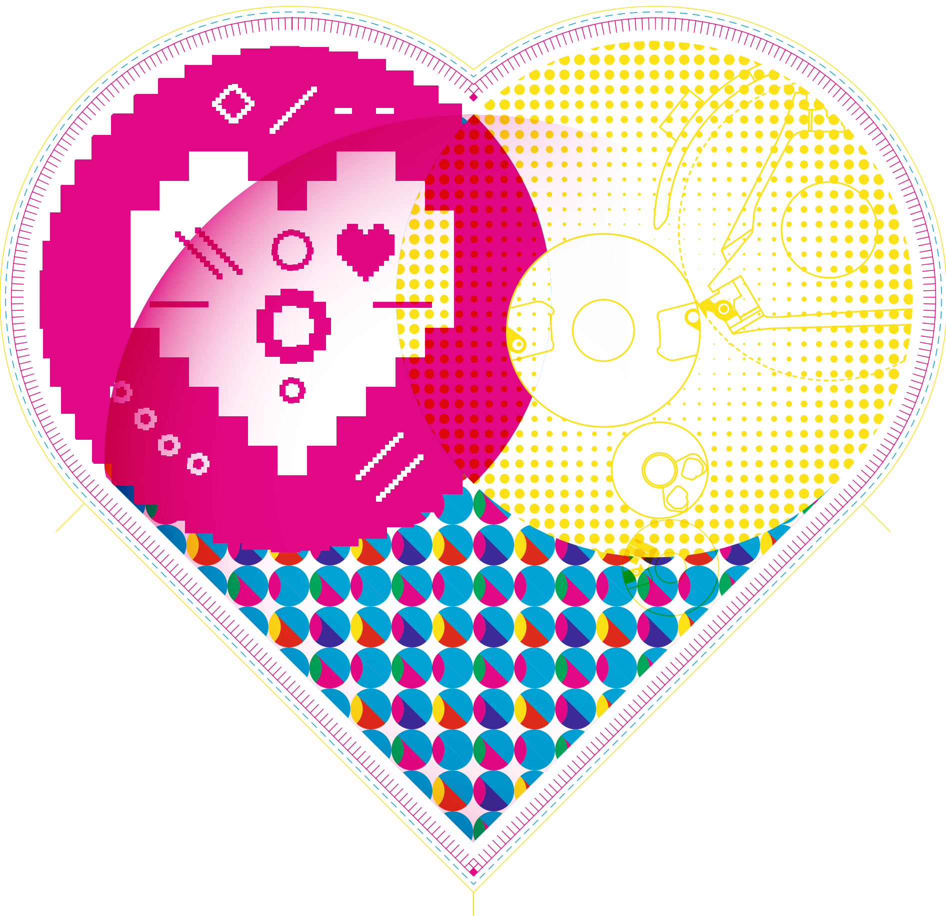
➡ **To be successful tomorrow a technology company must be more than just a technology company;** its technologies must be reflections of customer's needs and wishes. Products have their value within the context of a comprehensive service concept carefully calibrated according to market trends. Known in the past for its machines, the Heidelberg of the future will also be known for the way its serves its customers.

➡ **With a keen eye for customer needs,** equipment will increasingly become a function of service, not vice versa. In the service context, the human aspect will gain importance; it will not replace technology, but it will place technology in a better position to create value for customers – and for Heidelberg's shareholders.



To the **printer** we offer comprehensive customer care that makes the best machines even better.

To us **more** means offset *and* digital.



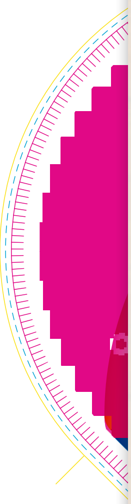
To the **printer** we offer

To us

more means

of

di



Offset *and* **digital**

This is what we want.

➡ **For large print runs** with constant data, sheetfed offers highest efficiency and quality. In cases where special offset features are required for short print runs we offer our Anicolor line, an efficient choice for print runs as low as 300.

➡ **Digital technology** can be used for a print run of only one. It is perceived as the technology of the future. Today's and tomorrow's printers must efficiently master shorter print runs with variable data to be profitable; for these type of jobs digital technology has the advantage. For larger industrial printing jobs, digital technology must be an economic solution for print runs of up to 1,500. We owe our industrial printers an economic digital solution – and we are working on it already.

➡ **A company that can offer both technologies and the service to accompany them** can change the game. If you can offer both technologies at the highest level, then the focus shifts from what a technology can do to what a customer needs. As a leader in both offset and digital technology Heidelberg can become a game changer.

To the **printer** we offer both the productivity of offset *and* the flexibility of digital.

To us **more** means art *and* commerce.

5 } 5

To the **printer** we offer

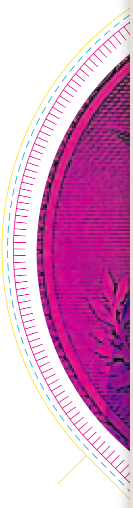
rategy

To us

more means

an

co



Art *and* **commerce**

This is what we want.

5 } 5

➡ **Art has many meanings.** One meaning refers to the technical mastery of a certain skill. Heidelberg has mastered the art of engineering sheetfed offset printing presses, for example. Another meaning of art refers to printing in highest quality, a quality that is constant from imprint to imprint, even when a unique work of art is printed thousands of times.

➡ **Unlike art, commerce tends to have one meaning –** economic success. Without economic success commercial activities begin to lose their meaning. Commerce is about business and business success is defined in terms of sustainable profitability. Particularly if it depends on millions of printing products a day sent to millions of households.

➡ **Technological mastery on the one hand and the ability to imagine a broad bandwidth of applications on the other** are only mutually exclusive when one has no imagination. Lack of imagination is to the detriment of technological skills and a better future.

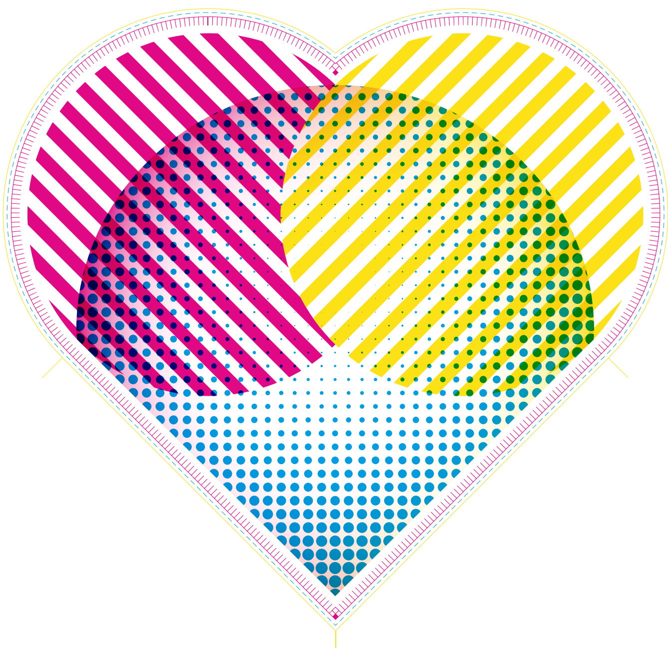
➡ **Heidelberg strives to be a company where art and commerce are not mutually exclusive,** but rather mutually enhancive – for the better of their customers and their shareholders.

To the **printer** we offer technical mastery that spells economic success.

With a **focus on the future**

our strategy offers:

products and service to meet all of **tomorrow's printers' needs,**
technologies for **productivity and flexibility,**
partnerships that make **your business** stronger faster.



We are the **heart** of print.

This is where we are.

Our **Results**

Two-year overview – Heidelberg Group

Figures in € millions	2012/2013	2013/2014
Incoming orders	2,822	2,436
Net sales	2,735	2,434
EBITDA [1]	80	143
in percent of sales	2.9	5.9
Result of operating activities [2]	– 3	72
Net result after taxes	– 117	4
in percent of sales	– 4.3	0.1
Research and development costs	118	117
Investments	82	52
Equity	402	359
Net debt [3]	261	238
Free cash flow	– 18	22
Earnings per share in €	– 0.50	0.02
Number of employees at financial year-end [4]	13,694	12,539

First-time adoption of IAS 19 (2011) in financial year 2013/2014. The figures of the 2012/2013 financial year were restated.
[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
[4] Number of employees excluding trainees

Contents 2013/2014

“The changes we made in the past financial year created potential for future **profitability.**”

DR. GEROLD LINZBACH
CEO

Target achieved

For the first time in five years the Company achieved **a net profit.**

1

EBITDA
€ 143 MILLION
Operating margin almost doubled from approx. 3 percent to almost 6 percent.

2

Digital print
is nothing new to us, but we plan to make something entirely new out of it.

3

We see our Heidelberg **Services** segment as a key to sustainable growth.

4

Leverage 1.7
Asset and net working capital management reduce debt while improving profitability.

Dear shareholders and bondholders,

Our industry changed. And we had to change to be successful in our industry. And: we have changed. After five years we finally stopped the losses. With a lot of hard work and despite an unfavorable economic environment, we delivered what we promised. More importantly, we have taken the measures we feel are necessary to keep us there. In absolute terms a net profit of € 4 million may not seem all that significant. That is true, but the changes we made did not just bring results for the past year – they also created potential for future profitability.

➡ Our business environment in the last fiscal year was neither as favorable as we had hoped nor as we had planned. In the emerging markets, where we have seen the best growth in recent years, there was in fact growth, but it was slower than expected. The situation in the emerging markets was impacted further by currency developments that made our products more expensive in the local currency. Within our industrialized markets North America and Japan were up, but the total was disappointing. We had a decrease in sales in our Heidelberg Equipment segment as well as in our Heidelberg Services segment. The Services segment performed better than the Equipment segment. Were it not for negative currency effects, sales in services would have been flat. However, despite the unfavorable environment and the resulting decrease in sales, we managed to finish in the profit zone. The profitability achieved was the result of change.

➡ We are quickly making the necessary transition from a volume-driven company to a margin-driven company. Our heightened focus on profitability meant that we had to refocus a number of other areas. Until recently, we were very much focused on the necessary optimization of our financing situation and continued to reduce our net debt despite restructuring costs. Financing, cost-cutting, complexity management and asset management remain top priorities, but these alone are not sufficient. During the last 12 months we critically evaluated all of our business areas according to their future potential for profit. Processes, projects and products that do not contribute to our profitability have no place in our strategy as we move forward.

➡ Our portfolio management is an ongoing process that requires flexibility and creativity. It means questioning established ways and establishing new ways. We had to ask ourselves if those things that made us strong in the past can keep us strong in the future. Our self-evaluation also includes the evaluation of strategic partnerships. When the right partner can help us progress more quickly and more efficiently we will pursue strategic options with suitable partners. The partnership we launched last fall with the renowned Fujifilm Corporation is a case in point.

Going forward there is much still to be done. We will focus on four key areas with individual strategies to maximize results in each area. In the Equipment segment we are working to develop and grow our digital business while we continue to improve margins in our offset business. In our Services segment we see ways to broaden our offerings and expand our customer base. Non-core activities will support our core activities by generating cash.

➡ For printers in future the technology question is a question of productivity and flexibility and how to combine them to turn a profit. For long print runs with constant data, offset will be the most likely answer. Our state-of-the-art sheetfed technologies will remain a core business. For short print runs or for jobs with variable data, the most likely answer is digital. Since most printers will face both types of jobs, our answer is to offer and integrate both technologies. Our reputation for quality will not change, but in future our quality will expand to include our state-of-the-art offset technologies as well as digital technologies both for the value segment and for the growing needs of industrial printers.

- Digital printing is not entirely new to us, but we plan to make something entirely new out of it. In the entry value segment of the digital printing business we have been successfully working with our partner Ricoh since 2011. In the fall of last year we entered into a partnership with Fujifilm. Together with Fujifilm we will complement our partnership with Ricoh and move into the higher value segment of the digital printing business. Our goal is to combine Fujifilm's leading inkjet technology with our engineering expertise to build a new generation of digital printing presses.

- Service and consumables will become an increasingly important focus area in the future. We do not see our services just as a supplement to the equipment we sell. We envision our Services segment as an independent business that can grow beyond after-sales service and consumables. Since the total global print volume is expected to remain stable, service, spare parts and consumables are in constant demand. Whereas our Equipment segment is subject to economic developments and can experience major fluctuations, our Services segment is less cyclical. We see this segment as a key to constant growth. Developing the Services segment both within and beyond the already large base of our own installed machines will be a top priority moving ahead.

- We are also keenly aware that success in the end depends on the right people with the right skills. During the last year we also made a number of key management changes. Here we mention only one: We welcome Harald Weimer as a member of the Executive Board responsible for services and consumables; he succeeds Marcel Kiessling. Harald Weimer was previously head of our operations in North and Latin America. He has international sales experience and important experience in go-to-market digital technologies.

Dear Shareholders and Bondholders, Last year we got back on the right track. But we are hardly at the end of the road. We love what we do and we want to achieve more. Our decision to become a global leader in both digital and offset technologies, together with our trusted global network for service and consumables, will make our position within the industry unique. We are driven by our customers' needs. We will not offer everything, but everything we offer will be aimed at achieving sustainable profitability and will meet a concrete customer need. This is a competitive advantage for our customers – and for us.

We would like to thank all at Heidelberg worldwide for their efforts in the past year. Their hard work is beginning to pay off.

We would also like to thank our shareholders and bondholders. There is never a guarantee in business, but we are confident that we are doing what is necessary to ensure that our profitability can grow and be sustainable. We expect the progress we make to be reflected in our share price. We have begun to win back the trust of the financial community. Our bond price remained stable throughout the year, but despite our progress the share price has seen downswings as well as upswings. We will work hard in the months ahead to overcome the doubts that still exist in the market. We are greatly aware that in the end only a sustainably strong performance can give an acceptable answer. It remains a top priority for us to protect your investment. Our progress would not be possible without your trust.

Sincerely,

DR. GEROLD LINZBACH **DIRK KALIEBE** **STEPHAN PLENZ** **HARALD WEIMER**

DIRK KALIEBE
CHIEF FINANCIAL OFFICER AND
HEAD OF HEIDELBERG FINANCIAL SERVICES

HARALD WEIMER
MANAGEMENT BOARD MEMBER AND
HEAD OF HEIDELBERG SERVICES

STEPHAN PLENZ
MANAGEMENT BOARD MEMBER AND
HEAD OF HEIDELBERG EQUIPMENT

DR. GEROLD LINZBACH
CHIEF EXECUTIVE OFFICER
HEIDELBERGER DRUCKMASCHINEN AG

Profit Progress

When Gerold Linzbach became CEO of Heidelberg in September 2012
he had many challenges – and one goal: profitability.
After five years of losses the goal has been reached.
Now he has a new goal: more profitability.

DR. GEROLD LINZBACH
CEO

It's all about our customers' needs

Interview with **Dr. Gerold Linzbach**

➡ You have been in charge at Heidelberg now for two years. Last year you achieved a balanced operating result excluding special items. This year – after five long years of losses – Heidelberg has finally returned to profitability at the bottom line. Are you satisfied?

DR. GEROLD LINZBACH No. And: Yes. Both – and in that order.

➡ Why no?

DR. GEROLD LINZBACH No. Partly because I am a perfectionist and am never really satisfied. Because I think things can always be done even better. That is part of my personality, and my personality is part of my professional life. And because we have not yet achieved sustainable profitability, even if we are robust enough to stay out of the loss zone.

➡ Every company talks about "sustainable profitability." What does it really mean?

DR. GEROLD LINZBACH For a company like ours that has had five straight years of losses it means getting back into a type of "stable zone." It means you don't have to draw up emergency plans every time you hit a bump in the road. Sustainable profitability is sort of like a shock absorber – when you hit a bump in the road, it doesn't

> The **profitability** achieved is the result of change.

throw you off-course. When emergency plans become the norm rather than the exception, it takes a great toll on everybody at the Company. Employees are forced to focus on repairing things and we lose valuable energy for developing new things. And, it goes without saying: you can't enhance your portfolio if you don't have the money to do it. Profitability means that we have earned the money we need to make the portfolio moves that are the real key to making our profitability sustainable. We have plenty of ideas, and now we are in the process of earning the money to make them real.

➡ What would be different in the "stable zone"?

DR. GEROLD LINZBACH On the road to sustainable profitability there will always be bumps in the road, problems that you did not cause, but that you have to solve. Take this past year, for example. Currency developments had a very strong negative impact on us and other companies like us in the euro zone. We absorbed the shock relatively well. Sales were weaker than we planned, but we reacted more effectively to the "bumps" than in the past; we stayed on course and ended up in the profit zone. The "stable zone" I envision is a high-activity focus zone, not a place to relax. It's a place where strategic activity is the name of the game, not hyperactive hectic stopgap reactions. Sustainable profitability is the zone where you concentrate on those things that make your business interesting and exciting – and profitable in the long term. Heidelberg is in the printing business, not in the restructuring business. I think we proved this year that we know how to make our business profitable.

➡ What were you satisfied with?

DR. GEROLD LINZBACH I'm encouraged that more people in the Company are being driven by results. In absolute terms, earnings after taxes of € 4 million doesn't look too impressive. But in relative terms, compared to last year we improved by over € 120 million. Our EBITDA margin rose from 3 percent to 6 percent. I am confident that we will achieve our goal on an EBITDA margin of 8 percent. People are changing, self-confidence is coming back – and it is beginning to show in our results.

➡ What has changed?

DR. GEROLD LINZBACH Our people are changing and our strategy is changing. We still have a lot of work to do. But this year we showed that we can do it. People are understanding that we need more than right-sizing and cost-cutting. It has to go deeper than that. It begins with the way we think, the way we see ourselves and our customers. After years where sales volume was seen as the priority, it takes courage to turn down sales to protect margins. We continued to cut costs, improve processes and manage core assets, but more importantly we improved our margins. In a mature industry like ours this is a key to profitability.

➡ You said that Heidelberg is changing the way it sees itself and the way it sees its customers. What is different?

DR. GEROLD LINZBACH We are more clearly realizing that it is all about customers' needs. Their needs have to drive what we do. If we do not meet their needs better than the competition, we cannot succeed. It is a simple as that. To make and sell highly productive technology doesn't automatically make you a winner in a mature industry, it's a given to not lose ground. If you want to grow, you have to offer more complex solutions for the more complex nature of our customers' work. You have to add variability, flexibility, networking. The changing meaning of technology has happened over time, but for a company that was primarily technology-driven this change seems more like a revolution than evolution.

The **service mind-set** must drive all parts of the Company.

➡ Will technology be less important for Heidelberg in the future?

DR. GEROLD LINZBACH No. But it does mean that service will be more important. The Heidelberg of the past was famous for the engineering quality of its printing presses. And it's our aim to maintain this engineering quality. But the Heidelberg of tomorrow will also be known for the quality of its service.

➡ What do you mean by service?

DR. GEROLD LINZBACH Service and consumables are too often connected with the idea of repair work, fixing and replacing things that are broken or worn out. For me service is not about repairing things, it is about anticipating needs. For many people service is not sexy. Especially for people coming from a technology background. But service is already a billion-euro business for us. We think it has potential for more growth and we will be investing more in this segment as we move along. Selling products and services in the future must focus on anticipating needs. We have to learn to develop what we can sell, which is different from trying to sell what we could develop.

A change in our top management underscores how important the Services segment is to us. Harald Weimer, previously responsible for our business in North and Latin America, was appointed to the Executive Board in March. It will be his responsibility to develop new business models for the Services segment to generate profitable growth. He has a strong focus of delivering results. He brings important international sales experience, also in digital printing, an area that will become increasingly important for us.

➡ How does your idea of service impact parts of the Company outside the Services segment?

DR. GEROLD LINZBACH Service is an attitude, a fundamental way of thinking. It puts the person being served first: the customer. This service mind-set must drive all parts of the company, not just the Services segment. It has to drive our R&D activities as well as the way we deal with each other every day within the Company. In our industry we can make a difference in the future if we learn to connect the idea of innovation with the way we understand our customers. We have to understand exactly what applications can help the customer turn a profit.

➡ What impact does your service idea have for the customer?

DR. GEROLD LINZBACH Service is really about performance enhancement. That's what we aim to give our customers: service that makes their business better. Heidelberg offers not just equipment and/or services. As a real partner to the printer we offer know-how that is more than simply the sum of both. Our Prinect software, for example, helps the printer choose the right technology for the job at hand and can integrate and optimize the entire workflow. Our Performance Plus program offers consulting that goes beyond simply technical services. The printer can build on our overall know-how to drive business to a new level. Our Performance Plus program has one goal – to better the customer's performance. The customer pays for the program only if is performance is measurably improved. Here you can sense how strong our commitment to serving the customer is. When printers can sleep well because they have chosen Heidelberg as their partner, then we will know we have done our job right.

➡ **How will the increased value of the Services segment affect the Equipment segment, the segment that made Heidelberg famous?**

DR. GEROLD LINZBACH Don't get me wrong: equipment will continue to be a very important pillar of our strategy and future success. The chances for profitability in the sheetfed offset market depend largely on efficiency and improved margins. Luckily we are improving our margins. We will look to increase sales and margins in our sheetfed offset business, but the challenge is great.

➡ **How do the prospects for growth and profitability look for the Services segment?**

DR. GEROLD LINZBACH What presents itself as a challenge to the Equipment segment is a chance for the Services segment. While the equipment business is directly connected to the volatility of economic trends the service business is more connected to the total volume printed, which – as we said – we expect to be stable. Bottom line: the service and consumables business is not as cyclical – and for that reason it is a key to making our profitability sustainable. We have the largest established base of presses worldwide; the service, parts and consumables needed to support the large number of machines already sold is a strong starting point. As we move ahead we want to make our services business more independent from the sales of just Heidelberg equipment. Our service network spans the entire world and is highly reputable. We are confident we can develop it beyond our already established equipment base.

The technology question has its meaning only in relation to **the profit question.**

➡ **During the past year Heidelberg made a major commitment to a new technology: digital technology. How does digital technology fit in with your idea of service?**

DR. GEROLD LINZBACH Especially in the mature markets, the share of high-quality products with variable content grows every day. Digital technology is not really a new technology, not even for us. But it is rapidly gaining a new meaning. Since 2011 we have been working together with our partner Ricoh offering digital solutions in the entry segment of the digital business. Today we can compete successfully in this segment. But the digital market is growing. New needs are developing. This is the point where our interest in digital technologies connects with our service idea. The customer is at the heart of the service idea. In the future more and more printers will have jobs that can be done more efficiently with digital technologies. Our investment in digital technologies is driven by customer needs and has a strong focus in the future.

➡ **Does the heightened emphasis on digital technology mean that you are less interested in your offset technologies?**

DR. GEROLD LINZBACH No. In a sense our industry is a bit like the automotive industry. New hybrid technologies stand for innovation and future and are in the focus of marketing and R&D themes, but the established automotive technologies will continue to be refined and will play their major role for a long time to come. If you take a good look at our established offset technologies you will see that innovation is continuous. Just a couple of examples. With our Anicolor line we even offer an offset solution that is efficient for print runs as low as 300 copies. Or take our LE UV (low energy ultraviolet) technology, for example. Technology and consumables fit together – in a more environmentally friendly way – to save ink, energy, time and money. Tomorrow's printers will need both offset and digital technologies. And to position Heidelberg as the only company that can offer tomorrow's printers all that they need to succeed we will offer both technologies. For larger print runs with unchanging data and jobs that need certain special effects and finishings, the highest productivity. For this type of job productivity is the key to the customer's profitability. For this type of job our offset technologies are the best solution. But printers are increasingly faced with jobs with short print runs that have variable data. Or they have to print jobs that in a certain part or a certain phase should be done digital, while the large-scale production of the same job is best suited to offset technology. It is not so much an either/or situation but rather complementary. The technology question has its meaning only in relation to the profit question.

➡ **What can Heidelberg do in terms of digital technology that others can't do?**

DR. GEROLD LINZBACH Industrial printers will look for a digital solution because print runs with variable data will increase. They will be looking for a digital solution that will give them the flexibility they need, but they are also looking for digital machines that can give them the same quality and reliability that made our offset presses famous. Combining our engineering experience and expertise with Fujifilm's inkjet technology could lead to a whole new generation of digital machines for the industrial printer.

Our investment in digital technologies has **a strong focus on the future.**

At the moment we are focusing on packaging and labeling, but there are possibilities for digital printing that are really only at the beginning. Just one example: what we call 4D printing. 4D printing means using print, the 4th dimension, to print on a 3D object. The range of objects for 4D printing is huge, from a soccer ball to an automobile to a large commercial aircraft. We will make it as easy for the customer to run parallel technologies as possible, because his/her true job is not to handle technologies, it's about running a successful business.

➡ **The cooperation with Fujifilm is an important part of your digital strategy. Are other cooperations in the offing?**

DR. GEROLD LINZBACH We can't do everything ourselves. When we feel we can gain a competitive advantage by entering a partnership, we will. We have the experience, the technical know-how and the global marketing reach that make us an attractive partner for key players. In Fujifilm we found a globally recognized partner with the leading inkjet technology. When a company like Fujifilm enters partnership with us, it also underscores our strengths.

➡ **There are parts of the Company that are less strategic for Heidelberg. What will happen to them?**

DR. GEROLD LINZBACH We have some non-core business lines or products in which we will no longer invest. We will look for ways to make them more profitable and operate them primarily to generate cash. Why would you continue to allocate large resources to a business that is clearly not as attractive as your core business? Just for size, volume of sales?

➡ **Does "not invest in" mean divest?**

DR. GEROLD LINZBACH Don't confuse non-core and not profitable. Our strategy aims at sustainable profitability. In the mid to long term there is no place for activities that can't be run profitably; this is true throughout the strategic categories. In the non-strategic businesses it is the responsibility of management to evaluate proposals others might offer to us because they want to improve their portfolio. When concrete options arise expect us to pursue them actively.

➡ **Are acquisitions also part of your strategy looking ahead?**

DR. GEROLD LINZBACH Here, too, when concrete options arise that can help us reach our goals you can expect us to pursue them. In the consumables area, for example, we have a well-established network worldwide. We could relatively quickly integrate a smaller acquisition and quickly globalize and optimize its potential. If the right opportunity comes along, we will be ready for it.

➡ **This year's Annual Report doesn't just have better numbers. It also has a different look and feel. Is Heidelberg changing its Corporate Identity?**

DR. GEROLD LINZBACH I prefer to use the term Corporate Integrity. Corporate Integrity goes further than Corporate Identity. It is the drive behind transformation. Not every identity is based on integrity. What we are trying to do is not just about surface looks and logos. Integrity goes beneath the surface; Corporate Integrity starts on the inside. It's about values that keep the Company's heart beating strong.

➡ **Heidelberg – the Heart of Print. What is really inside the heart?**

DR. GEROLD LINZBACH The heart stands, on the one hand, for combining things – sometimes things that once seemed to be opposites. We combine things to reach a higher goal, in our case greater value for the customer. The new whole is greater than the sum of the combined parts. It could be the combination of offset with digital. Or it could be the combination of the technical mastery of printing and financial success, in other words combining art and money.
In another sense the heart is really a mind-set. In brief: we love what we do. Sometimes this is forgotten. Sometimes we may have even forgotten this ourselves.

➡ **That sounds good, but isn't it a little naïve?**

DR. GEROLD LINZBACH It is naïve to think that values like responsibility, fairness and commercial sense will

When printers can sleep well because they have chosen Heidelberg as their partner, **then we will know we have done our job right.**

make a difference if they are not lived. But people are beginning to live them and this is beginning to make a real difference. It started as a top-down process, but now it is catching on at all levels.
Just take responsibility – responsibility for the reality. You wouldn't believe how much time and how many resources were wasted in the past positioning ourselves as victims, victims of the economy, the competition. Making excuses robbed us of a lot of energy. By accepting responsibility for the market as it is we have regained a lot of lost energy. Do you think that we would have been able to get so much support from the banks or the capital market if we had not been open and transparent with them, if we had not acted as a responsible partner, cooperating at eye level?

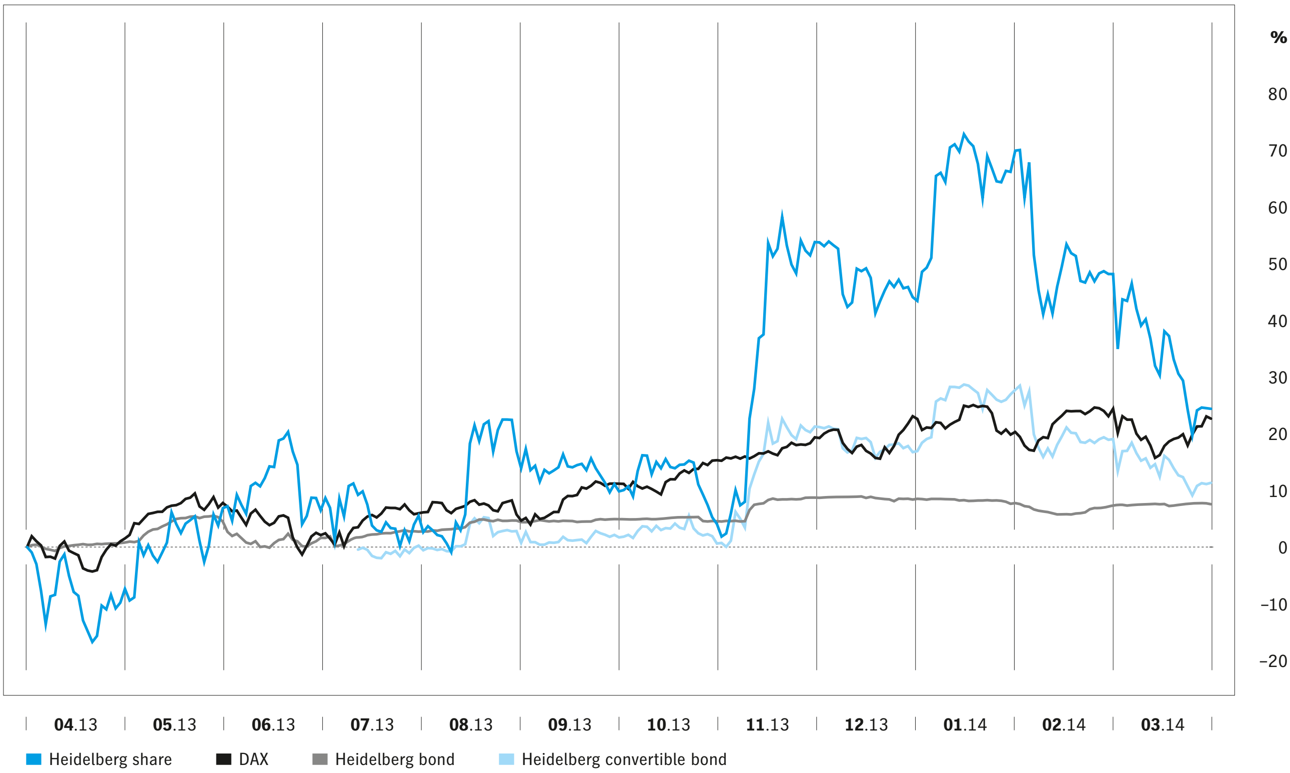
➡ **What can shareholders expect? Missing dividend payments makes for impatient shareholders ...**

DR. GEROLD LINZBACH Shareholders can expect a clear strategy from us. We have that now and it is beginning to work. We are beginning to win back confidence of investors, but it takes time to build trust. We must prove ourselves again next year – I am confident that we will. When our strategy is understood and when people see how it is beginning to work I think that this will be reflected in the development of our share price. A sustainable performance and a positive development of the share are prerequisites to future strategic moves. We are moving in the right direction. Believe me, I can identify with the impatience of the shareholders. The share price is still below the true value of the Company, and the resources to finally pay a dividend still have to be built up! As I said at the beginning, being a dissatisfied perfectionist is part of my personality. Impatience is another part.

Heidelberg on the Capital Markets

Performance of the Heidelberg share and the Heidelberg bonds

Compared to the DAX/SDAX (Index: April 1, 2013 = 0 percent)



The Heidelberg share and the Heidelberg bonds

- Closing price of € 2.23 up around 24 percent on previous year
- Heidelberg bonds were traded almost continuously at over 100 percent

Overall, the **HEIDELBERG SHARE** developed positively since the start of the financial year. The price performance reflects the business development over the reporting year, but also the general development of the stock indices: During the first half of the 2013/2014 reporting year, the price of the Heidelberg share rose in line with the DAX and SDAX stock indices, and at times in the second half of the year it even outperformed these indices. At its peak, the share was priced at € 3.10 shortly after New Year, 72 percent above the value at the start of the financial year. From early February 2014, increasing economic risks and the relative strength of the euro compared to major foreign currencies caused the share price to lose momentum. At the end of the financial year on March 31, 2014, the share closed at € 2.23, around 24 percent higher than the equivalent closing price of the previous year.

The **HEIDELBERG BONDS** also developed positively. The **HEIDELBERG BOND** was traded almost continuously at over 100 percent and closed the reporting year at around 106 percent on March 31, 2014. In December 2013, a bond increase of € 51 million was placed successfully. Its issue price was 105.75 percent, amounting to a yield of 7.66 percent. The **HEIDELBERG CONVERTIBLE BOND** issued in July 2013 also followed the positive trend and was traded at around 117 percent on March 31, 2014.

German leading index reaches all-time high in January 2014

Over the course of 2013, global economic growth rose steadily. The continuing high liquidity provided by the central banks of the USA and Japan and the ECB also supported the German leading index, the DAX, in its upward trend, despite negative issues such as the looming withdrawal of the US Federal Reserve (Fed) from the quantitative easing of its monetary policy, the persistent US budget dispute and the ongoing Syrian conflict. The DAX reached its high for the year and also for all time on January 17 at 9,743 index points. On March 31, 2014, the German leading index was listed at 9,556 points and thus closed the reporting year with a gain of 23 percent.

Capital market communications: In constant dialog with private investors, investors and analysts

The aim of our investor and creditor relations activities is to present Heidelberg transparently on the capital markets in order to achieve an appropriate valuation for the Heidelberg share and bonds. For that purpose, 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 bonds in the year under review. When issuing our convertible bond, we continued to build up communication relationships with financial analysts and investors specializing in such bonds as part of our investor and creditor relations. Similarly, our collaboration with the rating agencies was an important component of our capital market communications. We held roadshows in Germany and abroad and gave presentations at a number of international capital market conferences. In addition to our analysts' conference in June 2013 in Heidelberg, in early April 2014 we hosted a "Digital Sneak-Peek Day", to which we invited investors and financial analysts as well as representatives of the business and specialist media. Onsite at the research and development center in Heidelberg, guests were able to gain a "sneak-peek" overview of Heidelberg's "digital future", in line with the motto. Alongside the presentation of a digital label printing machine with Fujifilm technology, a new 4D print solution was also presented that is able to print on three-dimensional objects. In addition to our investor relations activities, our Company's locations were visited numerous times by investors and analysts. As well as one-on-ones and group discussions with the Management Board and the Investor Relations team, these visits included tours of our production facilities. We also provided regular reports in the form of conference calls and IR press releases about the current course of business and market developments.

Contact with **PRIVATE INVESTORS** is very important to us. Therefore, we have introduced ourselves to interested private investors in cooperation with Schutzgemeinschaft der Kapitalanleger e.V. (SdK), local savings banks and cooperative banks; we were also represented at the Munich Stock Market Day 2014. Beyond presenting the Company at these events, we also offer opportunities for personal meetings with the representatives. Investors can also contact the Investor Relations team by telephone at any time on +49-62 21-92 6022 if they have questions about the Company, the share or the bonds; they are also welcome to use the online IR contact form. Our IR Web site also contains extensive information on the Heidelberg share, audio recordings of conference calls, the latest IR presentations, corporate news and dates of publications. In connection with this, we were delighted with our good ranking in this year's IR Benchmark by NetFederation GmbH. The survey analyzed and reviewed the Investor Relations Web sites of companies in the DAX, MDAX, TecDAX and SDAX in terms of how the sites satisfy the latest requirements; Heidelberg was the best company in the SDAX segment.

Annual General Meeting 2013: all agenda items approved by large majority

On July 23, 2013, around 1,750 shareholders attended our Annual General Meeting for the 2012/2013 financial year, which was held at the Rosengarten Congress Center in Mannheim; this meant that almost 32 percent of Heidelberg's share capital was represented. The Management Board explained the Company's strategy and the result of the previous financial year. For the first time, Dr. Gerold Linzbach, the Company's new CEO, addressed Heidelberg's shareholders and revealed how the Company will develop in the medium term.

The agenda of the Annual General Meeting included a vote on the selection of Supervisory Board members. A large majority of voters expressed their agreement with the proposed candidates. In accordance with the Articles of Association and the German Codetermination Act, the Supervisory Board will comprise only twelve members in future. In accordance with the provisions of the German Stock Corporation Act, the shareholder representatives had to be elected by the Annual General Meeting The six employee representatives had already been elected before the Annual General Meeting in a separate procedure according to the German Codetermination Act. At the new Supervisory Board's constituent meeting after the Annual General Meeting, Robert Koehler was again elected Chairman of Heidelberg's Supervisory Board until 2018. In addition, the shareholders passed four further resolutions by a clear majority.

Shareholder structure – free float at 100 percent

In November 2013, 190,839 shares were issued from contingent capital to service the claims arising from the convertible bond. This increased the total number of shares to 234,437,779. The proportion of shares in Heidelberger Druckmaschinen AG in free float on March 31, 2014, was 100 percent of the share capital. 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), UBS AG (5.0004 percent), Dimensional Fund Advisors LP (3.01 percent) and Dimensional Holdings Inc. (3.01 percent).

Key performance data of the Heidelberg share

Figures in € ISIN: DE 0007314007	2012/2013	2013/2014
Basic earnings per share [1]	–0.50	0.02
Cash flow per share	–0.17	0.30
High	2.22	3.10
Low	0.94	1.50
Price at beginning of financial year [2]	1.45	1.78
Price at end of financial year [2]	1.80	2.23
Market capitalization – financial year-end in € millions	422	523
Outstanding shares in thousands (reporting date)	234,247	234,438

Key performance data of the Heidelberg bond

Figures in percent RegS ISIN: DE 000A1KQ1E2	2012/2013	2013/2014
Nominal volume in € millions	304	355
High	101.6	107.6
Low	69.5	98.1
Price at beginning of financial year [3]	75.0	98.9
Price at end of financial year [3]	98.9	106.1
Credit rating		
Standard & Poor's	CCC+	CCC+
Moody's	Caa1	Caa1

Key performance data of the Heidelberg convertible bond [4]

Figures in percent ISIN: DE 000A1X25N0	2012/2013	2013/2014
Nominal volume in € millions	–	60
High	–	134.7
Low	–	102.7
Price at beginning of financial year [3]	–	104.7
Price at end of financial year [3]	–	116.5

[1] Determined based on the weighted number of outstanding shares
[2] Xetra closing price; source for prices: Bloomberg
[3] Closing price, source: Bloomberg
[4] Initial public offering on July 9, 2013

1/

4

Management Report 2013/2014

1 /

BASIC INFORMATION ON THE GROUP

Business Model of the Group

Company Profile

Heidelberger Druckmaschinen Aktiengesellschaft (Heidelberg) has been a major provider and partner for the global printing industry for many years. We offer our customers all necessary components essential to the success of their business activities in commercial and packaging printing. We develop and produce core technologies ourselves, while complementary components and technologies are provided to our customers via strategic partnerships. Our products, service offerings and consumables, as well as our partnerships, are tailored to meet specific future-oriented customer needs and are geared towards our customers' economic success.

With our own sales and service branches and via partners, we supply our customers in around 170 countries worldwide with products, services and consumables, generating Group sales of around € 2.43 billion in the 2013/2014 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. In future, we intend to significantly expand our activities in the area of digital printing in particular, both within and outside our industry.

Heidelberg also has a substantial service volume. Around 40 percent of its sales are generated from services, consumables and service parts. Print shops have a continuous need for these products and services. Therefore, this segment is less susceptible to economic developments than the new machinery segment and provides a stable basis for our business activities.

We also support our customers by offering financing concepts for their investment projects.

All in all, some 12,500 people work for Heidelberg worldwide. In Germany, we are producing highly automated and more versatile high-tech machines according to customer requirements in all format classes offered by us. In Qingpu, near Shanghai, China, we manufacture high-quality preconfigured edition models.

About 40 percent of our staff are engaged in production and assembly. Approximately 33 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 business partner. At the same time, this area offers attractive margins for Heidelberg.

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. Our Anicolor printing presses make a significant contribution to reducing spoilage and hence paper consumption, the most important CO_2-related parameter in the printing process. Our environmentally friendly consumables from the Saphira Eco line comply with the most stringent industry standards and statutory requirements.

Service Network, Sites and Production

- Global sales, service and logistics network
- Production system becomes even more flexible
- Own production site in China

A good 85 percent of our sales are generated outside Germany. Our **SALES AND SERVICE NETWORK** spans the globe. In all key printing markets, we offer our customers high machine availability, guaranteed quality and on-time delivery directly or via partners.

A global sales and services network for an increasingly globalized industry

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 the Heidelberg Equipment and Heidelberg Services segments. The optimization of our logistics concept is an important element of our program aimed at further reducing net working capital.

The Heidelberg Production System: A focus on greater flexibility

We have **PRODUCTION SITES** in eight countries. They constitute a network that is organized by families of components. Our **SHEETFED OFFSET MACHINES** are constructed at two production sites: In Wiesloch-Walldorf, Germany, we assemble highly automated and more specially configured high-tech printing presses in all our format classes based on customer requirements. In Qingpu, near Shanghai, China, we produce high-quality preconfigured 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 products that provide competitive benefits for us and our customers thanks to our specialization. We continuously analyze costs and processes with a view to optimizing vertical integration.

Heidelberg is pressing ahead with the further development of its Production System with considerable intensity. The aim is to ensure that production reflects the changed conditions in terms of smaller series quantities and the need for greater flexibility. In the past financial year, process and value stream optimization measures led to a significant reduction in inventories and further productivity improvements. LeanAdmin, a tool for the optimization of indirect areas, is currently in development. Due to the proximity of the activities involved, responsibility for the Production System and complexity management have been integrated and connected with the operational areas to a greater extent. This means that the Production System forms the backbone for continuous productivity improvements in production.

Direct local presence in China through a dedicated production site in Qingpu

We have our own production site in China, which is our largest individual market by some distance. The production area of around 45,000 square meters is now used for the local manufacture of around 50 percent of printing units in the formats up to 70 × 100 that are sold in China. Qingpu already accounts for around 20 percent of the Company's total sheetfed offset production volume. The Qingpu site is operating profitably and is fully integrated into Heidelberg's plant network, meaning that its quality and all of its processes are compliant with Heidelberg's uniform global quality standards even now that it has a growing proportion of local suppliers. With its own plant in Qingpu, Heidelberg is well positioned to realize future growth opportunities in China and Asia and further develop its position on these markets.

Markets and Customers

- ➡ Global printing volume remains stable
- ➡ Printing process selected on the basis of cost and efficiency criteria
- ➡ Focus on our customers' success

The market for printed products and printing technologies is in transition

In last year's Annual Report, we described and presented the market for printed products. The statements and assumptions we made then still apply on the whole: the market for printed products is stable, and the annual global printing volume is in excess of € 400 billion. Printing primarily employs the sheetfed offset, web offset, flexo and digital printing processes. Heidelberg offers products, services and solutions for these printing processes with the exception of web offset printing (which is the main procedure used for newspapers and high-volume printed products).

In recent years in particular, various developments have led to a structural change in the global printing volume. This includes **TECHNOLOGICAL TRENDS** and changes in **MEDIA CONSUMPTION**, such as the growth in Internet communication and the increased use of mobile devices; there has been a corresponding tendency toward a downturn in the number of printed products. Products carrying short-lived information, such as newspapers and magazines, have been particularly hard hit. At the same time, the global packaging volume is on the rise. In the meantime, contrary developments have also emerged in some market segments, leading to a return to growth in the number of printed products. For example, mail order companies specializing in fashion and lifestyle have stated that they cannot do without printed catalogs as an accompaniment to their successful online business.

Differing **GEOGRAPHICAL DEVELOPMENTS** can be observed: while the printing volume as a whole is increasing in the emerging economies, the industrialized nations are seeing a rise in the value of the individual printed products, e.g. due to elaborate **FINISHING** or **CUSTOMIZATION**. Greater individuality requires more flexibility in terms of printing applications.

These developments and trends will determine how the corresponding printing technology is used in future. In some cases, printed materials that were typically produced using gravure or web presses on account of their high volume have either moved to the Internet or their print runs have decreased to the extent that they are now frequently produced using sheetfed presses. In the sheetfed offset segment, there is a clear trend towards hybrid solutions (offset and digital printing combined in one single workflow) when it comes to smaller print runs. Ultimately, print shops will use the printing technology that allows them to best process a job in terms of cost and efficiency.

With a share of the printing volume of around 40 percent, sheetfed offset printing remains the most frequently used printing technology. Since 2000, digital printing has increased its share of the global printing volume to more than 10 percent.

Heidelberg serves a **SHEETFED OFFSET MARKET** that had an estimated investment volume of around € 14.5 billion in the 2013 financial year. This is composed of the market for sheetfed offset printing presses (investment volume approx. € 2.5 billion), prepress and finishing equipment (investment volume approx. € 2.7 billion), services (investment volume approx. € 1.2 billion) and consumables (investment volume approx. € 8.1 billion, approximately half of which can be addressed by retailers due to direct sales by producers to print shops). We estimate that the addressable **DIGITAL PRINTING** market for Heidelberg had an investment volume of around € 2.3 billion in the 2013 calendar year.

We address the first two of the aforementioned sub-markets with our **NEW MACHINERY BUSINESS**, which accounts for around 60 percent of our sales. This also includes the sales from the digital market that are currently generated with the Linoprint series and that we intend to expand in future on the basis of the cooperation with Fujifilm. Around 40 percent of our sales are generated in the **SERVICES** segment, and hence primarily in the sub-markets of services and consumables as presented above. We intend to steadily increase the share of sales attributable to this area.

There was no significant change in the **COMPETITIVE STRUCTURE** compared with the previous year. The market for sheetfed offset presses continues to be dominated by German and Japanese manufacturers; Heidelberg is the leader with a market share of around 45 percent. The weakness of the yen meant that Komori increased its market share (to around 16 percent) and is now level with Koenig & Bauer (around 15 percent). Mitsubishi (around 2 percent) and Ryobi (around 5 percent) formed a joint venture in the past financial year.

We believe that consumables offer the most substantial growth potential. We currently have a share of between 9 percent and 10 percent of the addressable market in this area.

We see ourselves as partners to our customers

We presented the characteristics of our customer structure in detail in last year's Annual Report, and the statements we made then still apply. We have around 15,000 customers worldwide in the areas of commercial printing (mostly small and medium-sized companies), packaging printing (often multinational and international companies) and web-to-print. The structural changes described above are also affecting our customers' investment behavior. For our customers, the printing technology itself is not what is important, but rather whether they can earn money with their business model and their print jobs. This means that we must view ourselves not only as a supplier of equipment and machinery but also as a partner providing comprehensive support for our customers in terms of services, appropriate consumables and consulting. Whether the customers use offset technology or digital printing, whether their focus is on packaging or commercial printing, whether they are a regional company or a global player: our aim is to contribute to their success with our knowledge and our technological and service expertise.

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** has four members: Dr. Gerold Linzbach (CEO), Dirk Kaliebe (CFO and head of Heidelberg Financial Services), Stephan Plenz (head of Heidelberg Equipment) and Marcel Kiessling (head of Heidelberg Services), who stepped down from the Management Board on March 31, 2014; Harald Weimer has been the member of the Management Board responsible for Services since April 1, 2014.

The **ORGANIZATIONAL CHART** (below) shows the allocation of the **BUSINESS AREAS (BAs)** to the Management Board divisions and the segments and the allocation of functional responsibilities within the Management Board. **DR. GEROLD LINZBACH** is responsible for the areas of Corporate Development, Human Resources, Communications, Legal, Patents 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 Customer Financing BA and the areas of Controlling, Accounting, Treasury, Taxes, IT and Investor Relations. **HARALD WEIMER** has been the head of the Heidelberg Services segment and responsible for the Consumables and CtP (Computer-to-Plate, platesetters) BA, the Remarketed Equipment BA and the Service and Service Parts BA since April 1, 2014. He also has overall responsibility for Sales, meaning that he is in charge of the Regional Markets and Service Organization as well as Marketing. As the Management Board member responsible for the Heidelberg Equipment segment, **STEPHAN PLENZ** is in charge of the Sheetfed and Postpress Packaging, Postpress Commercial, Digital, Industry and Gallus BAs. He is also responsible for the functional areas of Product Management Equipment, Research and Development, and Manufacturing and Assembly, as well as Purchasing, Quality and Environmental Management, and Occupational Health and Safety and Product Safety.

Business Allocation Plan as of March 31, 2014

Stephan Plenz Member of the Board Equipment	**Marcel Kiessling/ Harald Weimer** [1] 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 [2] ¬ Industry [3] ¬ Gallus	¬ Consumables and CtP ¬ Remarketed Equipment ¬ Service and Service Parts	¬ Financial Services	
FUNCTIONAL RESPONSIBILITIES			
¬ Product Management Equipment ¬ Product Development ¬ Manufacturing and Assembly ¬ Procurement ¬ 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 ¬ Chief Human Resources Officer ¬ Communications ¬ Legal, Patents and Compliance ¬ Internal Audit

[1] Until March 31, 2014: Marcel Kiessling; since April 1, 2014: Harald Weimer
[2] Since the end of 2013 including Prinect
[3] Previously: New Ventures

Since the Annual General Meeting in July 2013, the **SUPERVISORY BOARD** has consisted of 12 members rather than the previous figure of 16, as the number of employees at the German sites of the Company has been consistently below the threshold of 10,001 since December 2012. In accordance with 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, approving the consolidated financial statements, and approving or advising on key business planning and decisions.

Details of the cooperation between the Management Board and the Supervisory Board and 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 the reportable segments in accordance with IFRS.

Within the segments, Heidelberg is divided into **BUSINESS AREAS (BAS)**. Each business area formulates plans for how best to leverage the potential offered by their respective submarket. The Production and Sales functions, which continue to be organized centrally, derive targets on the basis of these plans and implement them. This organizational approach allows us to define our strategies at the level of the respective submarkets while generating synergies within the functions and upholding the principle of “one face to the customer”.

Our **SHEETFED OFFSET, FLEXO AND DIGITAL PRINTING** press technologies are developed, produced and marketed by the corresponding BAs. Finishing technologies for packaging and advertising are the responsibility of **POSTPRESS PACKAGING AND POSTPRESS COMMERCIAL**. Taken together, these BAs account for around 60 percent of total sales.

The global provision of service capacity and service parts is coordinated by the **SERVICE AND SERVICE PARTS BA**, which has around 3,000 service experts and a global logistics system for service parts. The **CONSUMABLES BA** ensures that our customers around the world are supplied with consumables. Remarketed printing presses, mainly manufactured by Heidelberg, are traded in the **REMARKETED EQUIPMENT BA**. These BAs contribute around 40 percent to total sales.

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 also operationally active in its own right.

The overview below shows which of the companies that are included in the consolidated financial statements were material subsidiaries as of March 31, 2014.

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 128 to 131.

Overview of material subsidiaries included in the consolidated financial statements

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

Strategy: Targets and Measures

- Strategic objective: sustainable profitability
- Measures being implemented to reduce net debt, costs and complexity
- Concentration and optimization of portfolio and corporate structures to reflect profitable business areas

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 involved a **RETURN TO PROFITABILITY** and attaining a corresponding net profit after taxes. **WE ACHIEVED THIS TARGET IN THE 2013/2014 FINANCIAL YEAR**. In the second phase, we intend to press ahead with the transformation of the Company in order to remain sustainably profitable while increasing enterprise value.

Strategic measures for achieving sustainable profitability

The strategic measures for achieving sustainable profitability include measures aimed at ensuring financial stability and liquidity, increasing cost efficiency and the earnings-oriented optimization of our service range.

We intend to further reduce our net debt and ensure that it stays below twice EBITDA in the longer term. Strategic asset management remains a high priority, as does positive cash flow development, a reduction in net working capital and securing our financing. In the year under review, we succeeded in extending our syndicated credit facility ahead of schedule until mid-2017 and increasing our bond by € 51 million.

All essential measures from our Focus efficiency program were successfully implemented. We largely completed the extensive capacity reduction phase in the past financial year. We will continue to focus on cost efficiency and press ahead to make our cost structures more flexible.

In order to optimize our portfolio offerings from an earnings perspective we have developed the **BUSINESS AREAS (BAs)** within our Group's segments further and adjusted their content and organization. In the year under review, we subjected the BAs to a critical review in terms of their potential for sustainable profitability and set strategic priorities. On the basis of this assessment, we resolved to focus on four areas of activity in future:

a) Sheetfed offset
b) Digital printing
c) Services and consumables
d) Product lines with limited strategic potential

Each of these four areas has different strategic conditions and is managed using nuanced approaches. To successfully address the individual tasks in each area of activity, we have revised the respective management profile and – where necessary – made changes at management level.

We have adopted the following **STRATEGIC FOCAL POINTS** in the defined areas of activity:

a) The market volume in our current core business area of **SHEETFED OFFSET** is generally stagnating, with pronounced short-term fluctuations in investment behavior due to economic developments. We intend to keep making our overheads in this area more flexible in order to allow us to cushion these fluctuations. Margins will be improved further through a better price and product mix. We are aiming to further reduce complexity costs and will continue to expand production in China for the strategically important Chinese market.

b) **DIGITAL** is a fast-growing, future-oriented business in which we intend to invest further. Our aim is to be the global leader for both offset and digital printing. Since 2011, we have worked in successful cooperation with our partner Ricoh in the value segment of the digital business. The partnership with Fujifilm that was concluded in autumn 2013 gives us access to their leading inkjet technology, which we intend to integrate into marketable products. Working with Fujifilm, we are planning to develop digital solutions for industrial commercial printing as well as for packaging printing. The first result of this cooperation will be the presentation of a digital label printing machine from Gallus.

As part of the expansion of our digital business, we have bundled our Prinect workflow software in this area, including our multi-channel publishing software. We have established an international Digital Advisory Council to allow us to better understand future market requirements and incorporate external expertise into our development work. The aim is to be able to fully participate in the growing digital market within two to three years. To support the rapid expansion of our digital business, we have allocated around one-third of our R&D resources to this area.

c) We intend to further expand our **SERVICES AND CONSUMABLES** business. As the global volume of printed products is largely stable, demand for consumables and services is essentially constant; this area is less cyclical than equipment. To date, our activities have been mainly limited to aftersales for Heidelberg equipment. We intend to develop new business models for business within the installed base of Heidelberg equipment and, in particular, outside our equipment business. We are seeking to develop services and consumables into a business area that is independent from cyclical equipment sales. The strategic objective is to achieve continuous profitable growth in this area, thereby contributing to a sustainable improvement in the profitability of the Group as a whole. Harald Weimer, who was previously responsible for North and Latin America, has been appointed to the Management Board in order to achieve this.

d) We will optimize non-strategic **PRODUCT LINES** with limited growth potential, gearing them towards pure profitability with the aim of generating cash which will be used to finance the development of our future business activities.

The four strategic categories reflect the life cycle of our business. In order to ensure sustainable profitability, we will continuously provide the four areas with sufficient resources. We will focus on a precise knowledge of customer requirements and a service concept in which equipment and service complement each other in equal measure, thereby contributing to the success of Heidelberg's customers.

The complexity management that has already been introduced in the four areas of activity will be continued. Our aim is to continuously reduce complexity while maintaining the quality of our products and services at the high level that our customers are used to receiving. When quality is maintained, reducing complexity will lead to lower costs and increased profitability for us and our customers alike.

Heidelberg continues to systematically pursue its path towards becoming a profit- and market-oriented company. Customer requirements that can be served profitably are what will drive our product development and the range of services and consumables we offer. In light of the continued consolidation within the print industry and cyclical fluctuations in the equipment business, the less cyclical services and consumables business is becoming increasingly important from a strategic perspective. In future, we will continue to enter into strategic partnerships in market segments where we can increase our competitiveness and hence improve our long-term profitability, as was the case for the cooperation with Ricoh in 2011 and Fujifilm in 2013.

Our focus on market requirements includes the continuous evaluation of our structures and processes. The change in our markets and our customers' needs goes hand in hand with a change in the requirements made of our employees. They play a vital role in the successful transformation of our Company. We are committed to permanently examining our employees' profiles in terms of new market requirements. The successful implementation of our strategy requires a high degree of personal responsibility from our employees at all levels. Our general human resources policy, advanced training measures and performance-based incentive systems are designed to ensure that our employees always possess the qualifications and the motivation they need to successfully bear the responsibility that is assigned to them.

The systematic transformation of Heidelberg into a profit- and market-oriented company affects everything we do. It includes all of our internal processes and structures, and all of the products and services we offer to our customers. Our strategy is based on our conviction that a sustainable increase in profitability can be achieved only through the success of our customers around the world.

Key Performance Indicators

- Group controlling based on financial performance indicators
- ROCE and value added: Parameters for enhancing enterprise value

With our return to profitability accompanied by a reduction in the Group's net debt, we achieved the primary goal of the first phase of our strategy process in the year under review. The next phase involves implementing further measures aimed at sustainably safeguarding profitability and increasing it in the medium term.

Most significant control-relevant performance indicators

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.

Our planning and management are mainly based on the sales and earnings development of the Group. In terms of operational financial performance measurement, the most significant control-relevant key financial performance indicators in addition to **SALES** for us are therefore the result of operating activities **(EBITDA)**, the **RESULT AFTER TAXES** and **LEVERAGE**, i.e. net debt in relation to EBITDA. More detailed information on the development of these financial performance indicators can be found in the individual sections of the "Economic Report" on pages 27 to 38 and in the "Future Prospects" section starting on page 49.

Other financial and non-financial performance indicators

Other key figures applied in operational financial performance measurement primarily are the result of operating activities before interest and taxes excluding special items **(EBIT)**, **NET WORKING CAPITAL** in relation to sales and free cash flow. Moreover, the return on capital employed **(ROCE)** will take on greater importance in our financial target system in the medium term. We are striving to sustainably increase our enterprise value after deducting capital costs, which we measure as **ECONOMIC VALUE ADDED (EVA)**. We have already improved this parameter in the year under review but have not yet covered our cost of capital. (More information on this can be found in the "ROCE and Value Added" section on page 38.)

In addition to financial key figures, the Management Board also uses **NON-FINANCIAL CONTROL PARAMETERS**, particularly relating to complexity management and quality assurance.

Research and Development

- Focus on efficiency in sheetfed offset printing and partnerships in digital printing
- Expansion of software product range to include cross-media publishing
- Digital workflow as the focal point of workflow activities

Our research and development activities are geared towards the aspects of customer benefit and economic efficiency. Accordingly, we work in close cooperation with partners such as customers, suppliers, other companies and universities. By leveraging our strengths with strong partners, we are able to meet the requirements of our customers and markets more efficiently and rapidly.

Sheetfed offset: Focus on efficiency improvements and cost reduction

In our core business of sheetfed offset printing, we primarily focus on reducing makeready times and increasing energy efficiency for our customers, as well as lowering our manufacturing costs.

In the period under review, we reduced makeready times in particular by changing the plates of the 102 series and introducing Anicolor technology in the next-largest format (XL 75). Drying technologies like UV-LED and LE-UV made a particularly tangible contribution to improving energy efficiency, with the first series being launched successfully on the market. The new standby function for the entire machine is also helping to lower energy consumption. The feeder of the XL106 series was adjusted in order to reduce noise.

The cross-format and cross-series transfer of technology plays an important role in all R&D projects with a view to cutting resource consumption and manufacturing costs. We have enjoyed success with regard to feeders in particular, making advances in terms of sheet travel and gripper systems and by applying the gear technology from our sheetfed printing presses to high-performance die cutters.

Digital print: Focus on current and future market requirements

By means of our integrated digital printing systems and our partnerships with Ricoh and Fujifilm we are able to offer our customers the parallel, simple and integrated operation of offset and digital technologies. In the area of digital label printing, we are working with our partners Gallus and Fujifilm on a solution to meet the growing demand for the economical production of small print runs and customized labels. We expect to present the first machine in autumn 2014. Our Belgian subsidiary CERM specializes in automation software and offers an optimally integrated workflow solution for label printers in combination with the Prinect production workflow and the expansions that have been made for label printing.

We are currently also developing a digital press based on inkjet technology for industrial digital print in conjunction with our partner Fujifilm. Turning the technical progress of our printing presses into economic success for our customers depends to a large extent on the availability of a workflow that allows them to harness the performance of the equipment to improve their productivity and quality. With the integrated workflow system, we also offer our traditional customers, who already enjoy great success with offset technology, a way of seamlessly integrating this new technology into their existing workflows.

With the Heidelberg Jetmaster Dimension, we are moving into the new area of 4D printing. We have pressed ahead with the development of the solution for the customized printing on three-dimensional objects, thereby opening up new paths in terms of cost efficiency and flexibility when it comes to individual design options. Heidelberg has already gained its first user: flyeralarm, one of the leading online print shops in Europe.

Industry: Established as an expert system partner

Outside the print media industry, too, we have successfully applied our expertise to activities in fields such as e-mobility with our charging technology, as well as customer projects in the area of high-performance electronics for the industry, energy and mobility segments.

Following the energy and industry segments, Heidelberg also has established itself as a system partner for high-profile manufacturers in the customer segment of automotive and has entered the market with two German OEMs. As a “tier 1 automotive” system partner, we develop and produce innovative, efficient and reliable high-performance electronic systems, building on our many years of experience in the development, qualification, series production and servicing of these systems and the modular product platforms derived on this basis.

Key topics in the digital workflow environment

The equity interest in the software producer Neo7even that we acquired in January 2014 gives Heidelberg access to the growth area of multi-channel publishing, media asset management and print buyer integration. This software enables the media-neutral preparation of data and its use in various output channels and platforms, thereby opening up new business options for our customers in terms of print and online applications. The necessary integration of this multi-channel publishing software into our Prinect workflow is being realized incrementally.

In the year under review, we expanded our Prinect workflow – which allows our customers to manage and perform an economic assessment of the entire order, production and distribution workflow of a print shop centrally and transparently – to include modules for simplifying product calculation and improving the order system for print buyers, as well as various applications in the areas of web-to-print and packaging printing. We pressed ahead with integration together with our partner Engview, which develops the CAD system for packaging, in order to achieve a further improvement in production controlling on the basis of CAD data.

In addition to improving system performance, activities in the year under review focused on the Digital Print Manager module, which integrates the Linoprint C digital printing systems and hence enables production using digital and offset presses in a single workflow with consistent printing quality.

Our research and development activities in numbers

Around 8 percent of our workforce is active in the area of R&D. In the year under review, we invested 4.8 percent of our sales in research and development. In future, around one-third of our R&D resources will be allocated to the digital segment.

We submitted a total of 77 new patent applications in the year under review (previous year: 117). This means that Heidelberg's innovations and unique selling points are protected by around 4,500 registered and granted patents worldwide.

Five-year overview: Research and development

	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014
R&D costs in € millions	121	121	129	118	117
in percent of sales	5.2	4.6	5.0	4.3	4.8
R&D employees	1,265	1,135	1,103	1,017	977
Patent applications	80	92	96	117	77

Partnerships

- Long-term partnerships and cooperations
- Integration of expertise and accelerated development
- Entry into new market segments

We consider an openness for **PARTNERSHIPS** to be an important strategic factor in our success. We have been working with selected companies and institutes along our entire value chain for a number of years. In future, selected strategic partnerships will make an even stronger contribution to the Company's success, allowing us to combine external innovative strength with our own in order to provide customers with quicker access to new services and technologies. This will save time, money and effort. We place great value on close, long-term cooperation with our **SYSTEM SUPPLIERS** and include them in development processes at an early stage, allowing us to benefit from their experience and development activities. Innovative strength is an important criterion when it comes to selecting our suppliers.

We view **DIGITAL BUSINESS** as a highly promising growth market for Heidelberg. To expand our share of this market further, we are investing in new business applications and cooperating with innovative partners who are the leaders in their respective segment. Being able to offer integrated offset and digital solutions – including for industrial digital printing – for different market segments in future is unique within the industry and will support our aim to be the preferred partner in the industry.

We have entered into a partnership with **FUJIFILM**, Japan, in the area of prepress and inkjet printing technology. With regard to printing plates we have completed a first step: Following intensive customer-specific go-to-market studies, we have introduced a particularly innovative and environmentally friendly printing plate and have begun to market it as part of our Saphira Eco product line. This cooperation was expanded significantly in late 2013. Heidelberg and Fujifilm are planning to form a broad alliance aimed at strengthening the existing business of both companies and establishing a platform to drive new business areas in future-oriented markets on the basis of inkjet technology in particular. The partnership will focus in particular on developing the next generation of products for the attractive industrial digital printing market. The two companies are aiming to create a new performance class in the high-end digital printing segment. The partnership will also give Heidelberg and Fujifilm mutual access to the advanced prepress technologies offered by each company. Fujifilm will primarily incorporate Heidelberg's prepress technology into its own product portfolio. The needs of the customers of both partners will remain the primary focus in future, and the companies will continue to concentrate their portfolios on market segments with the greatest potential in terms of profitability and growth. The latest milestone in the operational partnership is the retailer agreement for the distribution of prepress products in Australia and New Zealand, which will come into force on July 1 and will allow Heidelberg to serve the sheetfed offset market as an exclusive dealer alongside Fujifilm.

With our partner Ricoh, we already offer our customers **DIGITAL PRINTING** solutions for the value segment. We have been working in close cooperation with the Japanese manufacturer since 2011 and have offered our fully integrated and combined digital and offset solutions worldwide since 2012. In the meantime, we have sold some 400 toner-based printer systems for the digital printing of small print runs and variable data for print shops with a focus on commercial printing. Many print shops use these systems to supplement their conventional offset printing systems. They are equipped with a highly efficient, transparent digital printing workflow, the new Prinect Digital Print Manager, as standard. 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 Supply Chain and Schenker, whom we have entrusted with the operation of our centrally managed service parts warehouses in Asia (Hong Kong and Tokyo) and the US (Indianapolis). As part of an innovative logistics concept, we are working closely with LGI in Hall 11 at the Wiesloch-Walldorf production site. This allows us to achieve optimal availability and supply customers around the world with service parts as quickly as possible, while also reducing inventory and increasing cost flexibility.

In early 2014, we invested in the German software company **NEO7EVEN**, Siegen, in order to open up new business options for print shops as well as for Heidelberg itself. The investment represents Heidelberg's entry into the growth segment of multi-channel publishing, both within and outside the print media industry. The aim is to use Neo7even's software to open up new business options for print shops that go far beyond pure printing, enabling them to offer their customers media-neutral publishing services combining print and online to a greater extent in future. The new portfolio ties in closely with Heidelberg's Prinect print shop workflow and is being gradually integrated into this.

In the area of **RESEARCH AND DEVELOPMENT**, we exchange knowledge with a number of partners in order to bring about new developments more quickly. We test new developments prior to their market launch in cooperation with selected customers. Our internal research projects are supplemented by partnerships with institutes and universities such as Darmstadt University of Technology, Mannheim University of Applied Sciences, the University of Wuppertal and the SID (Sächsisches Institut für die Druckindustrie). These activities are rounded off by our cooperation within and membership in associations such as the VDMA, the FGD and Fogra, as well as DIN/ISO committees.

ECONOMIC REPORT

Macroeconomic and Industry-Specific Conditions

- Increased growth momentum in industrialized nations
- Lowest growth rate in the emerging economies for a number of years
- Muted propensity to invest in the printing press industry

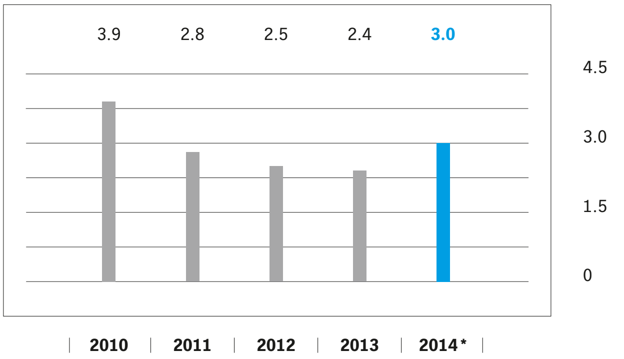
The global economy picked up pace considerably in the course of 2013. This development was driven in particular by the industrialized nations, whereas the emerging nations saw the lowest growth rate for a number of years. At 7.7 percent, overall economic output in China increased at a similarly moderate pace compared to the previous year.

The printing press industry did not benefit from the economic upturn in the industrialized nations. Based on statistics published by the German Engineering Federation (VDMA), sales of printing presses from German manufacturers declined by 10 percent year-on-year in 2013, while incoming orders fell by 9 percent in the same period.

In the industrialized nations, the consolidation of print shops and changes in media consumption continue to have an adverse effect on investment behavior with regard to new machinery. The slowdown in growth momentum in the emerging economies and the difficult exchange rate conditions for German manufacturers were reflected in a more muted propensity to invest, whereas the print production volume continued to show stable development. For this reason, the market volume in the service and consumables business remained unchanged. The total number of print shops – particularly small and medium-sized businesses – declined once again, but larger companies, print shops in networks, online print shops and specialists succeeded in realizing profitability and growth. All in all, print shops focusing on packaging printing enjoyed more stable business development than print shops with a focus on commercial printing.

Change in global GDP [1)]

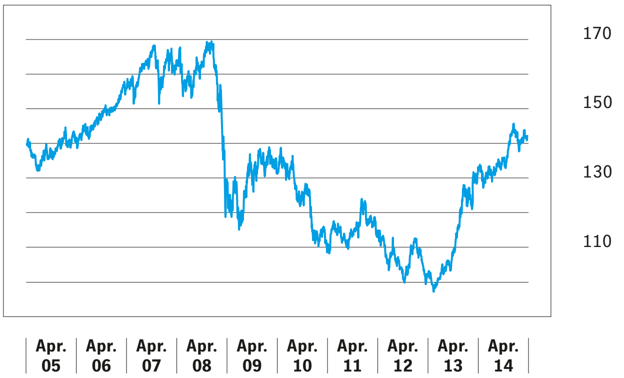
Figures in percent



* Forecast
[1)] Source: Global Insight (WMM); calendar year; as of March 2014
Using the chain-weighted method would deliver the following results:
2010: 4.3%; 2011: 3.1%; 2012: 2.6%; 2013: 2.5%; 2014: 3.1%

Development of EUR/JPY

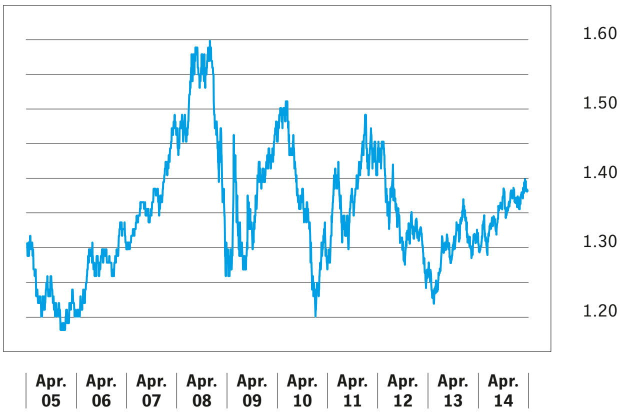
January 2005 until January 2014



Source: Global Insight

Development of EUR/USD

January 2005 until January 2014



Source: Global Insight

Business Development

- Return to profitability after five years
- Strong euro and focus on high-margin business lead to considerable volume reduction
- Improved earnings and asset and net working capital management result in leverage (net debt/EBITDA) < 2

Overall assessment of the course of business

The strength of the euro relative to key foreign currencies led to unfavorable exchange rate developments and currency translation effects that had a negative impact on the 2013/2014 financial year. This clearly affected both incoming orders (year under review: € – 99 million) and sales (year under review: € – 102 million), which was one of the main reasons for sales, contrary to initial expectations, declining by around 11 percent year-on-year to € 2,434 million (previous year: € 2,735 million). In addition to the direct effects of unfavorable currency translation, the exchange rate situation in some regions – including Asia and South America – led to restrained investment on the part of customers, particularly in the area of new equipment. In addition, the systematic application of profitability criteria led to improved margins and in individual cases to a rejection of unprofitable orders.

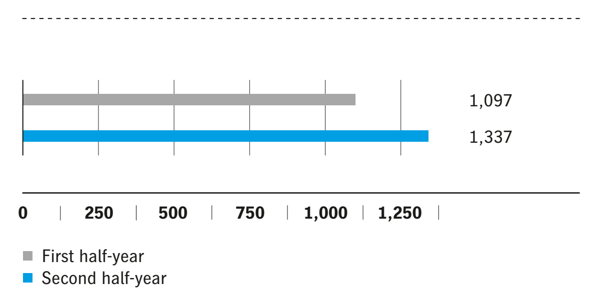
Despite the substantial volume reduction, we achieved our most important targets, breaking even with a net profit for the year of € 4 million (previous year: net loss of € 117 million) and recording leverage (net debt in relation to EBITDA) of below 2.

Downturn in incoming orders due primarily to negative exchange rate effects

Orders in the second half of the reporting year were around 6 percent lower than in the first half of the year. This development reflects the growing strength of the euro relative to key foreign currencies. This affected the Asia region in particular, as well as North and South America. While a trade fair in China had a positive impact at the start of the financial year, the currency effects became increasingly notable over time. Incoming orders in the USA showed an encouraging development, with steady growth during the course of the year.

Half-year sales

Figures in € millions



Half-year sales distribution as expected, sales down on previous year

As expected, the consolidated sales volume was higher in the second half of the year than in the first six months, but the figure for the 2013/2014 financial year as a whole failed to reach the prior-year level. Adjusted for exchange rate effects, this downturn was primarily attributable to the Heidelberg Equipment segment, whereas Heidelberg Services enjoyed stable performance. The regional breakdown was similar to that for incoming orders.

After increasing temporarily in the first quarter of the 2013/2014 financial year on the back of the trade show in China, the order backlog amounted to around € 421 million as of March 31, 2014, compared with € 502 million in the previous year.

Five-year overview: Business development

Figures in € millions	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014
Incoming orders	2,371	2,757	2,555	2,822	2,436
Sales	2,306	2,629	2,596	2,735	2,434

Economic Position

Results of Operations

- EBITDA margin doubled from 2.9 percent to 5.9 percent
- Substantial improvement in operating result
- Consolidated net profit of € 4 million marks return to profitability after five years

All key performance indicators improved significantly year-on-year in the 2013/2014 financial year. The operating result (EBITDA) excluding special items increased to € 143 million. At € 2 million, income before taxes entered positive territory for the first time in five years (previous year: € – 126 million). The net profit for the year after taxes amounted to € 4 million.

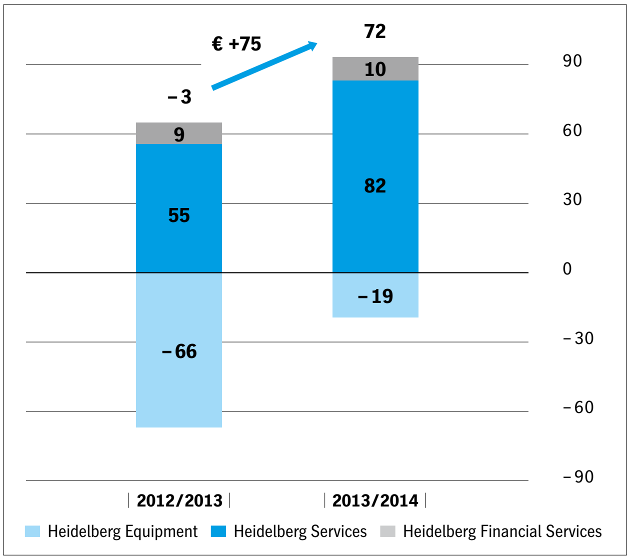
Sales and result of operating activities

Figures in € millions	2012/2013	2013/2014
Sales	2,735	2,434
EBITDA [1]	80	143
in percent of sales	2.9	5.9
EBIT [2]	–3	72

First-time application of IAS 19 (2011) in financial year 2013/2014.
The figures of the 2012/2013 financial year were restated.
[1] Result of operating activities before interest and taxes and depreciation and amortization excluding special items
[2] Result of operating activities before interest and taxes excluding special items

EBIT by segment

Figures in € millions



Substantial improvement in operating result

Despite the lower level of sales, the operating result (EBITDA) excluding special items increased from € 80 million in the previous year to € 143 million in the year under review. EBIT excluding special items rose significantly year-on-year to € 72 million (previous year: € – 3 million).

The improvement in the operating result was primarily attributable to the implementation of the measures forming part of the Focus efficiency program, as well as improved margins. The EBIT contribution in the second half of the year (€ 79 million) was higher than in the first half of the year (€ – 7 million) due to the sales distribution. In terms of the individual segments, Heidelberg Equipment (HDE) significantly improved its negative earnings situation from € – 66 million in the previous year to € – 19 million, while earnings in the Heidelberg Services (HDS) segment increased from € 55 million to € 82 million. Both segments recorded improved margins as planned. In the Financial Services (HDF) segment, EBIT was largely unchanged year-on-year at € 10 million (previous year: € 9 million).

Income statement

Figures in € millions	2012/2013	2013/2014
Sales	**2,735**	**2,434**
Change in inventories/ Other own work capitalized	–45	–15
Total operating performance	**2,690**	**2,419**
EBITDA excluding special items	80	143
Result of operating activities excluding special items	**–3**	**72**
Special items	–65	–10
Financial result	– 59	–60
Income before taxes	**– 126**	**2**
Taxes on income	– 9	–2
Net profit/loss after taxes	**– 117**	**4**

First-time application of IAS 19 (2011) in financial year 2013/2014.
The figures of the 2012/2013 financial year were restated.

Reflecting the development of sales, the Group's **TOTAL OPERATING PERFORMANCE** declined from € 2,690 million in the previous year to € 2,419 million in the year under review. The **COST OF MATERIALS** as a proportion of total operating performance declined to 45.9 percent (previous year: 47.5 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.

At 35.4 percent, **THE STAFF COST RATIO** also remained essentially unchanged year-on-year despite the significant volume reduction (previous year: 34.7 percent). In absolute terms, staff costs were down significantly on the previous year. However, the savings resulting from the lower number of employees were partially offset by the collective wage increase in July 2013. During the year, we responded to and counteracted the volume reduction by intensifying individual measures from the Focus efficiency program and increasing the flexibility of working hours. As a result, **PER CAPITA SALES** remained largely stable at around € 194,000.

As part of our asset management, we are using facilities more efficiently and for a longer period of time. 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. Accordingly, **DEPRECIATION AND AMORTIZATION** declined from € 83 million in the previous year to € 71 million.

Net **OTHER OPERATING EXPENSES AND INCOME** also fell as a result of our cost reduction program: in relation to total operating performance, the ratio was down slightly from 15 percent in the previous year to 13 percent. All in all, the result of operating activities excluding special items rose from € –3 million to € 72 million.

Special items for measures relating to the Focus efficiency program amounted to € 10 million in the year under review after € 65 million in the previous year.

In previous years, we freed up substantial net working capital and performed systematic asset management in order to keep net debt at a low level despite significant expenses in connection with the Focus program. Interest expense increased in the year under review due to the borrowing for the convertible bond and the bond increase, but this was partially offset by positive non-recurring effects. As a result, the **FINANCIAL RESULT** was largely unchanged year-on-year at € –60 million (previous year: € –59 million).

We achieved a moderately positive result in **INCOME BEFORE TAXES** of € 2 million (previous year: € –126 million). Income arising from taxes amounted to € 2 million in the year under review (previous year: € 9 million). All in all, we achieved our primary goal for the year under review, a **NET PROFIT** of € 4 million (previous year: € –117 million).

Five-year overview: Results of operations

Figures in € millions	2009/2010	2010/2011	2011/2012	2012/2013	**2013/2014**
Sales	2,306	2,629	2,596	2,735	2,434
Per capita sales [1] (in € thousands)	146	173	175	200	194
EBITDA [2]	–25	104	90	80	143
in percent of sales	–1.1	3.9	3.5	2.9	5.9
Result of operating activities [3]	–130	4	3	–3	72
Special items	–28	2	–142	–65	–10
Financial result	–127	–149	–90	–59	–60
Result after taxes	– 229	– 129	– 230	– 117	4
in percent of sales	– 9.9	– 4.9	– 8.9	– 4.3	0.1

IAS 19 (2011) was applied for the first time in the 2013/2014 financial year. The figures for the 2012/2013 financial year were restated accordingly.
The figures for the financial years 2009/2010 through 2011/2012 have not been restated.
[1] Number of employees excluding trainees
[2] Result of operating activities excluding special items and before depreciation and amortization
[3] Excluding special items

Net Assets

- Capital commitment reduced further through asset and net working capital management
- Continued reduction in volume of directly assumed sales financing
- Further reduction in net debt; leverage below 2

We again reduced our capital commitment through our asset and net working capital management. Receivables from sales financing reached a new low thanks to the high level of liquidations and repayments. We were able to finance payments for the Focus program by releasing funds from our asset and net working capital management, thereby generating a positive free cash flow and reducing our net debt.

Assets

Figures in € millions	31-Mar-2013	31-Mar-2014
Fixed assets	796	751
Inventories	700	623
Trade receivables	382	328
Receivables from sales financing	118	91
Short-term securities	0	10
Cash and cash equivalents	157	233
Other assets	185	209
	2,338	**2,244**

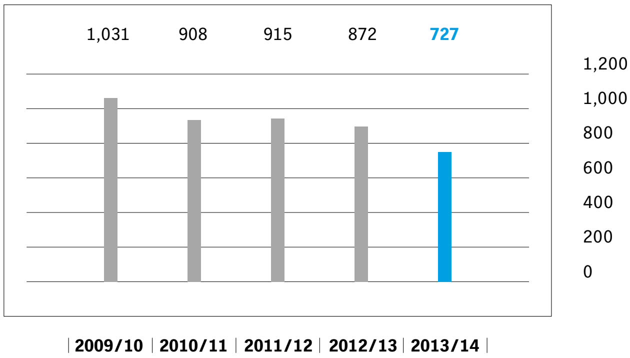
Assets: Capital commitment further reduced through asset and net working capital management

The Heidelberg Group had **TOTAL ASSETS** of € 2,244 million as of March 31, 2014. This represents a further net reduction of € 94 million compared with the previous year as a result of our asset management, although liquidity (cash and cash equivalents and short-term securities) increased by around € 85 million. Over the past five years, we have reduced our capital commitment by around € 635 million. There was a further reduction, among other things, in **FIXED ASSETS** in the year under review, reflecting our established policy of actively using the resources available to us for longer periods of time. In addition, as in previous years, we use leasing as a form of financing when this makes good business sense – particularly for vehicle fleets and IT.

We reduced **NET WORKING CAPITAL** as a percentage of sales to below 32 percent during the year under review, thereby achieving our target of keeping it at an average of below 35 percent for the year as a whole. Thanks to inventory reduction measures and optimized cash management in terms of receivables and liabilities, as well as an improved relationship between advance payments and the order backlog, we freed up capital totaling € 145 million in the year under review. **INVENTORIES** declined to around € 623 million at the reporting date, while **TRADE RECEIVABLES** fell from € 382 million in the previous year to € 328 million in the year under review.

Development of Net Working Capital

Figures in € millions



We continued to successfully pursue our proven strategy of many years of externalizing financing arrangements in the Heidelberg Financial Services segment. **RECEIVABLES FROM SALES FINANCING** reached a new low thanks to the further reduction in the volume financed by us directly, as well as the high level of liquidations and repayments – at € 91 million, this item was € 27 million lower than in the previous year.

Equity and liabilities

Figures in € millions	31-Mar-2013	31-Mar-2014
Equity	402	359
Provisions	998	879
Financial liabilities	419	481
Trade payables	139	148
Other liabilities	380	377
	2,338	**2,244**

Equity and liabilities: Leverage falls below target figure of 2

Despite the net profit recorded in the year under review, equity decreased to around € 359 million. This was mainly the result of negative currency translation effects. Consequently, the **EQUITY RATIO** based on total assets declined from 17 percent to 16 percent. In the medium term, we are aiming to increase the equity ratio substantially on the basis of a return to sustainable profitability.

Provisions declined by € 119 million compared with March 31, 2013, largely as a result of the utilization of **PROVISIONS** for the Focus program.

Supported by the freeing up of net working capital, **NET DEBT** fell to € 238 million at the reporting date (March 31, 2013: € 261 million). The simultaneous improvement in operating profitability meant that the ratio of net debt to EBITDA **(LEVERAGE)** improved to 1.7 (previous year: 3.3), thereby reaching our target of less than 2 for the first time.

In the course of the optimization of our capital structure, **FINANCIAL LIABILITIES** increased from € 419 million as of March 31, 2013 to € 481 million at the reporting date, largely as a result of the bond increase and the convertible bond issue. **TRADE PAYABLES** amounted to € 148 million as of March 31, 2014, a slight increase as against the previous year.

Five-year overview: Net assets

Figures in € millions	2009/2010	2010/2011	2011/2012	2012/2013	**2013/2014**
Total assets	2,879	2,643	2,518	2,338	2,244
Total operating performance	2,178	2,598	2,622	2,690	2,419
Ratio of total assets to total operating performance	132%	102%	96%	87%	93%
Net working capital	1,031	908	915	872	727
in percent of sales[1]	44.7%	34.5%	35.2%	31.9%	29.9%
Equity	579	869	576	402	359
in percent of total liabilities	20.1%	32.9%	22.9%	17.2%	16.0%
Net debt[2]	695	247	243	261	238
Leverage[3]	n. a.	3.4	3.9	3.3	1.7

IAS 19 (2011) was applied for the first time in the 2013/2014 financial year. The figures for the 2012/2013 financial year were restated accordingly.
The figures for the financial years 2009/2010 through 2011/2012 have not been restated.
[1] Net working capital in relation to sales for the last four quarters
[2] Net financial liabilities less cash and cash equivalents and short-term securities
[3] Net debt in relation to EBITDA excluding special items; since financial year 2012/2013 in accordance with IAS 19 (2011), figures for previous years are unaudited statistical estimates

Financial Position

- Positive cash flow and free cash flow
- Financing sources and maturities diversified further
- Stable liquidity framework

Cash flow and free cash flow were clearly positive in the year under review. The reduction in capital commitment thanks to asset management and our net working capital program served to offset the expenditure for the Focus program, thereby enabling a positive free cash flow overall.

Our financing structure is appropriately diversified, both with regard to the sources of financing and in terms of instrument maturity, and was optimized further in the course of the year under review.

Statement of cash flows: Positive cash flow and free cash flow

Through the improvement in the Group's earnings strength and the positive income after taxes, the cash flow improved significantly year-on-year to total a positive € 70 million.

OTHER OPERATING CHANGES resulted in a net cash outflow of € -10 million. The substantial expenses for the Focus program in particular led to a cash outflow of € -144 million from other operating changes. This was largely offset by the reduction from the net working capital program, which amounted to € 113 million, while the encouraging development of receivables from sales financing led to a cash inflow of € 21 million.

At € – 38 million, **CASH USED IN INVESTING ACTIVITIES** in the year under review was lower than in the previous year, which saw the re-equipping of the print media center in Heidelberg and the completion of the cogeneration plant in Wiesloch. In the year under review, we acquired an equity interest in the software producer Neo7even, Siegen, Germany. As planned, net investment remained at a low level of around 2 percent of sales.

FREE CASH FLOW was positive in the year under review at € 22 million. The successful implementation of our net working capital program offset the expenditure for the Focus program in the amount of around € 95 million. Our asset and net working capital management will also help us to counteract outstanding costs and keep net debt at a low level.

Five-year overview: Financial position

Figures in € millions	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014
Net profit/loss after taxes	– 229	– 129	– 230	– 117	4
Cash flow	– 179	– 41	– 130	– 41	70
Other operating changes	138	141	186	74	– 10
of which: net working capital	186	125	24	57	113
of which: receivables from sales financing	66	32	29	40	21
of which: other	– 114	– 16	133	– 23	– 144
Cash used in investing activities	– 22	– 25	– 46	– 51	– 38
Free cash flow	– 62	75	10	– 18	22

IAS 19 (2011) was applied for the first time in the 2013/2014 financial year. The figures for the 2012/2013 financial year were restated accordingly.
The figures for the financial years 2009/2010 through 2011/2012 have not been restated.

Financing structure: Further diversification of financing sources and maturities

As of March 31, 2014, our financing structure primarily consisted of a bond, a convertible bond and a revolving credit facility.

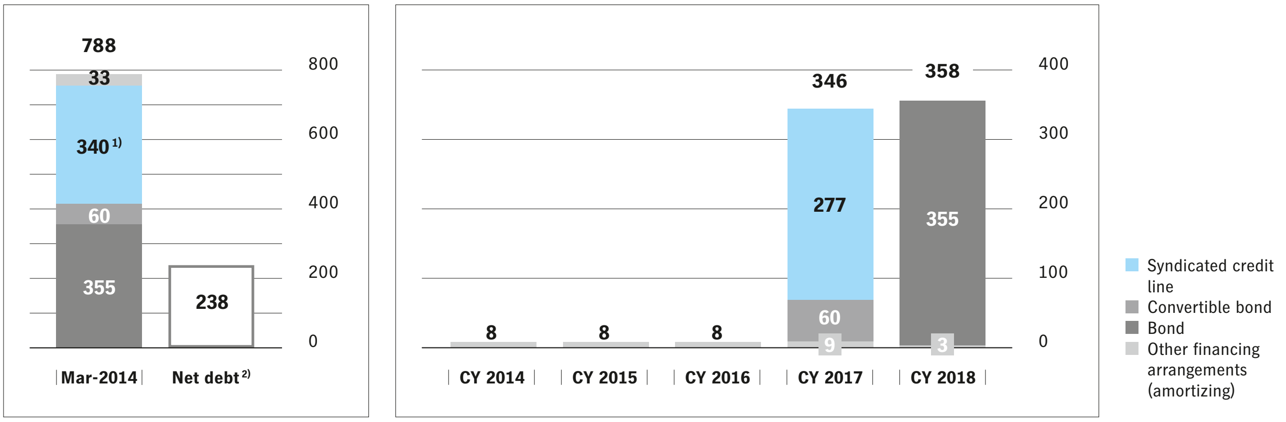
In the year under review, the syndicated credit facility was extended ahead of schedule until mid-2017, while the Group's financing sources were diversified further with the placement of the convertible bond (which has a term until July 2017) and the bond increase (which has a total term until April 2018).

With the range of instruments it has agreed, Heidelberg currently has total credit facilities of around € 790 million until 2017/2018 with a balanced maturity structure and diversification.

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 also has a stable liquidity framework. In future, we will continue to work on ensuring the diversification of sources and maturities in order to substantially reduce our dependency on individual instruments or due dates.

Financing framework, net debt and maturity profile

Figures in € millions



[1] As agreed, reduced to € 277 million effective from January 1, 2015
[2] Total financial liabilities less cash and cash equivalents and short-term securities

Segment Report

- Heidelberg Equipment: Operating loss reduced significantly
- Heidelberg Services: Sharp upturn in operating result
- Heidelberg Financial Services: Successful cooperation with financing partners

Heidelberg Equipment segment: Declining volume, improved earnings

A reluctance to invest due to the strength of the euro and the deliberate scaling back of low-margin business had an impact on this segment in particular.

Segment sales declined significantly to € 1,474 million (previous year: € 1,712 million). In the year under review, the Heidelberg Equipment segment accounted for around 60 percent of Group sales after 63 percent in the previous year.

Heidelberg Equipment

Figures in € millions	2012/2013	2013/2014
Incoming orders	1,790	1,477
Sales	1,712	1,474
Order backlog	464	389
Result of operating activities [1]	– 66	– 19
Special items	– 51	– 8
Investments	65	39
Employees [2]	9,125	8,360

First-time application of IAS 19 (2011) in financial year 2013/2014.
The figures of the 2012/2013 financial year were restated.
1) Excluding special items
2) Number of employees excluding trainees

The **ORDER BACKLOG** amounted to € 389 million at the reporting date. Delivery times for our machines vary in terms of demand and product between three and six months.

Despite the lower level of sales, the segment **RESULT OF OPERATING ACTIVITIES (EBIT)** excluding special items improved significantly from € – 66 million in the previous year to € – 19 million in the year under review. This was due primarily to the implementation of measures forming part of the Focus program and improved margins. Special items of € – 8 million were again recognized in the segment in the year under review.

As planned, there was a reduction in the number of **EMPLOYEES**: the segment had a total of 8,360 employees as of March 31, 2014 (previous year: 9,125 employees).

In the year under review, we significantly scaled back the level of **INVESTMENTS** in the segment, focusing in particular on replacement investments.

Heidelberg Services segment: Stable volume, improved earnings

Adjusted for exchange rate effects, **SALES** in the Heidelberg Services segment were unchanged against the previous year. Including exchange rate effects, sales declined by € 60 million year-on-year to € 952 million (previous year: € 1,012 million). In regional terms, Brazil in particular saw a downturn in sales as a result of the macroeconomic situation.

The **RESULT OF OPERATING ACTIVITIES** excluding special items increased substantially year-on-year, from € 55 million to € 82 million, on the back of improved profit contributions and the reduction and optimization of selling costs. Special items in the segment totaled € –2 million.

Heidelberg Services

Figures in € millions	2012/2013	2013/2014
Incoming orders	1,021	951
Sales	1,012	952
Result of operating activities [1]	55	82
Special items	– 14	– 2
Investments	17	13
Employees [2]	4,522	4,132

First-time application of IAS 19 (2011) in financial year 2013/2014.
The figures of the 2012/2013 financial year were restated.
1) Excluding special items
2) Number of employees excluding trainees

INVESTMENTS in the Heidelberg Services segment declined year-on-year to € 13 million and primarily related to replacement investments. The number of **EMPLOYEES** in this segment was also reduced over the course of the financial year.

Heidelberg Financial Services segment: Favorable financing environment supports further reduction of capital commitment

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.

The past financial year was again characterized by a largely positive financing environment in the industrialized nations. At the same time, economic conditions in Brazil – a market with a high level of demand for direct financing solutions – deteriorated considerably, which had a corresponding impact on sales of our equipment. Taken together, these factors meant that a lower volume of direct financing was issued, with the result that our **RECEIVABLES FROM SALES FINANCING** again declined from € 118 million in the previous year to € 91 million in the year under review. The declining volume of receivables was accompanied by lower interest income of € 8 million (previous year: € 11 million). The volume of newly assumed **COUNTERLIABILITIES** also fell substantially as our intensive dialog with financing institutions continued to pay off.

As expected, the planned strategic reduction in receivables from sales financing was again accompanied by a further decline in net interest income. Despite this, the segment **RESULT OF OPERATING ACTIVITIES** excluding special items amounted to an encouraging € 10 million and thus exceeded segment sales. One of the main drivers was the clearly positive risk provisioning result, which reflects our successful receivables and risk management in recent years. For example, the stringent advance payment and lending conditions applied by us in the past mean that even the significant rise in the non-performing ratio in Brazil due to exchange rate effects has not had a tangible adverse impact in terms of risk provisioning.

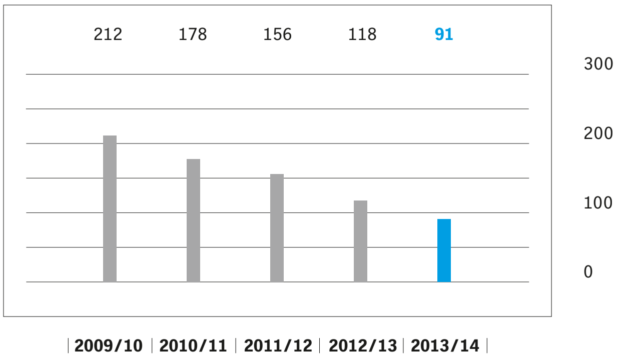
Heidelberg Financial Services

Figures in € millions	2012/2013	**2013/2014**
Sales	11	8
Result of operating activities [1]	9	10
Employees [2]	47	47

First-time application of IAS 19 (2011) in financial year 2013/2014.
The figures of the 2012/2013 financial year were restated.
[1] Excluding special items
[2] Number of employees excluding trainees

Receivables from sales financing

Figures in € millions



Report on the Regions

- All regions affected by downturn in sales due to impact of strong euro
- Sustained economic weakness in Brazil
- China largest new machinery market

Europe, Middle East and Africa (EMEA): Sales down significantly year-on-year

We recorded sales of € 861 million in the EMEA region in the year under review compared with € 1,010 million in the previous year. The largest downturns were recorded in Germany and the United Kingdom. Primarily due to trade shows, both countries had recorded higher sales in the previous year. The volume in Greece, Portugal and Italy remained weak due to the impact of the public debt and euro zone crisis. As a result of political turmoil in several smaller markets in the Middle East and North Africa, the propensity to invest in these regions was low.

Asia/Pacific: Low momentum and significant negative exchange rate effects

Exchange rate effects had the greatest impact in this region. Adjusted for these effects, sales in the region were unchanged as against the previous year. Incoming orders (€ 791 million) and sales (€ 821 million) in the Asia/Pacific region were down on the corresponding prior-year figures due to exchange rate effects (previous year: incoming orders € 939 million, sales € 898 million). Business in Japan was particularly hard hit; however, the country recorded positive development on the whole, improving year-on-year after adjustment for exchange rate effects.

The slowdown in economic growth in China was also reflected in incoming orders and sales in the year under review. Despite this, sales in China were almost unchanged year-on-year at € 414 million (previous year: € 429 million), and the country remained the Heidelberg Group's largest individual market.

The markets of India, Indonesia, Singapore and Malaysia saw weak development.

Eastern Europe: Sales down slightly on previous year

With incoming orders of € 286 million (previous year: € 306 million) and sales of € 286 million (previous year: € 304 million), performance in the Eastern Europe region was down only slightly on the previous year. The Turkish market saw a substantial year-on-year decline and failed to meet expectations. Towards the end of the financial year, the political events in the Crimea region of Ukraine and the related uncertainty in Russia were reflected in a moderate reluctance to invest in the region.

North America: USA stable, Canada and Mexico weak

The North America region, which covers the markets of the US, Canada and Mexico, was hard hit by negative exchange rate effects. The region recorded a decline in sales to € 350 million in the year under review compared with € 375 million in the previous year. Incoming orders also decreased year-on-year from € 395 million to € 345 million. Adjusted for these exchange rate effects, the US market saw stable development. Incoming orders increased from quarter to quarter despite the negative exchange rate factors. By contrast, the Canadian and the Mexican markets failed to meet expectations and declined as against the previous year.

South America: Business situation in Brazil remains unsatisfactory

Our South America sales region is dominated by the Brazilian market. As in the previous year, incoming orders and sales in the entire region were impacted by the difficult overall economic situation in Brazil and the relative weakness of the Brazilian real as against the euro. Incoming orders declined by 30 percent to € 109 million (previous year: € 156 million), while sales fell by 21 percent to € 116 million (previous year: € 147 million).

The smaller markets in the region largely performed in line with expectations and at the same level as in the previous year, but they were unable to offset the downturn in the largest market of Brazil.

Incoming orders by region

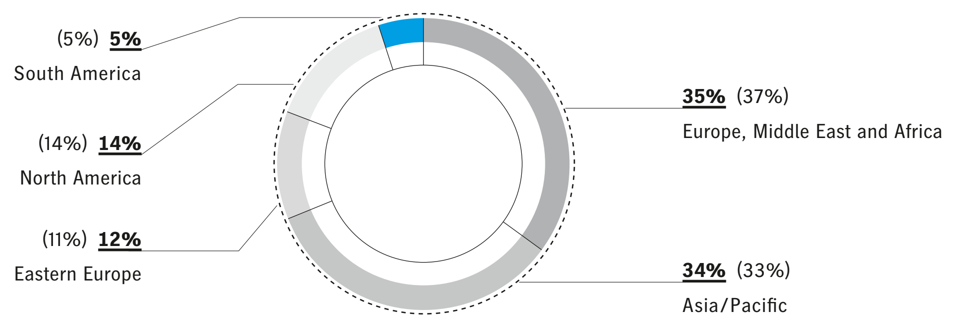
Figures in € millions	2012/2013	**2013/2014**
EMEA	1,026	906
Asia/Pacific	939	791
Eastern Europe	306	286
North America	395	345
South America	156	109
Heidelberg Group	**2,822**	**2,436**
Adjusted for exchange rate effects		2,535

Sales by region

Figures in € millions	2012/2013	**2013/2014**
EMEA	1,010	861
Asia/Pacific	898	821
Eastern Europe	304	286
North America	375	350
South America	147	116
Heidelberg Group	**2,735**	**2,434**
Adjusted for exchange rate effects		2,536

Sales by region

Proportion of Heidelberg Group sales (in parentheses: previous year)



ROCE and Value Added

- ROCE increased continuously
- Value added improved substantially

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 before taxes of currently around 9 percent.

Following a slightly negative ROCE in the 2012/2013 financial year, we achieved a significant improvement in the year under review as anticipated. ROCE amounted to around € 73 million, up € 77 million on the prior-year figure. This was mainly due to the realization of the Focus efficiency program and increased profit contributions.

At the same time, we reduced our operating assets by more than 30 percent over the past five years. Our asset management means we are using our facilities more efficiently and for a longer period of time. Our net working capital program also enabled us to further scale back our capital commitment. Capital commitment also declined as a result of the lower level of receivables from sales financing, which fell by around € 27 million year-on-year due to the further reduction in the volume financed by us directly as well as liquidations and repayments. Accordingly, operating assets decreased by a total of € 68 million year-on-year to € 1,068 million.

ROCE as a percentage of operating assets therefore increased to 6.8 percent in the year under review (previous year: –0.4 percent). At € 97 million, the cost of capital was down slightly on the previous year. While this resulted in a significant improvement in **VALUE ADDED** to € –24 million, yet a positive figure could not be achieved.

Five-year overview: ROCE and value added

Figures in € millions	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014
Operating assets (average) [1]	1,564	1,429	1,272	1,136	1,068
ROCE [2]	–138	10	4	–4	73
in percent of operating assets	–8.8	0.7	0.3	–0.4	6.8
Cost of capital	153	142	130	103	97
in percent of operating assets	9.8	9.9	10.2	9.1	9.0
Value added [3]	–291	–132	–126	–108	–24
in percent of operating assets	–18.6	–9.2	–9.9	–9.5	–2.2

IAS 19 (2011) was applied for the first time in the 2013/2014 financial year. The figures for the 2012/2013 financial year were restated accordingly.
The figures for the financial years 2009/2010 through 2011/2012 have not been restated.
[1] Average operating assets less average operating liabilities
[2] Includes the result of operating activities excluding special items plus income from investments
[3] Result from ROCE less cost of capital

Employees

- Incentive systems to support change processes
- Attention on securing competitiveness and employer attractiveness
- Award for demographic management

Human resources activities in the reporting year focused on supporting Group-wide change processes and ensuring that they are reflected in the workforce and management structure. One of the main tasks of the Human Resources department was to support the implementation of the business area structure. Activities in the current year will focus on further simplifying structures and reducing complexity, among other things.

Remuneration components linked to financial targets

Heidelberg's primary objective for the coming years is clear – to remain sustainably profitable. Responsibilities have been 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 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.

Workforce adjustment implemented in a socially responsible manner

In the year under review, we continued to implement the measures resolved as part of the Focus program. In the year to March 31, 2014, around 1,155 employees left the Company. We succeeded in finding socially responsible solutions and taking into account regional and portfolio-related aspects to the required extent.

At the same time, 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.

Looking to the future

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. With the sabbatical and part-time initiative that was introduced in spring 2014, we have given employees the opportunity of adjusting their professional commitment to reflect the individual phases of their life. 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.

130 young people began their training with Heidelberg on September 1, 2013. We are maintaining our policy of vocational training despite the workforce reduction. Our range of training and study opportunities is permanently reviewed and adjusted to reflect changed requirements. In Germany, we provide training in 15 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 2014. 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 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 2014, we showed more than 100 schoolgirls just how varied technical professions can be at on-site presentations in Wiesloch-Walldorf, Brandenburg and Amstetten. At present, 14.7 percent of our trainees are female (previous year: 14.6 percent).

Heidelberg receives "HR Excellence Award 2013" for the "Demographic Management" category

Demographic development means that companies are increasingly confronted with the challenges resulting from the age structure of their workforce. The average age at Heidelberg has also changed considerably: 80 percent of the workforce is now over 40 years of age. Accordingly, the Human Resources department launched a demographic initiative in the year under review with the aim of securing its performance and improving its innovative strength on a sustainable basis. The project is supported by the European Social Fund (ESF) and the German Federal Ministry of Labor and Social Affairs, with the employer's association and the union involved as social partners. Based on the experience gathered from an existing demographic initiative at the Wiesloch-Walldorf site, a range of projects were launched in the areas of health, workplace design, qualification, management and awareness-raising. Under the motto "Shaping change", the project is not only addressed at employees of a certain age, but also seeks to improve awareness and a sense of personal responsibility among all employees, irrespective of their age groups. The project is a fixed component of medium-term HR management at Heidelberg and is scheduled to be rolled out further throughout the entire Company.

In December 2013, the project won the "HR Excellence Award 2013" awarded by the specialist magazine Human Resources Manager.

Idea management: Savings volume reaches record level of € 5.4 million

As a result of the high quality of suggestions submitted by our employees our idea management was able to achieve the highest level of savings on record this year. We were able to generate savings of more than € 5.4 million (previous year: € 4.4 million). This high level was reached despite the lower number of around 3,660 ideas submitted in the year under review (previous year: around 4,600). The continued extensive participation and the high savings volume serve to underline the qualification and motivation of our employees. At 52 percent (previous year: 51 percent), the implementation rate was extremely high for the third year in succession.

Employees by region

Number of employees [1]	31-Mar-2013	31-Mar-2014
EMEA	9,937	9,009
Asia/Pacific	2,158	2,049
Eastern Europe	551	531
North America	791	768
South America	257	182
Heidelberg Group	**13,694**	**12,539**

[1] Excluding trainees

Five-year overview: Social key figures

	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014
Number of employees (at balance sheet date; excluding trainees)	15,796	15,197	14,813	13,694	12,539
Trainees	700	631	601	521	502
Specialized training days	43,968	24,313	17,819	11,780	12,823
Turnover rate in percent [1]	14.1	6.4	5.0	12.7	6.5
Average seniority (in years)	15.2	15.7	16.1	16.8	17.1
Percentage of female employees	14.1	14.1	14.4	14.6	14.8
Percentage of part-time employees (excluding partial retirement)	2.7	3.9	3.7	3.8	4.0

[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

Sustainability

- Group-wide environmental policy provides binding framework
- Environmentally friendly Saphira Eco product line expanded
- Environmental performance in the print room as a unique selling point

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 asked 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, of course, also includes our production sites outside Europe. Overall, the number of notifiable on-the-job accidents at our largest German production sites has been falling for a number of years. In calendar year 2013, the figure (accidents per million hours worked) was 9.7 after 10.2 in the previous year. The average at Heidelberg (considering the Company's four sites) remains lower than the industry average (German employers' liability insurance association of the wood and metal industry (BGHM)).

Heidelberg 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.

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. To enable our customers to meet this demand, we offer an online platform for calculating and offsetting the unavoidable CO_2 emissions generated in manufacturing printed products. This means that products can be produced in a CO_2-neutral manner and allows print buyers to reduce their carbon footprint. 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 a number of years, we have used FSC- or PEFC-certified paper from responsible forestry for our own printed products – wherever possible – in printing demonstrations at our print media centers and all of our trade show appearances worldwide. We are the only printing press manufacturer to precisely calculate the CO_2 emissions generated in manufacturing our machines using a method validated by the Fraunhofer Institut UMSICHT. Thus we can offer our customers the possibility of carbon offsetting for equipment purchased from Heidelberg. The unavoidable CO_2 emissions generated in manufacturing the machines are offset by investments in the PROJECT TOGO environmental protection project. Under the reforestation scheme in Togo, Western Africa, a natural forest without wood utilization is being established on 1,000 hectares of degraded land that was previously unused. In addition to reforestation, the Gold Standard-certified project involves social schemes such as well installation and school construction, health care and the production of green energy in the project area.

Environmental projects at the production sites

The ECO Council, whose members include members of the Management Board and managers from various areas, determines the ecological targets for the Group as a whole. The similarly cross-divisional ECO working group advises the ECO Council, proposes an environmental program and monitors its implementation in the individual areas. Most of our German production sites have been certified in accordance with the ISO 14001 environmental management system for more than ten years. Our site in Qingpu, China, was also successfully certified in late 2013, with our site in Nové Mesto, Slovakia, set to follow by the end of 2014.

In the year under review, Heidelberg provided around 600 employees at its largest production site in Wiesloch-Walldorf with training on how to use resources responsibly as part of environmental action days. Employees at the site were given technical information and practical hints and tips on daily use in the subject areas of waste, energy, compressed air and water. The first immediate and easily visible success of the action days was the identification and remediation of around 50 compressed air leaks in assembly. The action days will be gradually rolled out in other areas and at additional locations.

At our four major sites, we have started to introduce a comprehensive energy monitoring system that allows us to visualize energy consumption and perform evaluations, enabling us to initiate corresponding measures for reducing consumption as a result. This system will also be rolled out at additional sites in future.

The cogeneration plant in Wiesloch-Walldorf that went into operation in October 2012 has been running extremely well since it was commissioned. By the end of the year, it had reached 10,000 hours of operation, thereby removing 19 GWh from the power distribution grid. This in-house combined heat and power generation covers around one-quarter of electricity requirements at the Wiesloch-Walldorf site.

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 presses, such as dryers and air and powder supply systems.

By using state-of-the-art, frequency-controlled drives and compressors, for example, we have reduced the energy consumption of the combined dampening solution and inking unit temperature control system by 34 percent. A heat recovery cabinet is used to save energy by recycling the hot exhaust air from the dryer using a cross-flow heat exchanger. A new standby function allows the main consumers to be switched off when a machine is at a standstill, resulting in energy savings and hence ecological and economic benefits.

Our Anicolor printing presses make a significant contribution to reducing spoilage and hence paper consumption, the most important CO_2-related parameter in the printing process. Since January 2014, this series has also been available in 50 × 70 cm format.

Environmentally friendly Saphira Eco product line expanded to include blanket, Anicolor inks and PUR glue

For the products in our 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, we expanded our range to include the world's first environmentally tested blanket, as well as mineral-oil-free ink series for use with Anicolor equipment, thus making the Anicolor technology, which boasts minimal waste and low energy consumption, even more environmentally friendly. In addition, the postpress sector will shortly see the launch of the first PUR glue not to release any harmful isocyanates when handled properly.

Four-year overview: Ecological key figures

	2010	2011	2012	2013
Input				
Energy in GWh/a [1]	365	346	353	336
Energy in GWh/a [1] (weather-adjusted) [1, 2]	348	360	350	324
Water in m^3/a	298,645	333,551	313,013	283,027
Output				
CO_2 emissions in metric tons [3, 6]	211,896	150,953	175,185	160,373
Waste in metric tons	34,754	34,829	37,415	36,953
Key figures				
Energy consumption (kWh/a) per produced metric ton of output (weather-adjusted) [2, 4, 5]	6,061	6,006	5,706	5,641
Recycling rate in percent	93.07	94.50	96.17	95.59
CO_2 (in metric tons) per produced ton of output [2, 3, 4, 5, 6]	2.48	1.43	1.87	1.76

[1] Total energy consumption of sites including car fleet and the Wiesloch-Walldorf company filling station
[2] According to VDI 2067, heating energy consumption was adjusted based on the degree days figure of the Heidelberg site.
[3] 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 GEMI.
[4] Excluding Gallus, HTC, car fleet and the Wiesloch-Walldorf company filling station
[5] Taking into account printing presses, prepress, postpress and external business activities (Amstetten foundry)
[6] In the 2011 calendar year, the Amstetten site drew energy exclusively from renewable sources, with half coming from hydroelectric power. This, in particular, led to considerable reductions in CO_2 emissions

Note: The ecological key figures have been redefined and recalculated and restated for the previous years. For this reason, they are not comparable with the figures published in our previous annual reports. The revision was necessary due to major changes in general conditions. For the first time, the four-year overview takes into account contract manufacturing for external customers.

RISKS AND OPPORTUNITIES

Risk and Opportunity Management

Control System

Dealing responsibly with business risks and opportunities is a fundamental of good corporate governance. Heidelberg's Management Board ensures appropriate risk and opportunity management as well as risk controlling within the Group. Clear values, principles and guidelines help the Management Board and the management operate and control 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.

Manuals, guidelines and operating instructions are available at all times, among other things via the Group's Intranet. They 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 IT-based controls, senior executives must ensure the security and reliability of the IT system.

The principle of **DUAL CONTROL** applies to all transactions. Every declaration of intent that is binding on the Heidelberg Group in Germany and abroad 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 division 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. The Management Board informs the Supervisory Board on a regular basis about existing risks and their development. Finally, the Audit Committee also deals with the effectiveness of the internal control system and the internal audit system, examines their functionality and arranges for regular reporting, in some cases from the directly responsible executives, on audit planning and findings.

Risk and opportunity management system

Risk and opportunity management is solidly integrated as part of our strategic planning. Our Internal Audit team regularly controls the efficiency of our risk management system. 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. Our large Risk Committee, which draws up and updates the risk catalog with the 30 most significant risks, also includes members of our affiliates. 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 Production, Procurement, Development, Human Resources, IT, Legal and Finance, receive a risk form that they are required to complete and return to the Group. Risk Controlling compiles the risks thus reported in a risk catalog 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.

As a central division, the 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 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 may 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 standards, these comprise both debt-specific and transaction-specific components. We operate a policy of risk provisioning that is appropriate for our business model in sales financing. We recognize appropriate risk provisions for recognizable risks at an early stage.

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 consolidated management report.

Central consolidated accounting responsibilities such as the consolidation of the financial figures and the review of recognized goodwill are undertaken by Financial Steering & Reporting (FR) on behalf of the entire Group. 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 uniform 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
- Development in the emerging countries represents largest individual risk
- Opportunities from strategic measures and economic upturn

Risks with a probability of more than 50 percent are integrated into our planning process and are therefore not discussed in the risk report. Our risks and opportunities are recognized and evaluated in the context of our key financial performance indicators, which are discussed in the "Key Performance Indicators" section on page 23. As our management processes focus on financial performance indicators, we also monitor and evaluate early warning indicators that suggest a rise in non-quantifiable risks.

Development and classification of risk groups

Risk categories	Change from previous year	Risk rating
Economic activity and markets	Decreased risk	Medium risk
Industry and competition	Unchanged risk	Low risk
Products	Unchanged risk	Low risk
Finance	Decreased risk	Low risk
Performance	Unchanged risk	Medium risk
Overall risk	Unchanged risk	

Increased risk
Unchanged risk
Decreased 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 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 greatest risk to not achieving our earnings targets is that our sales in the Heidelberg Equipment segment could be weaker than forecast owing to general economic conditions. Development in the industrialized nations in particular, but also in key emerging markets such as China and Brazil, and potential developments in Eastern Europe will play a role in this area.

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 new providers is anticipated. The precise transportation of sheets at high speed is one of Heidelberg's core competences, which makes us an ideal partner for providers of new technologies – particularly because we also have a strong sales and service network worldwide. Before we invest in possible new ventures, we weigh the risks and opportunities on the basis of various scenarios. Partnerships allow us to combine the innovative strength of our partners with our own in order to respond more quickly to current market trends, as well as to reduce research and development risks.

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.

OPPORTUNITIES for Heidelberg result in particular from the strategic measures that we will implement in the second phase of our strategic process. These are aimed at achieving sustainable profitability and contain measures for ensuring financial stability and liquidity, increasing cost efficiency and the earnings-oriented optimization of our service range. A more positive economic development than is currently forecast could lead to an increase in the investment volume on the part of our customers.

Slight year-on-year improvement in global economic and market risks due to expected momentum in the advanced economies; forecast growth rates for the emerging nations are only average compared with past development

In our planning, we are assuming moderate growth in the global economy. If the global economy were to grow less than expected, or if key markets were to suffer an unexpected economic downturn, we might not be able to achieve the planned sales performance in our Heidelberg Equipment segment. The Heidelberg Services segment is considerably less cyclical as it depends on the installed base and on the print production volume to a greater extent than on new machinery business.

We give special attention to China, our biggest individual sales market. The latest economic data from China has been somewhat disappointing, and the recent downturn in exports also suggests a further slowdown in economic growth. The high level of debt among Chinese municipalities and companies could lead to defaults, thereby triggering a credit crunch. The rapid development of the largely unregulated shadow banking sector is a further source of liquidity and credit risk.

The IMF also views Russia as being at risk of a recession. This could adversely affect the current global economic momentum and the expected development of the global economy.

Industry and competition risks unchanged as against the previous year

In the year under review, manufacturers continued to reduce capacities to a significant extent, in some cases through joint ventures and by bundling activities. The risk that prices in the industry could come under pressure from increased competition, thereby threatening our sales targets, should decline somewhat in the medium term.

Exchange rate development was mostly unfavorable for European manufacturers in the year under review. If the exchange rate situation continues to shift in favor of Japanese manufacturers, this could lead to a considerable intensification of competition with our Japanese counterparts. We are seeking to reduce the influence of exchange rate developments by expanding our procurement and production outside the euro zone; edition models are manufactured primarily in China.

Product risks remain low

In our core business, sheetfed offset printing, our activities in the year under review were dedicated in particular to reducing manufacturing costs and makeready times and to energy efficiency, factors that offer print shops quantifiable cost and competitive advantages. In the area of digital printing, our integrated digital printing systems and the cooperation with Ricoh and Fujifilm allow us to offer our customers the parallel, simple and integrated operation of offset and digital technology. The products and solutions we offer follow the trends that determine the ongoing development of the print media industry around the world. This is discussed in greater detail in the "Markets and Customers" section. We are also not anticipating any notable risks in new business areas at this time. In order that we continue to meet our customers' needs, our priority in all research and development projects focuses strictly on customer benefit. Partnerships also allow us to combine the innovative strength of our partners with our own in order to respond more quickly to current market trends and reduce our product risks. We protect the results of our research and development work with our own property rights. Further information can be found in the "Research and Development" and "Partnerships" sections.

Cumulative financial and legal risk reduced

The successful issue of the convertible bond, the increase in the bond placed in 2011 and the extension of the syndicated credit facility ahead of schedule resulted in a further optimization of the financial structure in terms of sources and maturities in the year under review. With the range of instruments it has in place, Heidelberg has credit facilities with a balanced maturity structure and diversification until 2017/2018. Our asset and net working capital management led to a further reduction in net debt in the year under review. The simultaneous improvement in operating profitability meant that leverage was reduced significantly.

We no longer consider there to be any material **INTEREST RATE RISKS**. We describe the details of the financing structure in the "Financial Position" section on pages 33 and 34. Notes 29 and 38 of the notes to the consolidated financial statements 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 were no longer able to guarantee compliance with these financial covenants and 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 majority of our portfolio consists of receivables from customers located in emerging countries, particularly Brazil. We considerably reduced our Brazil portfolio in the year under review. The difficult economic situation in Brazil initially led to a significant rise in items past due. By the end of the financial year, however, intensive receivables management meant that we had been able to reduce the absolute volume of items past due to below the prior-year level.

The risks arising from counter-liabilities that we have assumed again decreased year-on-year. Losses on sales financing were largely in line with the long-term average, and hence consistent with our expectations. Potential exchange rate developments also continue to represent a risk in this area.

We have hedged against the risk of fluctuating **EXCHANGE RATES** of our principal foreign currencies for foreign currency volumes. Nonetheless, currency risks are a factor. We permanently analyze and evaluate these risks using recognized software-based techniques.

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 by means of systematic controls of adherence to our comprehensive guidelines in all areas.

Performance risks unchanged

PROCUREMENT RISKS remained essentially unchanged 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. 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 continuing to focus on global strategic partnerships, the termination of a **SALES PARTNERSHIP** in the various areas could embody risks for our business development. These risks were largely unchanged compared with the previous year.

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 do not anticipate any serious risks of failure in our **IT SYSTEMS**. The probability that losses could result from attacks on these systems has been significantly reduced by extensive preventative measures. We made the necessary investments in our IT infrastructure in the year under review, thereby increasing overall system security. 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 from strategic measures and economic development

There are opportunities for Heidelberg arising in particular from our **STRATEGIC MEASURES**, which are described in detail in the "Strategy" section on page 21. This relates in particular to the transformation of Heidelberg into a profit- and market-oriented company. We have resolved to focus on four areas of activity with different strategic conditions and management approaches. This also includes the examination and implementation of various portfolio options. Within the four areas of activity, one notable development is the strong growth in future-oriented digital business. We are continuing to invest in this area – with around one-third of our R&D spending – and will strengthen it further through our partnership with Fujifilm. In the less cyclical area of services and consumables, too, we intend to develop new models for business within the installed base of Heidelberg equipment as well as outside our equipment business. We are seeking to develop services and consumables into a business area that is independent from economically sensitive equipment sales. The complexity management that has already been initiated will be continued in the four areas of activity, leading to a further reduction in complexity, and hence costs, while maintaining the same service and quality level.

Above and beyond this, a major opportunity for Heidelberg lies in the possibility of **MORE POSITIVE ECONOMIC PERFORMANCE** than is currently forecast. The economic upturn in the advanced economies could lead to a rise in the investment volume. In the emerging economies, too, there is a possibility that economic growth will be higher than anticipated. In China, for example, reform efforts by the government could improve the country's economic stability and lay the foundations for a further growth phase. A shift in exchange rates in our favor would also have a positive effect on our sales and earnings planning. There are opportunities – as well as risks – that social and political changes, government intervention, customs regulations and changes in legislation could influence our business development in several countries

OUTLOOK

Expected Conditions

- Global economy expeced to return to slightly more dynamic growth than in the previous year
- Substantial risk factors cause persistent uncertainty
- Slowdown in economic growth anticipated in China

At 3.0 percent, **GLOBAL ECONOMIC GROWTH** is generally expected to be slightly higher in 2014 than in 2013. However, this should not hide the fact that, given the high public debt in economically important nations, the global economy is still susceptible to disruption. Although the industrialized countries are likely to see a further upturn, the underlying growth momentum in the emerging nations has slowed and a number of important emerging economies are faced with structural problems that could dampen their growth prospects for the coming years. Furthermore, the current uncertainty concerning the actions undertaken by Russia in Ukraine and the political response by the West, as well as the sustained volatile situation in the Middle East, mean that there is a pronounced risk of a renewed hike in oil and gas prices. All of this could have a considerable negative impact on the budding recovery in the global economy. For Russia in particular, the IMF foresees an imminent threat of a recession.

For the **USA**, a growth rate of 2.5 percent is anticipated for 2014. **JAPAN** is expected to see moderate growth of 1.4 percent. The rate of growth has slowed slightly compared with 2013, however, as fiscal policy is having a dampening effect on the whole despite the latest economic package and the momentum provided by the depreciation of the yen is coming to an end. The **EURO ZONE** is likely to experience a slow economic upturn as the recession in the crisis-hit countries is gradually overcome and corporate investment starts to pick up as sales prospects improve. Accordingly, GDP growth of 1.1 percent is forecast for 2014.

The growth rate in **CHINA** is expected to slow to 7.5 percent in 2014, while **BRAZIL** will also see a slowdown in economic growth to 2.0 percent. Information on the expected opportunities and risks in our largest individual market, China, can be found on pages 45 to 48. Accordingly, we only expect the growth rate in the **EMERGING COUNTRIES** to remain at the same level as in the previous year.

Future Prospects

- Sales expected to repeat prior-year level
- Further improvement planned in earnings
- Key figures impacted by potential portfolio optimization measures

Country-specific and macroeconomic developments affect the propensity to invest of the majority of our customers. The impact on the Heidelberg Equipment segment is generally considerably more pronounced and more direct than on the Heidelberg Services segment, which is less cyclical in nature. Despite changes in media consumption and structural changes within the printing industry in the industrialized nations, the global print volume remains stable and is expected to enjoy a healthy performance in future thanks to the robust growth of the emerging nations. Nevertheless, we are currently not anticipating an increase in the market volume for new sheetfed offset presses over the coming years in light of the economic risks and the ongoing consolidation of print shops in the industrialized nations.

In light of this, we expect **SALES** in the 2014/2015 financial year to repeat the level seen in the year under review. As in the previous year, the share of sales is again expected to be higher in the second half of the financial year than in the first half.

As in the year under review, we will continue to actively reduce low-margin business and focus on improving profitability. After successfully returning to profitability in the

2013/2014 financial year as forecast, our stated goal for the 2014/2015 financial year is to further improve our profitability in order to get closer to our medium-term objective of an operating margin of no less than 8 percent in terms of **EBITDA** and achieve an increased **RESULT AFTER TAXES** in spite of the higher level of interest expense for financial liabilities. The extent of the improvement in the 2014/2015 financial year will depend to a large extent on the realizability and timing of the portfolio optimization measures that are at the heart of the Company's strategic focus from this year on.

In addition to initiatives aimed at raising margins and optimizing the portfolio, we will continue to steadily reduce our cost base and make it more flexible in order to achieve our medium-term margin target of no less than 8 percent EBITDA on sales as rapidly as possible. The planned earnings improvements together with the measures aimed at the reduction and efficient utilization of our capital commitment are intended to strengthen our capital structure and keep our net debt at a low level that sustainably does not exceed twice the result of operating activities before interest, taxes, depreciation and amortization excluding special items (EBITDA) **(LEVERAGE)**. This will allow us to continue to increase the return on capital employed (ROCE) in order to generate positive economic value added after deduction of capital costs.

We will propose a dividend to the Annual General Meeting when we have achieved our medium-term objectives in terms of profitability and the capital structure and if this seems appropriate in light of the outlook for the Group. 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]

- Structure of the remuneration system for the Management Board unchanged as against the previous year
- Remuneration structure for the Management Board will continue to comply with statutory requirements (German Stock Corporation Act and German Act on the Appropriateness of Management Board Remuneration (VorstAG)) and requirements of the German Corporate Governance Code in future
- Change in Supervisory Board remuneration from the 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 discussed in the previous year and, in respect of the long-term variable remuneration components, adjusted in line with the requirements of the loan agreement and its financial covenants.

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 variable single-year remuneration is dependent on the Group's success in the respective financial year, the benchmarks for which have been defined as EBIT and free cash flow. 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 fully completed. Until further notice – starting with the previous year – 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.

In the previous year, the Management Board and the Supervisory Board revised and adjusted the goals for future years. In addition, they 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 previous year and in the year under review, considering that the long-term component of the bonus in accordance with the remuneration structure that was replaced in the previous year had been 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 previous year and the year under review, with a planned payment in the

[1] This remuneration report also forms part of the Corporate Governance Report.

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 previous year, the year under review and the subsequent financial year and is planned for payment in the 2015/2016 financial year. Accordingly, as in the previous year, no long-term bonus was paid in the year under review; the long-term component in accordance with the temporary solution will now be paid in the 2014/2015 financial year based on an assessment of target attainment for the 2012/2013 and 2013/2014 financial years.

Finally, it was determined that a minimum threshold of 25 percent will be set for target attainment so that the achievement of a target is assessed within a corridor of 25 percent to 100 percent, and not between 0 percent and 100 percent as previously. The previous structure of Management Board remuneration was otherwise unchanged in the year under review.

In addition, the members of the Management Board have undertaken to each invest 10 percent of both the variable single-year and multi-year remuneration (before deduction of personal taxes) in shares of the Company that they may only dispose of after a holding period of 24 months. As such, the multi-year variable remuneration and the single-year variable remuneration alike provide an additional long-term performance incentive, increasingly gearing the remuneration structure towards sustainable business development. The Management Board members invested the corresponding portion of the variable remuneration paid for the 2012/2013 financial year in shares of the Company immediately following the Annual General Meeting. In accordance with section 15a of the German Securities Trading Act, this investment was reported to the German Federal Financial Supervisory Authority by all four Management Board members and published on the Company's Web site on July 26, 2013.

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 component		Components with a long-term incentive effect	Total remuneration [1]
		Basic salary	Remuneration in kind	Single-year variable remuneration	Bonus waived	Multi-year variable remuneration	
Dr. Gerold Linzbach [2]	2013/2014	550	8	495	–20	495	1,528
	2012/2013	321	9	289 [3]	0	193	812
Dirk Kaliebe	2013/2014	370 [4]	15	333	–20	333	1,031
	2012/2013	350	15	329 [5]	0	210	904
Marcel Kiessling [6]	2013/2014	370	12	333	0	333	1,048
	2012/2013	350	11	329 [5]	0	210	900
Stephan Plenz	2013/2014	370 [4]	11	333	–20	333	1,027
	2012/2013	350	11	329 [5]	0	210	900

[1] For Bernhard Schreier in financial year 2012/2013: His term as a member of the Management Board ended on August 31, 2012. His contract of employment with Heidelberger Druckmaschinen Aktiengesellschaft ended on June 30, 2013. For the period from April 1, 2012 until August 31, 2012 he received a basic salary of € 208 thousand, remuneration in kind of € 6 thousand and single-year variable remuneration of € 184 thousand; additionally, he is entitled to receive multi-year variable remuneration of € 125 thousand. His total remuneration thus amounted to € 523 thousand.

[2] CEO since September 1, 2012

[3] For the 2012/2013 financial year, the Company bonus is guaranteed in full on a pro-rata temporis basis

[4] From April 1, 2014: € 390 thousand

[5] Includes a special bonus of € 20 thousand

[6] Marcel Kiessling's term as a member of the Management Board ended on March 31, 2014; his contract of employment with Heidelberger Druckmaschinen Aktiengesellschaft ends on December 31, 2014.

The following (gross) remuneration before personal investment was paid to the Management Board as variable remuneration components in the year under review: Dr. Gerold Linzbach: € 847 thousand (previous year: € 330 thousand; pro rata temporis), Dirk Kaliebe: € 714 thousand (previous year: € 617 thousand), Marcel Kiessling: € 711 thousand (previous year: € 610 thousand) and Stephan Plenz: € 710 thousand (previous year: € 610 thousand).

With effect from April 1, 2014, the Supervisory Board of the Company appointed **HARALD WEIMER** as an ordinary member of the Management Board for a period of three years up to and including March 31, 2017.

The **REMUNERATION PAID TO MEMBERS OF THE MANAGEMENT BOARD WHO STEPPED DOWN IN THE YEAR UNDER REVIEW** is as follows:

MARCEL KIESSLING'S term as a member of the Management Board ended on March 31, 2014; his contract of employment with Heidelberger Druckmaschinen Aktiengesellschaft will end on December 31, 2014. He has been released from work for the period from April 1, 2014 to December 31, 2014 (end of contract); this will also settle his remaining vacation entitlement. He is entitled to receive single-year variable remuneration for the 2013/2014 financial year and multi-year variable remuneration for the 2012/2013 and 2013/2014 financial years. This will be paid at the same time as for the active members of the Management Board, except for the payment of the multi-year variable remuneration for the 2012/2013 financial year, which was made in April 2014. He is also entitled to his basic monthly salary until December 31, 2014. In exchange for the early termination of his contract of employment and as settlement for the remuneration lost as a result (annual salary from January 1, 2015 and single-year and multi-year variable remuneration for the 2014/2015 financial year and, pro rata temporis, the 2015/2016 financial year), he will receive a one-time compensation payment that is payable in two equal installments on January 31, 2015 and March 31, 2015. The Company will also assume the cost of outplacement consulting up to a maximum of € 40 thousand; if this offer is not taken up, the compensation payment will increase by € 20 thousand. Accordingly, the cash remuneration of € 1,543 thousand is composed of the basic salary of € 292 thousand, the compensation payment of € 1,209 thousand, outplacement consulting costs up to a maximum of € 40 thousand (gross), and non-cash remuneration of € 2 thousand.

Pension benefits of the individual members of the Management Board

Figures in € thousands		Pension benefits [1), 2)]			
		Accrued pension funds as of the reporting date	Pension contribution during the reporting year [3)]	Defined benefit obligation	Service cost
Dr. Gerold Linzbach [4)]	2013/2014	891	602	931	606
	2012/2013	288	288	311	311
Dirk Kaliebe	2013/2014	921	130	1,185	130
	2012/2013	768	123	1,023	126
Marcel Kiessling [5)]	2013/2014	703	130	815	233
	2012/2013	555	123	732	126
Stephan Plenz	2013/2014	843	130	1,105	130
	2012/2013	692	123	951	126

[1)] Financial year 2012/2013 for Bernhard Schreier: As a result of a performance-based commitment for pension benefits, no pension contributions are owed and there are no pension funds accrued as of the reporting date. Bernhard Schreier's service cost for the period from April 1, 2012 until August 31, 2012 totaled € 60 thousand. Since July 1, 2013, Mr. Schreier has received a pension from his pension commitment; this currently amounts to € 384 thousand p.a.

[2)] The pension entitlement achievable up until the age of 65 (Dirk Kaliebe; Stephan Plenz) or until the end of the term of office (Dr. Gerold Linzbach) depends on personal salary development, the respective EBIT and the return generated, and hence cannot be determined precisely in advance. If the pension option is utilized and the current assumptions continue to apply, the retirement pension resulting from the accrued pension capital is expected to be as follows: Dr. Gerold Linzbach: approx. 5 percent (not including the performance-based pension commitment), Dirk Kaliebe: approx. 42 percent and Stephan Plenz: approx. 39 percent of the respective last fixed salary.

[3)] 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.

[4)] CEO since September 1, 2012

[5)] Marcel Kiessling's term as a member of the Management Board ended on March 31, 2014; his contract of employment with Heidelberger Druckmaschinen Aktiengesellschaft ends on December 31, 2014. The pension contribution for the full 2014/2015 financial year will be credited to him as per 1 July 2015. The resulting additional expense in the amount of € 103 thousand is included in the reported service cost.

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 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 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.

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 Dirk Kaliebe and Stephan Plenz. If the contract of employment 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 and Stephan Plenz.

MARCEL KIESSLING was an ordinary member of the Management Board until March 31, 2014; his contract of employment with Heidelberger Druckmaschinen Aktiengesellschaft ends on December 31, 2014. The pension agreement for Marcel Kiessling 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. The annual contribution was set at 35 percent of the corresponding basic salary in the 2012/2013 financial year. The termination agreement stipulates that the Company will still pay the pension contribution in the amount of 35 percent of the eligible remuneration on the due dates of July 1, 2014 and, following the termination of the contract of employment, July 1, 2015 providing that benefits are not yet being paid in accordance with the terms of the pension plan at the respective date. Above and beyond this, the statutory vesting requirements for the pension benefits based on the pension contributions have been satisfied.

BERNHARD SCHREIER was an ordinary member of the Management Board until August 31, 2012; his contract of employment with Heidelberger Druckmaschinen Aktiengesellschaft ended on June 30, 2013. Bernhard Schreier has received his pension as per his pension commitment since July 1, 2013. Based on his pension agreement and given his years of service with the Company, the maximum pension rate of 75 percent has been achieved. Ongoing payments will be adjusted in the same percentage ratio as the basic pay of salary group B9 for civil servants in Germany. 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.

By resolution of the 2012 Annual General Meeting, the remuneration system for the Supervisory Board was amended as follows starting from the year under review:

Each member of the Supervisory Board receives fixed remuneration of € 40,000.00. 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 € 1,500.00 per meeting for participation in a meeting of these committees. The Chairman of the Audit Committee receives remuneration of € 4,500.00 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 € 2,500.00 per meeting. The members of the Supervisory Board also receive an attendance fee of € 500.00 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.

Since the Annual General Meeting on July 23, 2013, the Supervisory Board has consisted of 12 members after the provisions of the German Codetermination Act and the German Stock Corporation Act made it possible for the number of members to be reduced from 16 to 12 when new elections were held and the corresponding status proceedings were concluded without legal objection.

Remuneration of the Supervisory Board (excluding VAT)

Figures in €	2012/2013			2013/2014			
	Fixed remuneration[1]	Variable remuneration	Total	Fixed annual remuneration	Attendance fees	Committee remuneration	Total
Robert J. Koehler[2]	39,500	0	39,500	120,000	4,500	5,000	**129,500**
Rainer Wagner[3]	32,500	0	32,500	80,000	6,500	10,500	**97,000**
Edwin Eichler	21,000	0	21,000	40,000	2,500	0	**42,500**
Wolfgang Flörchinger[4]	21,000	0	21,000	13,333	1,000	0	**14,333**
Martin Gauß[4]	21,000	0	21,000	13,333	1,000	0	**14,333**
Mirko Geiger	28,000	0	28,000	40,000	6,000	7,500	**53,500**
Gunther Heller[4]	21,000	0	21,000	13,333	1,000	0	**14,333**
Jörg Hofmann	20,000	0	20,000	40,000	2,500	0	**42,500**
Dr. Siegfried Jaschinski	25,875	0	25,875	40,000	5,500	7,500	**53,000**
Dr. Herbert Meyer	30,875	0	30,875	40,000	5,000	18,000	**63,000**
Dr. Gerhard Rupprecht[4]	24,500	0	24,500	13,333	500	1,500	**15,333**
Beate Schmitt	25,500	0	25,500	40,000	3,500	3,000	**46,500**
Lone Fønss Schrøder	20,500	0	20,500	40,000	1,500	0	**41,500**
Prof. Dr.-Ing. Günther Schuh	20,500	0	20,500	40,000	3,000	0	**43,000**
Dr. Klaus Sturany[5]	11,000	0	11,000	0	0	0	**0**
Peter Sudadse	21,000	0	21,000	40,000	4,000	0	**44,000**
Christoph Woesler[6]	0	0	0	30,000	3,500	0	**33,500**
Total	**383,750**	**0**	**383,750**	**643,332**	**51,500**	**53,000**	**747,832**

[1] Fixed annual remuneration in addition to lump-sum payment of € 500 for each meeting day
[2] Chairman of the Supervisory Board
[3] Vice Chairman of the Supervisory Board
[4] Member of the Supervisory Board until July 23, 2013
[5] Member of the Supervisory Board until August 31, 2012
[6] Member of the Supervisory Board since July 23, 2013

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) sentence 1 nos. 1 – 9 of the German Commercial Code (HGB), we address all points that could be relevant in the event of a public takeover bid for Heidelberg in the consolidated management report:

As of March 31, 2014, the **SUBSCRIBED CAPITAL** (share capital) of Heidelberger Druckmaschinen Aktiengesellschaft amounted to € 600,160,714.24 and was divided into 234,437,779 no-par-value bearer shares that 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 ff. AktG in conjunction with sections 30 ff. of the German Codetermination Act (MitbestG).

AMENDMENTS TO THE ARTICLES OF ASSOCIATION are made in accordance with the provisions of sections 179 ff. 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 may 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 in exchange for cash and at a price not significantly less than the stock market price as defined more precisely in the authorization; the volume of shares thus sold 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 may 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 may 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. Shareholders' preemptive subscription rights may 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. Due to the conversion of five partial debentures resulting from the convertible bond issued in July 2013, the share capital was increased by € 488,547.84 utilizing contingent capital 2012. Accordingly, the available contingent capital now amounts to € 119,445,885.44.

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 in exchange for cash or non-cash contributions in the period up to and including July 25, 2017 (**"AUTHORIZED CAPITAL 2012"**). Preemptive subscription rights may be disapplied in accordance with the further conditions of the authorization. Details of **"AUTHORIZED CAPITAL 2012"** can be found in Article 3 (4) of the Articles of Association.

The credit facility that came into effect on April 7, 2011 and that was extended until June 2017 by way of an agreement with the banks in December 2013 contains, in the version applicable at the end of the reporting period, 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.

The terms of the convertible bond that was placed on July 3, 2013 and issued on July 10, 2013 also include a change of control clause. If there is a change of control as described in the bond terms, the bondholders may demand early repayment within a defined period. Heidelberg would then be obliged to pay a change of control exercise price to the bondholders who demanded early repayment. This exercise price corresponds to the notional amount of the bond adjusted using a mathematical technique described in greater detail in the bond terms.

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.

2/

Financial section

6

5

Financial section 2013/2014

2 /

Consolidated income statement 2013/2014

Figures in € thousands	Note	1-Apr-2012 to 31-Mar-2013 [1)]	1-Apr-2013 to 31-Mar-2014
Net sales	8	2,734,646	2,434,248
Change in inventories		– 71,674	– 29,394
Other own work capitalized		26,649	14,508
Total operating performance		**2,689,621**	**2,419,362**
Other operating income	9	105,642	106,343
Cost of materials	10	1,278,245	1,110,474
Staff costs	11	931,964	856,845
Depreciation and amortization	12	82,947	70,832
Other operating expenses	13	504,661	415,329
Special items	14	64,873	9,994
Result of operating activities		**– 67,427**	**62,231**
Financial income	16	16,850	12,512
Financial expenses	17	75,719	72,997
Financial result	15	**– 58,869**	**– 60,485**
Income before taxes		**– 126,296**	**1,746**
Taxes on income	18	– 9,229	– 1,873
Consolidated net loss / profit		**– 117,067**	**3,619**
Basic earnings per share according to IAS 33 (in € per share)	35	**– 0.50**	**0.02**
Diluted earnings per share according to IAS 33 (in € per share)	35	**– 0.50**	**0.02**

1) Prior-year figures were restated on account of the first-time adoption of IAS 19 (2011), see note 2

Consolidated statement of comprehensive income 2013/2014

Figures in € thousands	Note	1-Apr-2012 to 31-Mar-2013[1)]	**1-Apr-2013 to 31-Mar-2014**
Consolidated net loss/profit		– 117,067	3,619
Other comprehensive income not reclassified to the income statement			
Remeasurement of defined benefit pension plans and similar obligations		– 75,281	– 11,653
Deferred income taxes	23	– 2,525	– 1,219
		– 77,806	– 12,872
Other comprehensive income which might subsequently be reclassified to the income statement			
Currency translation			
Change in other comprehensive income		10,792	– 32,647
Change in profit or loss		0	0
		10,792	– 32,647
Available-for-sale financial assets			
Change in other comprehensive income		212	99
Change in profit or loss		0	0
		212	99
Cash flow hedges			
Change in other comprehensive income		– 4,864	15,772
Change in profit or loss		10,069	– 17,115
		5,205	– 1,343
Deferred income taxes	23	587	– 226
		16,796	**– 34,117**
Total other comprehensive income		– 61,010	– 46,989
Total comprehensive income		**– 178,077**	**– 43,370**

1) Prior-year figures were restated on account of the first-time adoption of IAS 19 (2011), see note 2

Consolidated statement of financial position as of March 31, 2014

Assets

Figures in € thousands	Note	1-Apr-2012	31-Mar-2013	**31-Mar-2014**
Non-current assets				
Intangible assets	19	245,832	234,676	220,939
Property, plant and equipment	20	547,660	530,517	506,993
Investment property	20	7,358	6,988	5,222
Financial assets	21	27,488	23,590	17,523
Receivables from sales financing	22	85,830	63,215	45,351
Other receivables and other assets [1]	22	16,598	19,225	22,541
Income tax assets		422	345	263
Deferred tax assets	23	38,646	36,145	51,404
		969,834	914,701	870,236
Current assets				
Inventories	24	785,726	699,692	622,735
Receivables from sales financing	22	70,460	55,049	45,587
Trade receivables	22	360,958	381,842	327,949
Other receivables and other assets [2]	22	116,418	110,257	109,280
Income tax assets		17,428	17,120	22,922
Securities	25	0	0	10,169
Cash and cash equivalents	25	194,556	157,492	232,657
		1,545,546	1,421,452	1,371,299
Assets held for sale	20	2,694	2,049	2,419
Total assets		**2,518,074**	**2,338,202**	**2,243,954**

[1] Of which € 12,337 thousand (April 1, 2012: € 8,721 thousand; March 31, 2013: € 12,127 thousand) relates to financial assets and € 10,204 thousand (April 1, 2012: € 7,877 thousand; March 31, 2013: € 7,098 thousand) to non-financial assets
[2] Of which € 62,804 thousand (April 1, 2012: € 54,892 thousand; March 31, 2013: € 63,784 thousand) relates to financial assets and € 46,476 thousand (April 1, 2012: € 61,526 thousand; March 31, 2013: € 46,473 thousand) to non-financial assets

Consolidated statement of financial position as of March 31, 2014

Equity and liabilities

Figures in € thousands	Note	1-Apr-2012 [5]	31-Mar-2013 [5]	31-Mar-2014
Equity	26			
Issued capital		599,308	599,308	599,796
Capital reserves, retained earnings and other retained earnings		209,356	– 80,720	– 244,611
Consolidated net loss / profit		– 230,093	– 117,067	3,619
		578,571	401,521	358,804
Non-current liabilities				
Provisions for pensions and similar obligations	27	326,000	415,361	450,206
Other provisions	28	282,668	246,834	167,559
Financial liabilities	29	339,137	331,235	432,308
Other liabilities [3]	31	124,998	121,509	115,871
Deferred tax liabilities	23	7,987	8,282	7,562
		1,080,790	1,123,221	1,173,506
Current liabilities				
Other provisions	28	321,487	336,147	261,127
Financial liabilities	29	98,559	87,628	48,897
Trade payables	30	165,051	139,134	148,012
Income tax liabilities		2,372	3,086	3,611
Other liabilities [4]	31	271,244	247,465	249,997
		858,713	813,460	711,644
Total equity and liabilities		**2,518,074**	**2,338,202**	**2,243,954**

[3] Of which € 80,328 thousand (April 1, 2012: € 84,483 thousand; March 31, 2013: € 81,268 thousand) relates to financial liabilities and € 35,543 thousand (April 1, 2012: € 40,515 thousand; March 31, 2013: € 40,241 thousand) to non-financial liabilities

[4] Of which € 87,230 thousand (April 1, 2012: € 117,620 thousand; March 31, 2013: € 86,924 thousand) relates to financial liabilities and € 162,767 thousand (April 1, 2012: € 153,624 thousand; March 31, 2013: € 160,541 thousand) to non-financial liabilities

[5] Prior-year figures restated due to first-time adoption of IAS 19 (2011), see note 2

Statement of changes in consolidated equity as of March 31, 2014 [1)]

Figures in € thousands	Issued capital	Capital reserves	Retained earnings
April 1, 2012	599,308	27,098	343,437
Changes in accounting policies [2)]	0	0	2,874
April 1, 2012, restated [2)]	599,308	27,098	346,311
Loss carryforward	0	0	– 230,093
Total comprehensive income [2)]	0	0	– 77,806
Consolidation adjustments / other changes	0	0	1,027
March 31, 2013	**599,308**	**27,098**	**39,439**
April 1, 2013	599,308	27,098	30,313
Changes in accounting policies [2)]	0	0	9,126
April 1, 2013, restated [2)]	599,308	27,098	39,439
Issue of convertible bond	0	1,301	0
Capital increase (partial conversion of convertible bond)	488	0	– 11
Loss carryforward	0	0	– 117,067
Total comprehensive income	0	0	– 12,872
Consolidation adjustments / other changes	0	0	– 1,125
March 31, 2014	**599,796**	**28,399**	**– 91,636**

1) For further details please refer to note 26
2) Prior-year figures restated due to first-time adoption of IAS 19 (2011), see note 2

		Other retained earnings	Total other retained earnings	Total capital reserves, retained earnings and other retained earnings	Consolidated net profit/loss	Total
Currency translation	Fair value of other financial assets	Fair value of cash flow hedges				
– 160,836	– 1,158	– 2,059	– 164,053	206,482	– 230,093	575,697
0	0	0	0	2,874	0	2,874
– 160,836	– 1,158	– 2,059	– 164,053	209,356	– 230,093	578,571
0	0	0	0	– 230,093	230,093	0
10,792	212	5,792	16,796	– 61,010	– 117,067	– 178,077
0	0	0	0	1,027	0	1,027
– 150,044	**– 946**	**3,733**	**– 147,257**	**– 80,720**	**– 117,067**	**401,521**
– 150,044	– 946	3,733	– 147,257	– 89,846	– 109,867	399,595
0	0	0	0	9,126	– 7,200	1,926
– 150,044	– 946	3,733	– 147,257	– 80,720	– 117,067	401,521
0	0	0	0	1,301	0	1,301
0	0	0	0	– 11	0	477
0	0	0	0	– 117,067	117,067	0
– 32,647	99	– 1,569	– 34,117	– 46,989	3,619	– 43,370
0	0	0	0	– 1,125	0	– 1,125
– 182,691	**– 847**	**2,164**	**– 181,374**	**– 244,611**	**3,619**	**358,804**

Consolidated statement of cash flows 2013/2014 [1)]

Figures in € thousands	1-Apr-2012 to 31-Mar-2013 [2)]	1-Apr-2013 to 31-Mar-2014
Consolidated net loss/profit	– 117,067	3,619
Depreciation and amortization, write-downs and reversals [3)]	85,331	70,840
Change in pension provisions	13,614	21,498
Change in deferred tax assets/deferred tax liabilities/tax provisions	– 21,601	– 25,416
Result from disposals [2)]	– 1,039	– 480
Cash flow	**– 40,762**	**70,061**
Change in inventories	95,022	60,796
Change in sales financing	40,212	21,477
Change in trade receivables/payables	– 42,959	42,505
Change in other provisions	– 4,393	– 132,904
Change in other items of the statement of financial position	– 13,781	-1,983
Other operating changes	**74,101**	**– 10,109**
Cash generated by operating activities [4)]	**33,339**	**59,952**
Intangible assets/property, plant and equipment/investment property		
Investments	– 80,382	– 51,339
Income from disposals	31,493	13,678
Business acquisitions/corporate sales		
Investments	– 1,773	– 1,000
Income from disposals	0	11,500
Financial assets		
Investments	– 306	– 939
Income from disposals	0	9
Cash used in investing activities before fund investment	**– 50,968**	**– 28,091**
Fund investment	0	– 10,190
Cash used in investing activities	**– 50,968**	**– 38,281**
Borrowing of financial liabilities	126,511	129,139
Repayment of financial liabilities	– 151,079	– 67,491
Cash used in/generated by financing activities	**– 24,568**	**61,648**
Net change in cash and cash equivalents	**– 42,197**	**83,319**
Cash and cash equivalents at the beginning of the year	**194,556**	**157,492**
Changes in the scope of consolidation	2,174	0
Currency adjustments	2,959	– 8,154
Net change in cash and cash equivalents	– 42,197	83,319
Cash and cash equivalents at the end of the year	**157,492**	**232,657**
Cash generated by operating activities	33,339	59,952
Cash used in investing activities	– 50,968	– 38,281
Free cash flow	**– 17,629**	**21,671**

1) For further details please refer to note 36
2) Prior-year figures restated due to first-time adoption of IAS 19 (2011), see note 2
3) Relates to intangible assets, property, plant and equipment, investment property, financial assets, loans and other securities
4) Includes income taxes paid and refunded of € 31,313 thousand (previous year: € 26,092 thousand) and € 1,797 thousand (previous year: € 13,187 thousand) respectively.
Interest expenses and interest income amount to € 51,858 thousand (previous year: € 43,659 thousand) and € 12,953 thousand (previous year € 18,480 thousand) respectively.

Financial section 2013/2014

2 / 1

Notes to the consolidated financial statements for the financial year April 1, 2013 to March 31, 2014

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

							Cost
Figures in € thousands	As of start of financial year	Change in scope of consolidation	Additions	Reclassifications[1]	Currency adjustments	Disposals	**As of end of financial year**
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**
2013/2014							
Intangible assets							
Goodwill	123,857	0	0	0	– 17	0	123,840
Development costs	278,439	0	171	0	0	6,805	271,805
Software/other rights	104,830	0	4,320	559	– 205	3,949	105,555
Advance payments	4,066	0	33	– 554	0	0	3,545
	511,192	**0**	**4,524**	**5**	**– 222**	**10,754**	**504,745**
Property, plant and equipment							
Land and buildings	690,710	0	1,674	1,553	– 5,732	664	687,541
Technical equipment and machinery	606,156	0	13,734	8,951	– 1,420	31,930	595,491
Other equipment, operating and office equipment	706,681	0	28,466	3,382	– 5,728	36,674	696,127
Advance payments and assets under construction	14,200	0	3,542	– 12,507	1	263	4,973
	2,017,747	**0**	**47,416**	**1,379**	**– 12,879**	**69,531**	**1,984,132**
Investment property	**9,492**	**0**	**0**	**– 2,667**	**7**	**0**	**6,832**

[1] Includes reclassifications to “Assets held for sale” of € 1,091 thousand (previous year: € 1 thousand)
[2] Including impairment loss of € 660 thousand (previous year: € 2,420 thousand), see note 12
[3] Including special items of € 0 thousand (previous year: € 2,226 thousand)

							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	123,854
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**
3	0	0	0	0	0	0	3	123,837
195,386	0	14,429	0	0	6,805	0	203,010	68,795
81,127	0	3,832	5	– 270	3,901	0	80,793	24,762
0	0	0	0	0	0	0	0	3,545
276,516	**0**	**18,261**	**5**	**– 254**	**10,706**	**0**	**283,806**	**220,939**
455,281	0	12,602	781	– 1,909	603	0	466,152	221,389
471,319	0	14,775	– 698	– 926	27,325	0	457,145	138,346
560,630	0	25,124	692	– 3,938	28,666	0	553,842	142,285
0	0	0	0	0	0	0	0	4,973
1,487,230	**0**	**52,501**	**775**	**– 6,773**	**56,594**	**0**	**1,477,139**	**506,993**
2,504	**0**	**70**	**– 967**	**3**	**0**	**0**	**1,610**	**5,222**

General notes

01 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 2013/2014 financial year (April 1, 2013 to March 31, 2014). They were approved for publication by the Management Board of Heidelberger Druckmaschinen Aktiengesellschaft on May 26, 2014.

02 Adoption of amended or new standards

The Heidelberg Group applied all standards 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, which are to be applied for the first time in the 2013/2014 financial year.

Standard	Publication by the IASB/IFRS IC	Date of adoption [1]	Published in Official Journal of the EU	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	The presentation of Other comprehensive income in the statement of comprehensive income was adjusted accordingly.
Amendments to IAS 12: Income Taxes: Deferred Taxes: Recovery of Underlying Assets	20-Dec-2010	1-Jan-2013	29-Dec-2012	None
Amendments to IAS 19: Employee Benefits	16-Jun-2011	1-Jan-2013	6-Jun-2012	The effects are described below this table.
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	None
Amendments to IFRS 1: Government Loans	13-Mar-2013	1-Jan-2013	5-Mar-2013	None
Amendment to IFRS 7: Financial Instruments: Disclosures: Offsetting Financial Assets and Financial Liabilities	16-Dec-2011	1-Jan-2013	29-Dec-2012	No material effects
Improvements to International Financial Reporting Standards for 2009–2011 Cycle	17-May-2012	1-Jan-2013	28-Mar-2013	No material effects
New standard				
IFRS 13: Fair Value Measurement	12-May-2011	1-Jan-2013	29-Dec-2012	Expansion of the disclosures in notes 20, 29, 31 and 32
New interpretation				
IFRIC Interpretation 20: Stripping costs in the production phase of a surface mine	19-Oct-2011	1-Jan-2013	29-Dec-2012	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 is no longer offset against staff costs at individual entity level up to the amount of expenses for pension claims. Furthermore, the concept of expected return on plan assets is replaced by the net interest approach; in this approach, the interest on plan assets is determined by the discount rate for the pension obligations. The amendments to IAS 19: Employee Benefits also affect the recognition and measurement of top-up benefits in the context of partial retirement obligations in Germany. Moreover, additional disclosures were included in note 27.

Due to the retrospective application of the amendments to IAS 19: Employee Benefits, the balances carried forward to April 1, 2012, and April 1, 2013, were adjusted as follows: The capital reserves, retained earnings and other retained earnings increased by € 2,874 thousand and € 9,126 thousand respectively. In the consolidated net loss for the year, the balance carried forward to April 1, 2012, was unchanged; the balance carried forward to April 1, 2013, increased by € 7,200 thousand. Provisions for pensions and similar obligations decreased by € 80 thousand and € 385 thousand respectively. Other provisions decreased by € 2,794 thousand and € 1,541 thousand respectively.

In the income statement for the period from April 1, 2012, to March 31, 2013, the retrospective application of the amendments to IAS 19: Employee Benefits negatively affected staff costs by € 30,491 thousand, special items by € 149 thousand and thus the result of operating activities by € 30,640 thousand and improved the financial result by € 22,824 thousand and income taxes by € 616 thousand. The consolidated net loss therefore increased by € 7,200 thousand in this period.

In the statement of comprehensive income for the period from April 1, 2012, to March 31, 2013, the retrospective application of the amendments to IAS 19: Employee Benefits negatively affected comprehensive income by € 948 thousand.

If the net interest approach in accordance with IAS 19 (2011) had not been applied the financial result and consolidated net profit for the year under review would have been around € 11 million higher. If the expected return on plan assets would have been offset against the corresponding staff costs, staff costs would have been around € 32 million lower accordingly. If IAS 19 (2011) had not been applied, basic and diluted earnings per share for the year under review would have improved only slightly.

New accounting provisions

The IASB and the IFRS IC approved and amended other standards and interpretations, whose application is not yet compulsory in the 2013/2014 financial year or which have not yet been endorsed by the European Union (EU). With the exception of the amendment to IAS 36: Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets, which was voluntarily applied early in the reporting year, Heidelberg is not currently planning to apply these standards prematurely.

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 16: Property, Plant and Equipment and IAS 38: Intangible Assets: Clarification of acceptable methods of depreciation and amortization	12-May-2014	1-Jan-2016	Open	➡ The amendments primarily clarify that a scheduled depreciation and amortization of property, plant and equipment based on the revenues realized through the sale of goods produced by using these assets is not appropriate. ➡ This clarification applies, as rebuttable presumption, to intangible assets. Thus, in clearly defined exceptional cases a scheduled depreciation and amortization of these assets based on revenues might be appropriate.	Currently being examined
Amendments to IAS 19: Defined Benefit Plans: Employee Contributions	21-Nov-2013	1-Jul-2014	Open	➡ The amendments comprise a simplification regarding employee or third-party contributions to defined benefit plans, whose amount depends on the years of service. ➡ Such contributions may be recognized as a reduction of the current service cost in the period in which the associated work was performed.	Currently being examined
IAS 27: Separate Financial Statements (as revised in 2011)	12-May-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 (as revised in 2011)	12-May-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.	No material effects
Amendments to IAS 36: Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets	29-May-2013	1-Jan-2014	20-Dec-2013	➡ The amendment clarifies that recoverable amount disclosures are only required for assets or cash-generating units for which impairment or reversal was recognized during the financial year. ➡ The disclosure requirements regarding the calculation of the recoverable amount, if equal to the fair value less costs to sell, were also adjusted. ➡ The standard was voluntarily applied early in the reporting year.	Clarification of the disclosures to be made in note 19
Amendments to IAS 39: Financial Instruments: Recognition and Measurement: Novation of Derivatives and Continuation of Hedge Accounting	27-Jun-2013	1-Jan-2014	20-Dec-2013	➡ The amendments mean that, if a counterparty of a hedging instrument changes to a central counterparty as a result of laws or regulations and certain criteria are met, hedge accounting does not have to be discontinued.	None

Standards	Publication by the IASB/IFRS IC	Effective date [1]	Published in Official Journal of the EU	Content	Expected effects
Amendments to IFRS 9 and IFRS 7: Date of Mandatory First-Time Adoption and Transition Disclosures	16-Dec-2011	Open	Open	➡ The amendments allow the option not to restate comparative figures in the year of first-time adoption of IFRS 9. ➡ The disclosure requirements in IFRS 7 on the transition from IAS 39 to IFRS 9 are enhanced. ➡ The effective date of IFRS 9 was initially set at January 1, 2015. However, this was removed by the amendments to IFRS 9 in November 2013 and will only be set once the project is completed.	Currently being examined
Amendments to IFRS 10: Consolidated Financial Statements, IFRS 11: Joint Arrangements and IFRS 12: 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 to 12. ➡ 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.	No material effects
Amendments to IFRS 10, IFRS 12 and IAS 27: Investment Entities	31-Oct-2012	1-Jan-2014	21-Nov-2013	➡ The amendments exclude investment entities from the consolidation requirement of IFRS 10. Instead they are accounted for at fair value.	None
Amendments to IFRS 11: Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations	6-May-2014	1-Jan-2016	Open	➡ The amendments clarify the accounting for acquisitions of an interest in a joint operation that constitutes a business as defined in IFRS 3. The acquirer of such an interest has to apply all of the principles on business combinations accounting in IFRS 3 and other relevant IFRSs except for those principles that conflict with the guidance in IFRS 11. ➡ In case a joint operator increases such an interest while retaining joint control, previously held interests in the joint operation are not remeasured.	Currently being examined
Improvements to International Financial Reporting Standards for 2010–2012 Cycle	12-Dec-2013	1-Jul-2014	Open	➡ Minor and non-urgent improvements are made to IFRS as part of the IASB's annual improvement project. These relate to the standards IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38.	Currently being examined
Improvements to International Financial Reporting Standards for 2011–2013 Cycle	12-Dec-2013	1-Jul-2014	Open	➡ Minor and non-urgent improvements are made to IFRS as part of the IASB's annual improvement project. These relate to the standards IFRS 1, IFRS 3, IFRS 13 and IAS 40.	Currently being examined

Standards	Publication by the IASB/IFRS IC	Effective date [1]	Published in Official Journal of the EU	Content	Expected effects
New standards					
IFRS 9: Financial Instruments	12-Nov-2009, 28-Oct-2010 and 19-Nov-2013	Open	Open	➡ The aim of the IASB is to completely replace IAS 39 in future. ➡ In November 2009, IFRS 9 was published for the first time with new provisions on the classification and measurement of financial assets. In the expanded issue of IFRS 9 in October 2010, the provisions on recognition and derecognition of financial assets and most provisions on classification and measurement were carried over largely unchanged from IAS 39. The further amendments to IFRS 9 released in November 2013 primarily include revised regulations on hedge accounting. ➡ The mandatory effective date was again cancelled by the IASB and will only be set once the project is completed.	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.	No material effects
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.	No material effects
IFRS 12: Disclosure of Interests in Other Entities	12-May-2011	1-Jan-2014	29-Dec-2012	➡ IFRS 12 compiles in one standard the necessary disclosures for entities reporting in accordance with the new standards IFRS 10, IFRS 11 and IAS 28 Investments in Associates and Joint Ventures.	The additional disclosures will be shown in the notes
IFRS 14: Regulatory Deferral Accounts	30-Jan-2014	1-Jan-2016	Open	➡ According to IFRS 14, rate-regulated entities adopting IFRS for the first time may continue to account for rate regulations according to the local accounting policies used previously. ➡ Regulatory deferral accounts and their effects are to be presented separately in the statement of financial position and statement of profit or loss and other comprehensive income. In addition, IFRS 14 requires disclosures in the notes regarding these items.	None
New interpretation					
IFRIC Interpretation 21: Levies	20-May-2013	1-Jan-2014	Open	➡ The interpretation regulates accounting for public levies that are not income taxes according to IAS 12. It includes guidance on when to recognize an obligation to pay such a levy as a liability.	Currently being examined

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

03 Scope of consolidation

The consolidated financial statements of Heidelberger Druckmaschinen Aktiengesellschaft include a total of 67 (previous year: 72) domestic and foreign companies controlled by Heidelberger Druckmaschinen Aktiengesellschaft within the meaning of IAS 27. Of these companies, 56 (previous year: 61) are located outside Germany.

	2012/2013	2013/2014
April 1	**70**	**72**
Initial consolidation due to formation	0	0
Initial consolidation due to acquisition	3	0
Merger	0	– 4
Deconsolidation	0	0
Liquidation	– 1	– 1
March 31	**72**	**67**

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 128 to 131).

The Heidelberg consolidated financial statements as of March 31, 2014, continue to include five companies whose reporting period ends as of December 31 as in the previous year. 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:

➡ **MERGER:**
As of April 1, 2013, the Swiss prepress and consumer materials dealer OFS, a group acquired in the previous year consisting of the companies OFS Holding AG, Pfaffnau, Switzerland, OF Schweiz AG, Pfaffnau, Switzerland, and OF Service AG, Pfaffnau, Switzerland, was merged with Heidelberg Schweiz AG, Bern, Switzerland. As of March 31, 2014, Heidelberg Print Finance Americas, Inc., Portsmouth, USA, was merged with Heidelberg USA, Inc., Kennesaw, USA.

➡ **LIQUIDATION:**
Hi-Tech Coatings Ltd., Aylesbury, Bucks, UK, was liquidated as of November 26, 2013.

04 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.

05 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 exchange rate effects are recognized in profit or loss. Non-monetary items denominated in foreign currencies are posted at their historic exchange rates.

The financial statements of the companies included in consolidation that are prepared in foreign currency are translated on the basis of the functional currency concept (IAS 21) in accordance with the modified closing rate method. As our subsidiaries financially, economically and organizationally effect their transactions on an independent basis, the functional currency 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 other retained earnings.

Currency differences arising against the previous year's translation in the Heidelberg Group are also offset against other 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	
	2012/2013 1€ =	**2013/2014 1€ =**	31-Mar-2013 1€ =	**31-Mar-2014 1€ =**
AUD	1.2487	1.4589	1.2308	1.4941
CAD	1.2932	1.4250	1.3021	1.5225
CHF	1.2094	1.2274	1.2195	1.2194
CNY	8.0928	8.2319	7.9600	8.5754
GBP	0.8163	0.8428	0.8456	0.8282
HKD	9.9974	10.4291	9.9420	10.6973
JPY	107.4091	134.8667	120.8700	142.4200
USD	1.2889	1.3444	1.2805	1.3788

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

06 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

With the exception of changes resulting from new or amended standards or interpretations (see note 2), the accounting policies applied in the previous year remain unchanged.

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. This figure is mostly calculated by Group-external, independent experts in line with internationally acknowledged valuation methods; 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 as lessee, 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):

	2012/2013	2013/2014
Development costs	3 to 12	5 to 12
Software/other rights	3 to 5	3 to 9
Buildings	10 to 50	15 to 50
Technical equipment and machinery	6 to 29	12 to 31
Other equipment, operating and office equipment	4 to 15	5 to 27
Investment property	10 to 50	15 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 an enforceable legal right to do so on the reporting date 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 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 consolidated management report.

Investments and securities

IAS 39 breaks down these financial instruments into the categories of financial instruments at fair value through profit and loss, financial investments held to maturity and financial assets available for sale.

Investments (including shares in affiliates) and securities are classified as financial assets available for sale. In line with IAS 39, these financial instruments are carried at fair value. Investments are measured at cost as their fair value cannot be reliably determined. Securities are measured at their stock market prices. If this value cannot be reliably determined, securities are measured at cost. Unrealized profits and losses arising from changes in fair value are recognized outside profit or loss, taking into consideration deferred taxes. At the time of a sale, realized profit or loss is taken directly to the income statement in net financial income. The carrying amounts of investments and securities measured at cost are reviewed for impairment as of the end of each reporting period; impairment losses are recognized in profit or loss.

The appropriate classification of securities is determined at the time of purchase and is reviewed as of the end of each reporting period.

Loans

Loans are credit that we extend, and are classified as loans and receivables under IAS 39. Non-current non-interest-bearing and low-interest-bearing loans are carried at net present value. Measurement in subsequent periods is at amortized cost using the effective interest rate method.

Receivables from sales financing

Receivables from sales financing include receivables from our customers arising in connection with the financing of machinery sales and receivables under finance leases.

Finance leases include leased installations considered as sales under non-current financing. In line with IAS 17, these receivables are carried at the net investment value, i.e. 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. At present, these are exclusively forward exchange transactions.

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 recognized in the statement of financial position 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.

Hybrid financial instruments

Financial instruments that contain both a liability and an equity component are recognized in different items in the statement of financial position according to their character. On the date of issue, the fair value of the liability component, which is the present value of the contractually determined future payments, is recognized as a bond liability. The conversion option is recognized in capital reserves as the difference between the issue proceeds and the fair value of the liability component. During the term of the bond, the interest expense of the liability component is calculated using the market interest rate on the date of issue for a similar bond without a conversion option. The issuing costs of the convertible bond reduce the cost of the equity or liability components in direct proportion. The deduction from equity is recognized outside profit or loss after taking into account any related income tax benefit.

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 28.28 percent (previous year: 28.26 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 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. The discount rate used for the present values of defined benefit obligations is based on the yields of high-quality corporate bonds with matching maturities and currencies and ratings of AA on the basis of the information provided by Bloomberg. This discount rate is also used to determine the net interest on the net liability/asset from defined benefit plans. Mortality and retirement rates are calculated in Germany according to the current 2005 G mortality tables from Klaus Heubeck and outside Germany according to comparable foreign mortality tables. Plan assets carried at fair value are offset against defined benefit obligations. Current service cost and any past service cost is recognized immediately and reported under staff costs; the net interest expense, as the net total of interest expenses on benefit obligations and interest income on plan assets, is reported in the financial result. Actuarial gains or losses resulting from changed expectations with regard to life expectancy, future pension and salary increases and the discount rate from the actual developments during the period are recognized outside profit or loss directly in other comprehensive income. Recognition of the actuarial gains or losses reported in other comprehensive income in profit or loss in later periods is not permitted. The difference between the (interest) income on plan assets calculated at the start of the period and the actual return on plan assets determined at the end of the period is also recognized outside profit or loss in other comprehensive income.

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.

Government grants

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.

07 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 price independent market participants would receive under standard market conditions for the sale of 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 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: 10.7 percent) for the cash-generating unit Heidelberg Equipment and 11.0 percent (previous year: 10.9 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 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 may deviate from estimates. Please refer to note 27 for information on the sensitivity analysis regarding provisions for pensions and similar obligations.

The assumptions and estimates are based on the information and data currently available. Actual developments may 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

08 Net sales

In addition to income from sales of products and services, sales include income from commissions, finance and operating leases totaling € 4,579 thousand (previous year: € 6,559 thousand) and interest income from sales financing and finance leases amounting to € 8,140 thousand (previous year: € 10,905 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.

09 Other operating income

	2012/2013	2013/2014
Reversal of other provisions and deferred liabilities	52,421	49,769
Recoveries on loans and other assets previously written down	12,837	16,226
Income from operating facilities	10,027	8,453
Hedging/exchange rate gains	3,675	5,172
Income from disposals of intangible assets, property, plant and equipment, and investment property	1,770	1,393
Other income	24,912	25,330
	105,642	**106,343**

10 Cost of materials

	2012/2013	2013/2014
Cost of raw materials, consumables and supplies, and of goods purchased and held for resale	1,157,405	999,044
Cost of purchased services	118,692	109,440
Interest expense of Heidelberg Financial Services	2,148	1,990
	1,278,245	**1,110,474**

The ratio of the cost of materials to total operating performance is 45.9 percent (previous year: 47.5 percent).

11 Staff costs and number of employees

	2012/2013	2013/2014
Wages and salaries	761,276	696,472
Retirement benefit expenses[1]	35,749	38,248
Other social security contributions and expenses	134,939	122,125
	931,964	**856,845**

[1] See note 27

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

	Average		As of	
	2012/2013	2013/2014	31-Mar-2013	31-Mar-2014
Europe, Middle East and Africa	10,136	9,297	9,937	9,009
Asia/Pacific	2,181	2,073	2,158	2,049
Eastern Europe	582	541	551	531
North America	837	776	791	768
South America	261	201	257	182
	13,997	**12,888**	**13,694**	**12,539**
Trainees	609	561	521	502
	14,606	13,449	14,215	13,041

[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 € 70,832 thousand (previous year: € 85,173 thousand) relate to intangible assets (€ 18,261 thousand; previous year: € 20,570 thousand), property, plant and equipment (€ 52,501 thousand; previous year: € 64,532 thousand) and investment property (€ 70 thousand; previous year: € 71 thousand).

Impairment was recognized as follows: € 126 thousand on land and buildings (previous year: € 1,661 thousand), € 534 thousand on other equipment, operating and office equipment (previous year: € 759 thousand). The impairment is primarily attributable to the Heidelberg Equipment segment.

13 Other operating expenses

	2012/2013	2013/2014
Other deliveries and services not included in the cost of materials	120,710	102,840
Special direct sales expenses including freight charges	122,196	92,765
Rent and leases	60,179	52,753
Travel expenses	42,632	39,592
Bad debt allowances and impairment on other assets	18,114	13,566
Insurance expense	10,547	10,247
Hedging/exchange rate losses	9,323	6,963
Costs of car fleet (excluding leases)	7,726	6,702
Additions to provisions and accruals relating to several types of expense	15,970	4,752
Other overheads	97,264	85,149
	504,661	**415,329**

14 Special items

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

The expenses of € 9,994 thousand (previous year: € 64,873 thousand) recognized under special items in the reporting period were mostly incurred for staff-related expenses in connection with this program.

15 Financial result

	2012/2013	2013/2014
Financial income	16,850	12,512
Financial expenses	75,719	72,997
Financial result	**– 58,869**	**– 60,485**

16 Financial income

	2012/2013	2013/2014
Interest and similar income	10,813	7,234
Income from financial assets/loans/securities	6,037	5,278
Financial income	**16,850**	**12,512**

17 Financial expenses

	2012/2013	2013/2014
Interest and similar expenses	67,840	68,121
of which: net interest cost of pensions	(13,578)	(13,414)
Expenses for financial assets/loans/securities	7,879	4,876
Financial expenses	**75,719**	**72,997**

Interest and similar expenses include expenses in connection with the high-yield bond, the convertible bond and the credit facility (see note 29). The net interest expense for pensions is the net total of interest expenses on defined benefit obligations (DBO) and interest income on plan assets.

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

18 Taxes on income

Taxes on income are broken down as follows:

	2012/2013	2013/2014
Current taxes	– 10,892	18,074
of which Germany	(– 4,857)	(– 4,080)
of which abroad	(– 6,035)	(22,154)
Deferred taxes	1,663	– 19,947
of which Germany	(1,192)	(219)
of which abroad	(471)	(– 20,166)
	– 9,229	**– 1,873**

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 (12.45 percent; previous year: 12.43 percent) and comparable taxes of the foreign subsidiaries. The nominal total German tax rate is 28.28 percent for the financial year (previous year: 28.26 percent).

No deferred tax liabilities were recognized for temporary differences on shares in subsidiaries of € 276,437 thousand (previous year: € 277,663 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.

Deferred tax expenses resulting from the devaluation and/or deferred tax income from the reversal of a previous devaluation of deferred tax assets on temporary differences in the reporting year amounted to € 0 thousand (previous year: € 520 thousand) and € 21,155 thousand (previous year: € 0 thousand) respectively.

Total tax loss carryforwards for which no deferred tax assets were recognized which can be used until 2020 and later (previous year: until 2016 € 106 thousand; until 2019 and later € 1,099,643 thousand) amount to € 1,177,230 thousand (previous year: € 1,099,749 thousand).

Deferred tax assets are only recognized for tax loss carryforwards if their realization is guaranteed in the near future. No write-downs of deferred tax assets for loss carryforwards were recognized in the year under review (previous year: € 835 thousand). As in the previous year, no deferred tax assets were recognized in the reporting year on tax loss carryforwards not previously recognized. No deferred tax assets on current tax losses were recognized in profit or loss in the reporting year (previous year: € 44 thousand). The existence of tax loss carryforwards is basically an indication that the use of deferred tax assets cannot be assumed.

Deferred tax assets of € 7,373 thousand (previous year: € 7,831 thousand) were capitalized at companies that generated a tax loss in the reporting year or in the prior financial year, since on the basis of tax planning it was assumed that positive taxable income will be available in the foreseeable future.

No income from loss carrybacks was recognized in the reporting year or in the previous year.

Unutilized tax credit for which no deferred tax assets have been recognized in the consolidated statement of financial position amounted to € 4,081 thousand (previous year: € 2,560 thousand).

Current taxes were reduced in the reporting year by € 4,355 thousand (previous year: € 9,864 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 € 29,616 thousand (previous year: € 30,228 thousand).

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

	2012/2013	2013/2014
Income before taxes	– 126,296	1,746
Theoretical tax rate in percent	28.26	28.28
Theoretical tax income/expense	**– 35,691**	**494**
Change in theoretical tax income/expense due to:		
Differing tax rate	– 4,217	– 3,551
Tax loss carryforwards [1]	35,559	30,760
Reduction due to tax-free income	– 6,921	– 4,704
Tax increase due to non-deductible expenses	15,533	18,700
Change in tax provisions/taxes attributable to previous years/impairment or reversal of deferred tax assets on temporary differences	– 15,722	– 43,576
Other	2,230	4
Taxes on income	**– 9,229**	**– 1,873**
Tax rate in percent	**7.31**	**– 107.28**

[1] Amortization of tax loss carryforwards, utilization of non-recognized tax 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 € 69,270 thousand (previous year: € 69,340 thousand) and € 54,567 thousand (previous year: € 54,514 thousand) respectively.

According to IAS 36, as part of 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 price independent market participants would receive under standard market conditions for the sale of 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: 9.7 percent) for the Heidelberg Equipment cash-generating unit and of 10.0 percent (previous year: 9.9 percent) for the Heidelberg Services cash-generating unit. As in the previous year Heidelberg uses constant growth rates of 1 percent to extrapolate cash flows beyond the detailed planning period to take account of expected inflation.

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 € 116,725 thousand in the reporting year (previous year: € 116,372 thousand).

The useful lives of some intangible assets were adjusted in the year under review. If the useful lives had not been altered, the scheduled amortization in the reporting year would have been € 2,090 thousand higher.

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 € 2,907 thousand (previous year: € 3,412 thousand) for land and buildings and € 2,459 thousand (previous year: € 4,461 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 € 10,480 thousand (previous year: € 14,461 thousand). These assets are reported under technical equipment and machinery. These assets are printing presses leased to customers. The gross carrying amounts were € 22,957 thousand (previous year: € 29,844 thousand) and cumulative depreciation amounted to € 12,477 thousand (previous year: € 15,383 thousand). Depreciation of € 3,592 thousand (previous year: € 4,111 thousand) was recognized in the reporting year. Future lease income of € 2,373 thousand (previous year: € 2,842 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 € 899 thousand (previous year: € 1,555 thousand), € 1,349 thousand (previous year: € 1,032 thousand) and € 125 thousand (previous year: € 255 thousand) respectively.

In connection with a loan received (carrying amount: € 33,288 thousand; previous year: € 40,739 thousand), the lender was granted usufructuary rights on three developed plots of land (carrying amount: € 33,532 thousand; previous year: € 34,533 thousand). In connection with the refinancing of the Heidelberg Group (see note 29), property, plant and equipment, investment property and assets held for sale 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 € 355,584 thousand (previous year: € 359,682 thousand), € 2,956 thousand (previous year: € 4,656 thousand) and € 1,700 thousand (previous year: € 0 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) corresponds to the second level in the measurement hierarchy according to IFRS 13 and is € 7,431 thousand (previous year: € 9,078 thousand). Investment property with a fair value of € 4,364 thousand (previous year: € 4,312 thousand) was measured by Group-external, independent experts in line with internationally acknowledged valuation methods. The other fair values were derived from current market prices of comparable real estate. As in the previous year, only immaterial current income or expenses were incurred in connection with investment property in the reporting year.

The useful lives of some property, plant and equipment were adjusted in the year under review. If the useful lives had not been altered, the scheduled depreciation in the reporting year would have been € 9,171 thousand higher.

In line with IFRS 5, assets of € 2,419 thousand (previous year: € 2,049 thousand) were classified as held for sale as of March 31, 2014. These relate to one developed and one undeveloped plot of land, the sale of which is planned and has been initiated, and which are largely allocated to the Heidelberg Equipment segment.

In January 2014, the shares in Heidelberg CSAT GmbH, Eggenstein-Leopoldshafen, Germany, were sold. In the third quarter of the reporting year, the associated assets were classified as held for sale in line with IFRS 5 and allocated to the Heidelberg Equipment segment. Their final measurement before this reclassification did not result in impairment.

21 Financial assets

Financial assets include shares in subsidiaries totaling € 9,992 thousand (previous year: € 16,800 thousand), other investments of € 4,456 thousand (previous year: € 3,461 thousand) and securities of € 3,075 thousand (previous year: € 3,329 thousand). Information on the fair value of the financial assets is included in note 32.

22 Receivables and other assets

	31-Mar-2013			31-Mar-2014		
	Current	Non-current	Total	Current	Non-current	Total
Receivables from sales financing	**55,049**	**63,215**	**118,264**	**45,587**	**45,351**	**90,938**
Trade receivables	**381,842**	**0**	**381,842**	**327,949**	**0**	**327,949**
Other receivables and other assets						
Other tax assets	21,664	0	21,664	20,134	0	20,134
Loans	376	8,528	8,904	476	8,657	9,133
Derivative financial instruments	11,743	28	11,771	5,274	0	5,274
Deferred interest	137	0	137	333	0	333
Deferred income	11,847	1,102	12,949	9,415	3,722	13,137
Other assets	64,490	9,567	74,057	73,648	10,162	83,810
	110,257	**19,225**	**129,482**	**109,280**	**22,541**	**131,821**

In the reporting year, plan assets of € 5,081 thousand (previous year: € 2,351 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 € 94,308 thousand (previous year: € 121,779 thousand), € 60,478 thousand (previous year: € 72,824 thousand) and € 6,056 thousand (previous year: € 11,243 thousand) respectively.

Receivables from sales financing

RECEIVABLES FROM SALES FINANCING are shown in the table below:

Contract currency	Carrying amount 31-Mar-2013 in € thousand	Remaining term in years	Effective interest rate in %	Carrying amount 31-Mar-2014 in € thousand	Remaining term in years	Effective interest rate in %
EUR	74,083	up to 9	up to 14	56,927	up to 8	up to 14
AUD	18,486	up to 7	up to 12	12,683	up to 7	up to 12
KRW	9,607	up to 7	up to 10	8,601	up to 7	up to 10
USD	5,132	up to 6	up to 12	5,305	up to 5	up to 10
Other	10,956			7,422		
	118,264			**90,938**		

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 future 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 € 10,359 thousand (previous year: € 16,770 thousand) was recognized for receivables from sales financing with a gross carrying amount of € 34,876 thousand (previous year: € 39,106 thousand). The derived market value of the collateral held for receivables from sales financing was € 79,791 thousand (previous year: € 114,169 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 carrying amount of receivables from sales financing not subject to a specific impairment allowance which are also offset by rights of recourse to the delivered products was past due as follows as of the end of the reporting period:

	31-Mar-2013	**31-Mar-2014**
Receivables from sales financing neither past due nor impaired	80,949	55,250
Receivables past due but not impaired		
less than 30 days	6,064	4,110
between 30 and 60 days	1,254	651
between 60 and 90 days	783	724
between 90 and 180 days	3,063	2,185
more than 180 days	3,815	3,501
Total	14,979	11,171
	95,928	**66,421**

The total impairment loss in the period for receivables from sales financing was € 4,092 thousand (previous year: € 5,798 thousand). Of this, impairment amounts booked to allowance accounts developed as follows:

	2012/2013	**2013/2014**
As of the start of the financial year	23,413	19,086
Additions	5,480	4,007
Utilization	– 2,843	– 4,627
Reversals	– 5,631	– 6,670
Change in scope of consolidation, currency adjustments, other changes	– 1,333	– 989
As of the end of the financial year	**19,086**	**10,807**

Receivables from sales financing include lease receivables from finance leases in which in particular our financing companies act as lessors. There was no cumulative impairment on these lease receivables (previous year: € 13 thousand). Leases are subject to the following parameters.

	31-Mar-2013				31-Mar-2014			
	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
Total lease payments	–	–	–	15,636	–	–	–	15,262
Lease payments received	–	–	–	– 14,550	–	–	–	– 14,945
Outstanding lease payments	809	277	0	1,086	283	34	0	317
Interest portion of outstanding lease payments	– 31	– 10	0	– 41	– 8	– 2	0	– 10
Present value of outstanding lease payments (carrying amount)	778	267	0	**1,045**	275	32	0	**307**

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 € 28,715 thousand (previous year: € 33,948 thousand) was recognized for trade receivables with a gross carrying amount of € 36,036 thousand (previous year: € 41,767 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 receivables from sales financing not subject to a specific impairment allowance, was past due as follows as of the end of the reporting period:

	31-Mar-2013	31-Mar-2014
Trade receivables neither past due nor impaired	273,068	238,139
Receivables past due but not impaired		
less than 30 days	58,777	46,792
between 30 and 60 days	15,169	15,672
between 60 and 90 days	6,008	4,833
between 90 and 180 days	11,904	7,491
more than 180 days	9,097	7,701
Total	100,955	82,489
	374,023	**320,628**

The carrying amount of the trade receivables is primarily to be taken as an appropriate estimate of the fair value.

The derived market value of the collateral held for receivables from machinery sales was € 182,906 thousand (previous year: € 231,423 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 € 9,263 thousand (previous year: € 11,175 thousand). Of this, impairment amounts booked to allowance accounts developed as follows:

	2012/2013	2013/2014
As of the start of the financial year	41,198	41,235
Additions	9,848	6,904
Utilization	– 4,672	– 3,761
Reversals	– 7,726	– 10,589
Change in scope of consolidation, currency adjustments, other changes	2,587	– 1,383
As of the end of the financial year	**41,235**	**32,406**

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

Other receivables and other assets

The carrying amount of the other receivables and other financial assets (not including derivative financial instruments) is primarily to be taken as an appropriate estimate of the fair value.

Specific allowances for impairment losses of € 5,051 thousand (previous year: € 4,993 thousand) and € 4,528 thousand (previous year: € 5,264 thousand) relate to loans (gross carrying amount € 14,184 thousand; previous year: € 13,897 thousand) and other financial assets (gross carrying amount € 56,783 thousand; previous year: € 47,865 thousand) respectively.

Of the impairment recognized on loans in the previous year, € 44 thousand (previous year: € 115 thousand) were utilized and € 0 thousand (previous year: € 22 thousand) were reversed. Additions to impairment losses of € 11 thousand were required (previous year: € 33 thousand). Of the impairment recognized on other financial assets in the previous year, € 10 thousand (previous year: € 0 thousand) were utilized and € 0 thousand (previous year: € 30 thousand) were reversed. Additions of € 203 thousand were required (previous year: € 1,110 thousand).

€ 146 thousand (previous year: € 425 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 € 4,429 thousand (previous year: € 6,650 thousand) and from fair value hedges of € 598 thousand (previous year: € 4,996 thousand).

23 Deferred tax assets and deferred tax liabilities

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

	31-Mar-2013		31-Mar-2014	
	Asset	Liability	Asset	Liability
Tax loss carry-forwards	5,437	0	4,502	0
Assets:				
Intangible assets/property, plant and equipment/investment property/financial assets	8,106	6,364	8,005	5,632
Inventories, receivables and other assets	8,305	1,794	8,631	2,502
Securities	0	0	6	0
Liabilities:				
Provisions	13,767	5,023	24,125	3,284
Liabilities	5,869	440	10,321	330
Gross amount	41,484	13,621	55,590	11,748
Offsetting	5,339	5,339	4,186	4,186
Carrying amount	**36,145**	**8,282**	**51,404**	**7,562**

Deferred tax assets include non-current deferred taxes of € 26,992 thousand (previous year: € 23,895 thousand). Deferred tax liabilities include non-current deferred taxes of € 4,736 thousand (previous year: € 5,715 thousand).

Due to currency translation, deferred tax assets decreased by € 2,523 thousand (previous year: increased by € 910 thousand) in the reporting year. Modifications in the scope of consolidation did not result in any change in deferred tax liabilities not recognized in profit or loss (previous year: € 105 thousand).

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

	2012/2013			2013/2014		
	before income taxes	Income taxes	after income taxes	before income taxes	Income taxes	after income taxes
Remeasurement of defined benefit pension plans and similar obligations	–75,281	–2,525	–77,806	–11,653	–1,219	–12,872
Currency translation	10,792	0	10,792	–32,647	0	–32,647
Financial assets available for sale	212	0	212	99	0	99
Cash flow hedges	5,205	587	5,792	–1,343	–226	–1,569
Total other comprehensive income	**–59,072**	**–1,938**	**–61,010**	**–45,544**	**–1,445**	**–46,989**

24 Inventories

	31-Mar-2013	31-Mar-2014
Raw materials and supplies	115,364	99,288
Work and services in progress	292,132	287,983
Finished goods and goods for resale	289,964	234,212
Advance payments	2,232	1,252
	699,692	**622,735**

In order to adjust inventories to the net realizable value, impairment of € 2,779 thousand was recognized in the year under review (previous year: € 3,722 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 € 400 thousand (previous year: € 973 thousand) was reported under finished goods and goods held for resale. The repossession of this collateral resulted in cash and cash equivalents of € 812 thousand (previous year: € 733 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 € 379,505 thousand (previous year: € 401,712 thousand).

25 Securities and cash and cash equivalents

Securities of € 10,169 thousand (previous year: € 0 thousand) are classified as financial assets available for sale in line with IAS 39. The entire amount relates to fixed-income securities. Information on the fair value of the securities is included in note 32.

Cash and cash equivalents consist of cash on hand and bank balances; their carrying amount is to be taken as an appropriate estimate of the fair value. Restrictions on disposal of cash and cash equivalents due to foreign exchange restrictions amount to € 31,006 thousand (previous year: € 61,562 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 amounts to € 600,160,714.24 (previous year: € 599,672,166.40) and is divided into 234,437,779 shares (previous year: 234,246,940). For information on the issue of new shares from Contingent Capital 2012 in the reporting year, please see "Contingent capital".

As of March 31, 2014, the Company holds 142,919 shares, as in the previous year. The amount of these shares allocated to share capital is € 366 thousand (unchanged against the previous year), with a notional amount of share capital of 0.06 percent as of March 31, 2014 (previous year: 0.06 percent).

The shares were acquired in March 2007. The pro-rata cost of the acquisition was € 4,848 thousand. Additional pro-rata transaction fees amounted to € 5 thousand. The pro-rata cost of the acquisition was therefore € 4,853 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.

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.

On July 10, 2013, Heidelberger Druckmaschinen Aktiengesellschaft issued an unsecured, unsubordinated convertible bond with an option for conversion into shares in Heidelberger Druckmaschinen Aktiengesellschaft. The convertible bond has an original issue volume of € 60,000,000.00, a term of four years (maturity date: July 10, 2017) and a coupon of 8.50 percent per annum, which is distributed at the end of every quarter. Due to the conversion of five partial debentures on November 18, 2013, 190,839 new shares were issued from Contingent Capital 2012. This increased the share capital of Heidelberger Druckmaschinen Aktiengesellschaft from € 599,672,166.40 to € 600,160,714.24; Contingent Capital 2012 is thus reduced to € 119,445,885.44. The original total nominal amount of the convertible bond decreased by € 500,000.00 from € 60,000,000.00 to € 59,500,000.00.

From July 30, 2014, Heidelberger Druckmaschinen Aktiengesellschaft is entitled to repay the convertible bond prematurely in full at the nominal value plus accrued interest. This requires that the share price multiplied by the applicable conversion ratio on 20 of the 30 consecutive trading days on the Frankfurt Stock Exchange before the announcement of the date of the early repayment exceeds 130 percent of the nominal value as of each of these 20 trading days.

Authorized capital

In accordance with the resolution of the Annual General Meeting on July 26, 2012, 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 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 capital increase resolution was entered in the commercial register on August 13, 2012/August 24, 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.

The conversion option vested in the convertible bond (see "Contingent capital") is recognized in capital reserves as the difference between the issue proceeds and the fair value of the liability component. This increased the capital reserves by € 1,301 thousand.

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, the actuarial gains and losses on pension obligations and the differences between the expected and actual return on plan assets.

Other retained earnings

The other retained earnings include exchange rate effects and IAS 39 fair value changes in equity.

Appropriation of the net profit of Heidelberger Druckmaschinen Aktiengesellschaft

The net loss of € 76,515,071.84 incurred by Heidelberger Druckmaschinen Aktiengesellschaft in the 2012/2013 financial year was withdrawn in full from other retained earnings in its annual financial statements.

The net loss of € 109,362,407.15 incurred by Heidelberger Druckmaschinen Aktiengesellschaft in the year under review was offset in full in its annual financial statements by way of withdrawal from retained earnings.

27 Provisions for pensions and similar obligations

The Heidelberg Group operates pension schemes – either directly or through premium payments to schemes financed by private institutions – for the majority of employees for the time after their retirement. The amount of benefit payments depends on the conditions in particular countries. The amounts are generally based on the term of employment and the salary of the employees. Liabilities include both those arising from current pensions and vested pension rights for pensions payable in the future. The pension payments expected following the start of benefit payments are financed distributed over the employee's full period of employment.

Notes on significant pension commitments

HEIDELBERGER DRUCKMASCHINEN AKTIENGESELLSCHAFT, HEIDELBERGER DRUCKMASCHINEN VERTRIEB DEUTSCHLAND GMBH and **HEIDELBERG POSTPRESS DEUTSCHLAND GMBH** (each based in Heidelberg, Germany) accounted for € 938 million (previous year: € 923 million) of the present value of the defined benefit obligation (DBO) and € 518 million (previous year: € 545 million) of plan assets.

Benefit commitments essentially comprise retirement, disability and surviving dependents benefits (widows', widowers' and orphan's pension) plus an age bonus and death benefits. The amount of retirement and disability pensions is based on the pension group to which the employee is assigned on the basis of his pensionable income and the eligible years of service. In the event of disability this also takes into account creditable additional periods of coverage. Pensionable years of service are all years of service spent by the employee at the Company, starting from the age of 20, until the pension begins.

The funded, defined benefit plans financed at Heidelberger Druckmaschinen Aktiengesellschaft and Heidelberger Druckmaschinen Vertrieb Deutschland GmbH were closed to new entrants on February 28, 2006.

The employees of Heidelberger Druckmaschinen Aktiengesellschaft and Heidelberg Vertrieb Deutschland GmbH who joined the Company after March 1, 2006 have been assigned to an employer-financed defined contribution policy offered by an insurance provider.

As part of a contractual trust arrangement (CTA) at 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, which is legally independent from the Company. The respective trust agreement establishes a management trust between the respective company and the trustee and a security trust between the trustee and the beneficiaries (dual trust). The purpose of the CTA is to finance all pension obligations.

The respective plan assets are managed by the trustee in accordance with the respective trust agreement.
A defined contribution plan was introduced for key executives. This provides for interest on contributions based on salary and EBIT at rates based on the respective maximum permissible interest rate for life assurance companies in Germany and the investment of the CTA's assets. This plan provides for a capital payout with the option of conversion into a pension for life. Furthermore, this group of persons has the option of deferred compensation to increase the employer-funded benefit scheme.

In Germany there are no legal or regulatory minimum allocation obligations.

For details of the pension commitments for members of the Management Board of Heidelberger Druckmaschinen Aktiengesellschaft please see the remuneration report in the consolidated management report.

The **HEIDELBERG GROUP PENSION SCHEME** in the UK comprises defined benefit and defined contribution plans. The Heidelberg Pension Scheme accounts for € 211 million (previous year: € 199 million) of the present value of the defined benefit obligation (DBO) and € 203 million (previous year: € 194 million) of plan assets. The defined benefit portion is based on final salary with a guaranteed pension level. The pension level is dependent on the length of employment and the respective salary before retiring. Pension payments are adjusted based on the development of the retail price index. This plan is subject to the statutory funding objective under the UK Pension Act 2004. The necessary financing is performed at least every three years by way of so-called technical assessments. This determines whether the statutory funding objective has been complied with. The defined benefit plan is managed by a trustee, the board of which is elected partly by the Company and partly by the members of the plan. The trustee is responsible for obtaining the assessment, the pension payments and investing the plan assets; if necessary these functions are transferred to professional advisors. The last assessment of technical funding took place as at March 31, 2012 and – on the basis of the assumptions at this date determined by the trustee – identified a technical funding deficit of GBP 18.8 million. On the basis of this, an agreement was reached between Heidelberg and the trustee in the reporting year for annual payments over ten years of GBP 2.47 million, starting from the year under review. The next assessment of technical funding will take place on March 31, 2015.

The **PENSION FUNDS OF THE SWISS COMPANIES**, which manage pension assets as foundations independent of the Company and are subject to Swiss legislation on occupational pensions, accounted for € 126 million (previous year: € 132 million) of the present value of the defined benefit obligation (DBO) and € 124 million (previous year: € 118 million) of plan assets. These obligations are based on retirement, disability and surviving dependents benefits. The retirement benefits are usually a pension. This is determined based on the individual pension credit saved by the employee by the time of retirement and the regulatory conversion rates. However, at the discretion of the employee, pension credit can also be drawn in the form of a lump-sum payment. Disability and surviving dependents benefits are calculated from the pension credit projected at regulatory retirement age and are defined as a percentage of the pay insured. For each insured employee, the Swiss companies pay an annual employer's contribution to the respective pension fund. The amount of this is determined in the respective pension regulations as a percentage of the pay insured and can be adjusted by the pension fund board of trustees, which consists of equal numbers of employer and employee representatives. In the event of a severe deficit the pension fund board of trustees can resolve to impose recapitalization contributions, if there are no other measures to remedy the deficit. In such an event, the Swiss companies would be legally required to pay at least as much as the respective employee contributions.

The **HEIDELBERG AUSTRALIA SUPERANNUATION FUND** in Australia comprises defined benefit and defined contribution plans. The Heidelberg Australia Superannuation Fund accounts for € 10 million (previous year: € 12 million) of the present value of the defined benefit obligation (DBO) and € 13 million (previous year: € 14 million) of plan assets. The defined benefit component is based on the average final salary and the length of employment. As their pension benefit, some entitled members of this plan receive the higher of the respective defined benefit obligation and an obligation accrued during the qualifying period based on the individual contributions by the employee and corresponding capital gains; entitlement to this is dependent on when employees joined the plan. The Heidelberg Australia Superannuation Fund is subject to the statutory minimum benefit obligation as per the superannuation guarantee legislation, which provides for a gradual increase in minimum obligations from July 1, 2013. It is managed by an independent trustee, the board of which is equally appointed by the Company and elected by the members of the plan. The trustee is required to act in the best interests of the plan members.

Notes on risks

In addition to the standard actuarial risks, the defined benefit obligations are exposed in particular to financial risks in connection with plan assets, which above all can comprise counterparty and market price risks.

The plan assets serve exclusively to satisfy defined benefit obligations. The funding of these defined benefit obligations with assets constitutes a reserve for future cash outflows in the form of pension payments, which is based on the statutory regulations in place in some countries and is voluntary in others, such as Germany.

The ratio of the fair value of plan assets and the present value of the defined benefit obligations is referred to as the funding ratio of the respective pension plan. If the defined benefit obligations (DBO) exceed the plan assets, this is a plan deficit; the reverse is an excess.

However, it should be noted that both the defined benefit obligations and the plan assets fluctuate over time. This gives rise to the risk of a growing plan deficit. Depending on the statutory regulations in the respective countries, there is a legal obligation to reduce this deficit by contributing additional funding. Fluctuations can arise in the measurement of defined benefit obligations in that the underlying actuarial assumptions, such as discounting rates, the development of pensions and salaries or life expectancy are subject to adjustments that can materially influence the amount of defined benefit obligations. The return on plan assets is assumed in the amount of discounting rates, which are also used in determining the defined benefit obligations and are based on corporate bonds rated AA. If the actual return on plan assets is less than the discounting rates applied, the net liability under defined benefit plans increases. However, given the equity backing ratio it is assumed that the actual return can contribute to greater volatility in the fair value of plan assets in the medium and long term. Possible inflation risks, which could lead to a rise in defined benefit obligations, exist to the extent that some plans are based on final salary.

The material German and international pension plans in the Heidelberg Group are subject to actuarial risks such as investment risk, interest rate risk, longevity risk and risks of pay increases. The Swiss pension funds are also exposed to the risk that, in the event of a severe deficit, the effectiveness of recapitalization would be limited to the extent that this would have to be covered by future pension beneficiaries and the employer as it is legally prohibited to include current pensioners in the recapitalization.

The information on pensions breaks down as follows:

1) Composition and development of net carrying amounts
2) Development of net liability from defined benefit plans
3) Composition of plan assets
4) Breakdown of retirement benefit expenses
5) Sensitivity analysis
6) Forecast contributions to plan assets, future forecast pension payments and duration

1) The net carrying amounts broke down as follows at the end of the financial year:

	31-Mar-2013	31-Mar-2014
Provisions for pensions and similar obligations	415,361	450,206
Assets from defined benefit pension plans	2,351	5,081
Net carrying amounts at the end of the fiscal year	**413,010**	**445,125**

The assets from defined benefit pension plans are reported under non-current other assets.

2) The net liability under defined benefit plans developed as follows:

	Funded benefit obligations	Unfunded benefit obligations	Present value of the defined benefit obligations	Fair value of plan assets	Total
As of April 1, 2012	**1,140,377**	**31,110**	**1,171,487**	**– 846,400**	**325,087**
Current service cost	19,286	2,196	21,482	0	21,482
Interest expense (+)/income (–)	47,475	945	48,420	– 34,842	13,578
Past service cost/gains (–)/losses (+) from settlements and curtailments	– 4,280	– 429	– 4,709	0	– 4,709
Remeasurements:					
Gains (–)/losses (+) from changes in demographic assumptions	– 4,549	0	– 4,549	0	– 4,549
Gains (–)/losses (+) from changes in financial assumptions	116,200	1,212	117,412	0	117,412
Gains (–)/losses (+) from experience-based adjustments	– 5,056	377	– 4,679	0	– 4,679
Difference between interest income recognized in profit or loss and actual income from plan assets	0	0	0	– 32,903	– 32,903
Currency translation differences	– 3,860	– 962	– 4,822	3,665	– 1,157
Contributions:					
Employers	0	0	0	– 4,855	– 4,855
Pension plan participants	2,932	0	2,932	– 2,441	491
Payments made	– 52,926	– 4,999	– 57,925	45,551	– 12,374
Changes in the scope of consolidation, other changes	51	9	60	126	186
As of March 31, 2013	**1,255,650**	**29,459**	**1,285,109**	**– 872,099**	**413,010**

	Funded benefit obligations	Unfunded benefit obligations	Present value of the defined benefit obligations	Fair value of plan assets	**Total**
As of April 1, 2013	**1,255,650**	**29,459**	**1,285,109**	**– 872,099**	**413,010**
Current service cost	21,520	1,736	23,256	0	23,256
Interest expense (+)/income (–)	43,384	719	44,103	– 30,689	13,414
Past service cost/gains (–)/losses (+) from settlements and curtailments	172	– 266	– 94	0	– 94
Remeasurements:					
Gains (–)/losses (+) from changes in demographic assumptions	2,389	0	2,389	0	2,389
Gains (–)/losses (+) from changes in financial assumptions	– 658	4	– 654	0	– 654
Gains (–)/losses (+) from experience-based adjustments	– 5,142	226	– 4,916	0	– 4,916
Difference between interest income recognized in profit or loss and actual income from plan assets	0	0	0	14,834	14,834
Currency translation differences	2,009	– 1,635	374	– 1,612	– 1,238
Contributions:					
Employers	0	0	0	– 6,884	– 6,884
Pension plan participants	1,956	0	1,956	– 2,069	– 113
Payments made	– 46,099	– 1,309	– 47,408	39,327	– 8,081
Changes in the scope of consolidation, other changes	215	– 13	202	0	202
As of March 31, 2014	**1,275,396**	**28,921**	**1,304,317**	**– 859,192**	**445,125**

The following key actuarial assumptions were applied in calculating the present value of defined benefit obligations:

In percent	2012/2013 Domestic	2012/2013 Foreign	2013/2014 Domestic	2013/2014 Foreign
Discount rate	3.50	3.50	3.50 [1]	3.72
Expected future salary increases	3.00	2.43	3.00	2.73
Expected future pension increases	1.75	2.37	1.75	1.96

[1] The discount rate would have remained the same even without modifications in the composition of the portfolio of corporate bonds used for the calculation of the interest rate

The figures for international companies are average values weighted with the present value of the respective defined benefit obligation.

3) The fair value of plan assets breaks down by the following asset classes as follows:

	2012/2013	of which:		2013/2014	of which:	
		with a market price quoted on an active market	without a market price quoted on an active market		with a market price quoted on an active market	without a market price quoted on an active market
Cash and cash equivalents	29,775	29,775	0	23,668	23,668	0
Equity instruments	137,205	137,205	0	157,046	157,046	0
Debt instruments	417,868	410,434	7,434	381,925	373,709	8,216
Real estate	19,757	0	19,757	19,575	0	19,575
Derivatives	– 2,057	146	– 2,203	1,295	– 805	2,100
Securities funds	212,311	193,092	19,219	218,270	189,758	28,512
Qualifying insurance policies	31,186	0	31,186	31,605	0	31,605
Other	26,054	2,547	23,507	25,808	4,386	21,422
	872,099	**773,199**	**98,900**	**859,192**	**747,762**	**111,430**

As in the previous year, the plan assets contain no financial instruments of companies of the Heidelberg Group or real estate or other assets used by companies of the Heidelberg Group.

4) Retirement benefit expenses break down as follows:

	2012/2013	2013/2014
Current service cost	21,482	23,256
Past service cost	– 4,709	– 94
Gains (–)/losses (+) on settlement	0	0
Interest expenses [1]	48,420	44,103
Interest income [1]	– 34,842	– 30,689
Expenses for defined benefit pension plans	30,351	36,576
Expenses for other pension plans	15,435	14,501
	45,786	**51,077**

[1] The net interest expense, as the net total of interest expenses on defined benefit obligations and interest income from plan assets, amounts to € 13,414 thousand (previous year: € 13,578 thousand)

The expenses for defined contribution plans amounted to € 55,809 thousand (previous year: € 63,383 thousand) in the reporting year and essentially include contributions to the statutory pension insurance.

5) The following table shows how the present value of material defined benefit obligations in Germany and abroad would have been affected by changes in the main actuarial assumptions:

	31-Mar-2014	Change in %
Present value of the essential defined benefit obligations [1]	1,286,135	
Present value of the essential defined benefit obligations assuming that		
the discount rate was		
0.50 percentage point higher	1,187,809	– 7.6
0.50 percentage point lower	1,398,444	+ 8.7
the expected future salary increase was		
0.25 percentage point higher	1,288,800	+ 0.2
0.25 percentage point lower	1,283,512	– 0.2
the expected future pension increase was		
0.25 percentage point higher	1,331,230	+ 3.5
0.25 percentage point lower	1,251,469	– 2.7
Increase in life expectancy per entitled beneficiary [2]	1,331,223	+ 3.5

[1] Present value of defined benefit obligations calculated on the basis of the "Actuarial assumptions" table

[2] To simulate this increased life expectancy, the biometric probabilities for "age x" in the generation and periodic tables were replaced by the corresponding figures for "age x+1" in each case (age shift)

In the sensitivity analysis, one actuarial assumption was changed at a time while the other actuarial assumptions remained constant. In actual fact, there are dependencies between actuarial assumptions, particularly between the discount rate and forecast pay increases, as both are based to a certain degree on the forecast inflation rate. The sensitivity analysis does not take these dependencies into account. The sensitivity analysis is performed on the basis of the projected unit credit method, which was also used to calculate the defined benefit obligations.

6) Forecast contributions to plan assets, future forecast pension payments and duration

The forecast contributions to plan assets are expected to amount to € 9.3 million in the 2014/2015 financial year (previous year: € 9.5 million).

With regard to the essential defined benefit obligations, undiscounted pension payments amounting to € 47.1 million (previous year: € 46.7 million) are anticipated for the 2014/2015 financial year.

The weighted average duration of the material defined benefit obligations is 17.4 years.

28 Other provisions

			31-Mar-2013			31-Mar-2014
	Current	Non-current	Total	Current	Non-current	Total
Tax provisions	13,058	82,118	**95,176**	14,505	73,773	**88,278**
Other provisions						
Staff obligations	73,278	30,936	104,214	64,588	28,668	93,256
Sales obligations	109,524	14,607	124,131	86,035	10,120	96,155
Other	140,287	119,173	259,460	95,999	54,998	150,997
	323,089	164,716	487,805	246,622	93,786	340,408
	336,147	246,834	**582,981**	261,127	167,559	**428,686**

	As of 1-Apr-2013	Change in scope of consolidation, currency adjustments, reclassification	Utilization	Reversal	Addition	As of 31-Mar-2014
Tax provisions	**95,176**	– 1,429	5,819	11,515	11,865	**88,278**
Other provisions						
Staff obligations	104,214	– 2,538	53,723	6,909	52,212	93,256
Sales obligations	124,131	– 4,622	37,883	34,629	49,158	96,155
Other	259,460	– 8,391	113,350	10,462	23,740	150,997
	487,805	– 15,551	204,956	52,000	125,110	340,408
	582,981	– 16,980	210,775	63,515	136,975	**428,686**

Additions include accrued interest and the effects of the change in discount rates of € 1,719 thousand (previous year: € 4,669 thousand). These relate to expenses of € 1,204 thousand (previous year: € 2,128 thousand) for staff obligations, € 100 thousand (previous year: € 148 thousand) for sales and marketing obligations and expenses of € 415 thousand (previous year: € 2,393 thousand) for miscellaneous other provisions.

As in previous years, **TAX PROVISIONS** primarily recognize the risks of additional assessments.

STAFF PROVISIONS essentially relate to bonuses (€ 27,309 thousand; previous year: € 33,132 thousand), costs of early retirement payments and the partial retirement program (€ 16,839 thousand; previous year: € 21,364 thousand) and anniversary expenses (€ 15,889 thousand; previous year: € 16,832 thousand).

SALES AND MARKETING PROVISIONS mainly relate to warranties, reciprocal liability and buyback obligations (€ 56,864 thousand; previous year: € 76,751 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. € 6,129 thousand (previous year: € 7,788 thousand) of the reciprocal liability and buyback obligations of € 7,483 thousand (previous year: € 10,442 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 € 23,114 thousand (previous year: € 35,982 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 € 51,442 thousand (previous year: € 66,426 thousand) and research and development obligations of € 8,757 thousand (previous year: € 10,638 thousand). Furthermore, there are provisions of € 57,559 thousand (previous year: € 148,118 thousand) essentially relating to the **FOCUS EFFICIENCY PROGRAM**. Utilization of these latter provisions is generally expected over a short-term horizon; utilization of the remaining miscellaneous other provisions is predominantly expected over a short- to medium-term horizon.

29 Financial liabilities

	31-Mar-2013				31-Mar-2014			
	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
High-yield bond [1)]	12,966	0	292,844	305,810	15,142	345,545	0	360,687
Convertible bond [1)]	0	0	0	0	1,138	56,935	0	58,073
Amounts due to banks [1)]	57,355	32,420	0	89,775	16,321	25,496	0	41,817
From finance leases	2,035	4,596	1,375	8,006	1,867	3,718	614	6,199
Other	15,272	0	0	15,272	14,429	0	0	14,429
	87,628	37,016	294,219	**418,863**	48,897	431,694	614	**481,205**

[1)] Including deferred interest

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.

On December 10, 2013, Heidelberg increased the high-yield bond by € 51 million to € 355 million. The increase was made with the same conditions as the issue of the high-yield bond in 2011; the issue price was 105.75 percent.

The fair value of the high-yield bond on the basis of the stock exchange listing corresponds to the first level of the IFRS 13 measurement hierarchy, as only quoted prices observed on active markets were used in the measurement; it amounts to € 376,588 thousand (previous year: € 298,832 thousand) compared to the carrying amount of € 360,687 thousand (previous year: € 305,810 thousand).

Convertible bond

On July 10, 2013, Heidelberger Druckmaschinen Aktiengesellschaft issued an unsecured, unsubordinated convertible bond with an option for conversion into shares in Heidelberger Druckmaschinen Aktiengesellschaft. This convertible bond has an initial volume of € 60 million and is convertible into approximately 22.9 million no-par shares. The convertible bond was issued in denominations of € 100,000. It has a term of four years, was issued at 100 percent of the nominal value and is 100 percent repayable. The coupon is 8.50 percent p.a. and is distributed at the end of every quarter. The initial exercise price is € 2.62 per underlying share at an initial conversion ratio of 38,167.9389. As a result of the conversion of five partial debentures on November 18, 2013 (see note 26), the initial total nominal value of the convertible bond of € 60 million decreased by € 0.5 million to € 59.5 million.

From July 30, 2014, Heidelberger Druckmaschinen Aktiengesellschaft is entitled to repay the convertible bond prematurely in full at the nominal value plus accrued interest. This requires that the share price multiplied by the applicable conversion ratio on 20 of the 30 consecutive trading days on the Frankfurt Stock Exchange before the announcement of the date of the early repayment exceeds 130 percent of the nominal value as of each of these 20 trading days.

The liability component of the convertible bond was recognized at present value on issue, taking into account a market interest rate, and is increased at the end of each reporting period by the interest portion of that period in line with the effective interest rate method. The amount of interest accrued, which results from the difference between the coupon and the effective interest rate, was € 208 thousand in the year under review.

The fair value of the convertible bond on the basis of the stock exchange listing corresponds to the first level of the IFRS 13 measurement hierarchy and is € 69,345 thousand compared to the carrying amount of € 58,073 thousand.

Amounts due to banks

Amounts due to banks are shown in the table below:

Type	Contract currency	Carrying amount 31-Mar-2013 in € thousand	Remaining term in years	Effective interest rate in %	Carrying amount 31-Mar-2014 in € thousand	Remaining term in years	Effective interest rate in %
Loans	EUR	62,429	up to 5	up to 6.57	33,288	up to 4	up to 6.74
Loans	Other	25,759	up to 2	up to 12.0	7,463	up to 1	up to 12.5
Other	Other	1,587	up to 1	0.0	1,066	up to 1	up to 4.0
		89,775			**41,817**		

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 € 33,288 thousand (previous year: € 40,739 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 corresponds to the second level in the fair value hierarchy according to IFRS 13. As a result of the first-time application of this standard, it decreased from € 44,689 thousand (previous year) to € 34,097 thousand in the reporting year.

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 € 379,031 thousand (previous year: € 490,559 thousand) can be used as financing for general business purposes and for measures in connection with our Focus 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 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 convertible bond issued on July 10, 2013, lowered the credit facility to around € 416 million. The increase of the high-yield bond on December 10, 2013, reduced the revolving credit facility to around € 340 million. In parallel with this, it was agreed to prematurely extend the credit facility with the existing banking syndicate to mid-2017 and to reduce it further to around € 277 million on December 31, 2014.

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. 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.

The carrying amount of the other amounts due to banks and other financial liabilities is primarily to be taken as an appropriate estimate of the fair value.

Liabilities from finance leases

Liabilities from finance leases are as follows:

	31-Mar-2013				31-Mar-2014			
	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
Total lease payments				18,134				17,631
Lease payments already made				– 8,177				– 9,977
Outstanding lease payments	2,573	5,859	1,525	9,957	2,315	4,695	644	7,654
Interest portion of outstanding lease payments	– 539	– 1,262	– 150	– 1,951	– 448	– 977	– 30	– 1,455
Present value of outstanding lease payments (carrying amount)	2,034	4,597	1,375	**8,006**	1,867	3,718	614	**6,199**

30 Trade payables

As a general rule, until full payment has been effected trade payables are collateralized by reservation of title. The carrying amount of the trade payables is to be taken as an appropriate estimate of the fair value.

31 Other liabilities

				31-Mar-2013				31-Mar-2014
	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)	35,976	0	0	35,976	41,495	0	0	41,495
Advance payments on orders	70,570	0	0	70,570	76,039	0	0	76,039
From derivative financial instruments	4,097	0	0	4,097	1,755	0	0	1,755
From other taxes	42,532	0	44	42,576	40,381	0	35	40,416
For social security contributions	8,906	813	528	10,247	6,928	813	360	8,101
Deferred income	42,258	22,056	3,410	67,724	40,477	18,925	3,312	62,714
Other	43,126	80,366	14,292	137,784	42,922	10,555	81,871	135,348
	247,465	103,235	18,274	**368,974**	249,997	30,293	85,578	**365,868**

Derivative financial instruments
Derivative financial instruments include liabilities from cash flow hedges of € 496 thousand (previous year: € 2,430 thousand) and from fair value hedges of € 1,259 thousand (previous year: € 1,667 thousand).

Deferred income
Deferred income includes taxable investment subsidies of € 1,272 thousand (previous year: € 1,728 thousand), tax-free investment allowances of € 137 thousand (previous year: € 330 thousand), and other deferred income of € 61,306 thousand (previous year: € 65,666 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 € 575 thousand (previous year: € 953 thousand).

TAX-FREE ALLOWANCES include allowances in line with the German Investment Allowance Act of 1999/2005/2007/2010 of € 137 thousand (previous year: € 330 thousand) 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 corresponds to the second level in the fair value hierarchy according to IFRS 13 and is € 63,539 thousand (previous year: € 60,246 thousand) compared to the carrying amount of € 79,455 thousand (previous year: € 78,880 thousand). The carrying amount of the remaining miscellaneous other financial liabilities is primarily to be taken as an appropriate estimate of the fair value.

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 31-Mar-2013 Current	Non-current	Total	Carrying amounts 31-Mar-2014 Current	Non-current	Total
Financial assets							
Shares in affiliated companies	AFS	0	16,800	16,800	0	9,992	9,992
Other investments	AFS	0	3,461	3,461	0	4,456	4,456
Securities	AFS	0	3,329	3,329	0	3,075	3,075
		0	23,590	23,590	0	17,523	17,523
Receivables from sales financing							
Receivables from sales financing not including finance leases	L&R	54,271	62,948	117,219	45,302	45,319	90,621
Receivables from finance leases	n. a.	778	267	1,045	285	32	317
		55,049	63,215	118,264	45,587	45,351	90,938
Trade receivables	L&R	381,842	0	381,842	327,949	0	327,949
Other receivables and other assets							
Derivative financial instruments	n. a. [2]	11,743	28	11,771	5,274	0	5,274
Miscellaneous financial assets	L&R	52,041	12,099	64,140	57,530	12,337	69,867
		63,784	12,127	75,911	62,804	12,337	75,141
Miscellaneous other assets		46,473	7,098	53,571	46,476	10,204	56,680
		110,257	19,225	129,482	109,280	22,541	131,821
Securities	AFS	0	0	0	10,169	0	10,169
Cash and cash equivalents	L&R	157,492	0	157,492	232,657	0	232,657

[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 € 247 thousand in short-term hedges (previous year: € 125 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-2013			31-Mar-2014
		Current	Non-current	Total	Current	Non-current	Total
Financial liabilities							
High-yield bond	FLAC	12,966	292,844	305,810	15,142	345,545	360,687
Convertible bond	FLAC	0	0	0	1,138	56,935	58,073
Amounts due to banks	FLAC	57,355	32,420	89,775	16,321	25,496	41,817
Liabilities from finance leases	n. a.	2,035	5,971	8,006	1,867	4,332	6,199
Other financial liabilities	FLAC	15,272	0	15,272	14,429	0	14,429
		87,628	331,235	418,863	48,897	432,308	481,205
Trade payables	FLAC	139,134	0	139,134	148,012	0	148,012
Other liabilities							
Derivative financial instruments	n. a.[2]	4,097	0	4,097	1,755	0	1,755
Miscellaneous financial liabilities	FLAC	82,827	81,268	164,095	85,475	80,328	165,803
		86,924	81,268	168,192	87,230	80,328	167,558
Miscellaneous other liabilities		160,541	40,241	200,782	162,767	35,543	198,310
		247,465	121,509	368,974	249,997	115,871	365,868

[1] Information on abbreviations of the IAS 39 measurement categories:
FLAC: financial liabilities at amortized cost
n. a.: no IAS 39 measurement category

[2] As in the previous year, derivative financial instruments include no short-term hedges assigned to the IAS 39 measurement category of financial instruments held for trading

Liquidity risk from 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 mid-2017.

	31-Mar-2013	31-Mar-2014
Up to 1 year	106,036	73,751
Between 1 and 5 years	154,858	575,531
More than 5 years	319,585	644
	580,479	**649,926**

Net gains and losses

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

	2012/2013	2013/2014
Financial assets available for sale	4,383	3,303
Loans and receivables	– 1,513	4,497
Financial liabilities at amortized cost	– 41,747	-45,689

Changes in the value of available for sale financial assets of € 99 thousand (previous year: € 212 thousand) were also recognized outside profit or loss.

Net gains and losses include € 4,831 thousand (previous year: € 7,009 thousand) of interest income and € 49,735 thousand (previous year: € 44,036 thousand) of interest expenses for financial assets and financial liabilities not measured at fair value through profit or loss.

In addition, as in the previous year, there were no net losses on financial instruments held for trading. 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. In general, derivative financial instruments are used to limit 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 generally occur with regard to variable-rate interest refinancing transactions. In hedge accounting, the derivative financial instruments designated as a hedge of these currency risks are shown as follows.

	Nominal volumes		Fair values	
	31-Mar-2013	31-Mar-2014	31-Mar-2013	31-Mar-2014
Currency hedging				
Cash flow hedge				
Forward exchange transactions	232,695	170,667	4,142	3,859
of which: assets	(121,504)	(120,683)	(6,469)	(4,344)
of which: liabilities	(111,191)	(49,984)	(– 2,327)	(– 485)
Currency options	14,457	6,445	78	74
of which: assets	(5,661)	(6,111)	(181)	(85)
of which: liabilities	(8,796)	(334)	(– 103)	(– 11)
	247,152	177,112	4,220	3,933
Fair value hedge				
Forward exchange transactions	276,384	227,677	3,329	– 661
of which: assets	(162,139)	(89,724)	(4,996)	(598)
of which: liabilities	(114,245)	(137,953)	(– 1,667)	(– 1,259)

The nominal volumes result from the total of all the purchase and sale amounts of the underlying hedged items. For information on the calculation of fair values, see the "Fair values of financial assets and derivative financial instruments" section of this note.

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-2013	31-Mar-2014
	Total undiscounted cash flows [1]	Total undiscounted cash flows [1]
Derivative financial liabilities		
Outgoing payments	– 217,758	– 188,353
Associated incoming payments	214,120	186,643
Derivative financial assets		
Outgoing payments	– 298,530	– 218,927
Associated incoming payments	308,926	224,046

[1] Total relates to cash flows with a term of up to 1 year. As in the previous year, there were no cash flows with a term to maturity of 1 to 5 years and more than 5 years.

Currency hedging

Cash flow hedge

The forward exchange transactions and currency options 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, 48 percent (previous year: 34 percent) of the hedging volume relates to the US dollar and 35 percent (previous year: 21 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 € 4,429 thousand (previous year: € 6,650 thousand) and liabilities of € 496 thousand (previous year: € 2,430 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, as in the previous year, 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.

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 € 11,884 thousand (previous year: € 3,021 thousand) and the translation of hedged items at reporting date rates of € 13,549 thousand (previous year: € 2,811 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). No interest rate swaps were held in the reporting year, which was also the case on March 31, 2013. The liabilities resulting from the measurement of all transactions and recognized outside profit or loss were reversed to the financial result in the previous year. The expenses from deferred interest included in the fair values of the interest rate swaps of € 11 thousand in the 2011/2012 financial year were recognized in the consolidated income statement in the previous year.

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 € 11,271 thousand (previous year: € 14,774 thousand) higher as of the end of the reporting period and the financial result would have been € 11 thousand (previous year: € 41 thousand) lower. Assuming a 10 percent decrease in the value of the euro, the hedge reserve would have been € 13,775 thousand (previous year: € 18,058 thousand) lower and the financial result would have been € 14 thousand (previous year: € 50 thousand) higher.

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: unchanged) as of the end of the reporting period and the financial result would have been € 551 thousand higher (previous year: € 47 thousand lower).

Assuming a decrease of 100 basis points in the market interest rate across all terms, the hedge reserve would have been unchanged as in the previous year and the financial result would have been € 551 thousand lower (previous year: € 47 thousand higher).

Risk of default

The Heidelberg Group is exposed to default risks to the extent that counterparties do not fulfill their contractual obligations arising from derivative financial instruments. In order to control this risk, default risks and changes in credit ratings are continually monitored. There is a theoretical risk of default (credit risk) for the existing derivative financial instruments in the amount of the asset fair values as of the respective reporting date. However, no actual default of payments from these derivatives is expected at present.

Fair values of financial assets, securities and derivative financial instruments

Financial assets and financial liabilities are allocated to one of the three levels of the IFRS 13 fair value hierarchy according to the availability of observable market data. The individual levels are defined as follows:

LEVEL 1: Financial instruments traded on active markets whose quoted prices are used for the measurement without adjustment.

LEVEL 2: Measurement on the basis of valuation techniques in which the input factors are directly or indirectly derived from observable market data.

LEVEL 3: Measurement on the basis of valuation techniques in which the input factors are not based on observable market data.

Securities are classified as financial assets available for sale and recognized at fair value. The underlying quoted prices for the measurement of the majority of the securities correspond to level 1 in the IFRS 13 fair value hierarchy as only quoted prices observed on active markets were used in the measurement. If the fair value of securities cannot be reliably determined, they are measured at cost.

The fair values of derivative financial instruments 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 valuation techniques (discounted cash flow and option pricing models), which corresponds to level 2 of the IFRS 13 fair value hierarchy as only input data observed on the market was used, such as exchange rates, exchange rate volatilities and interest rates.

The financial assets and financial liabilities recognized at fair value were assigned to the IFRS 13 fair value hierarchy as follows on March 31, 2014:

				31-Mar-2014
	Level 1	Level 2	Level 3	Total
Securities	12,835	0	0	12,835
Derivative financial assets	0	5,274	0	5,274
Assets carried at fair value	**12,835**	**5,274**	**0**	**18,109**
Derivative financial liabilities	0	1,755	0	1,755
Liabilities carried at fair value	**0**	**1,755**	**0**	**1,755**

In the reporting year, there were no reclassifications between the first and second levels of the fair value hierarchy.

The shares in affiliated companies amounting to € 9,992 thousand (previous year: € 16,800 thousand) and other investments of € 4,456 thousand (previous year: € 3,461 thousand) are classified as financial assets available for sale and measured at cost, as their fair values cannot be reliably calculated due to the lack of a market for these shares.

33 Contingent liabilities

Contingent liabilities from warranties and guarantees, amounting to € 3,257 thousand as of March 31, 2014 (previous year: € 7,325 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-2013				31-Mar-2014			
	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
Lease obligations	43,358	117,560	73,560	234,478	40,619	100,699	53,486	194,804
Investments and other purchasing requirements	35,201	12,496	0	47,697	27,734	6,649	0	34,383
	78,559	**130,056**	**73,560**	**282,175**	**68,353**	**107,348**	**53,486**	**229,188**

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 € 28,071 thousand (previous year: € 31,571 thousand);
- the Print Media Academy (Heidelberg) in the amount of € 23,878 thousand (previous year: € 27,036 thousand);
- the World Logistics Center (WLC) (Wiesloch-Walldorf plant) in the amount of € 18,790 thousand (previous year: € 24,122 thousand);
- the X-House administrative building (Heidelberg) in the amount of € 7,252 thousand (previous year: € 7,514 thousand);
- the administrative and production building in Rochester, New York, USA, in the amount of € 15,123 thousand (previous year: € 15,734 thousand);
- the administrative and production building in Durham, New Hampshire, USA, in the amount of € 12,240 thousand (previous year: € 15,312 thousand); and
- motor vehicles with a total value of € 20,047 thousand (previous year: € 23,524 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

	2012/2013	2013/2014
Consolidated net loss/profit for the year (€ thousands)	–117,067	3,619
Number of shares in thousands (weighted average)	234,104	234,174
Basic earnings per share (€)	–0.50	0.02
Diluted earnings per share (€)	–0.50	0.02

The basic earnings per share are calculated by dividing the consolidated net profit for the year by the weighted average number of the shares outstanding in the reporting year of 234,174 thousand (previous year: 234,104 thousand). The weighted number of shares outstanding was influenced by the holdings of treasury shares. There were still 142,919 treasury shares as of March 31, 2014 (March 31, 2013: 142,919).

The diluted earnings per share are based on the assumption of the conversion of outstanding debt into shares (convertible bond). The convertible bond is only included in the calculation of diluted earnings per share when it has a diluting effect in the respective reporting period.

Taking into account the corresponding number of shares from the convertible bond issued on July 10, 2013, there is no dilution of earnings per share, as the net income for the period is adjusted for the interest expense (coupon and accrued interest) recognized in the financial result for the convertible bonds. In the future, these instruments can have a fully diluting effect. There were no circumstances leading to the dilution of earnings per share in the previous year.

The reconciliation of basic earnings per share to diluted earnings per share is as follows:

	2013/2014 Potentially dilutive financial instruments (total)	2013/2014 Dilutive financial instruments applied in calculation
Numerator for basic earnings per share (€ thousand)	**3,619**	**3,619**
Plus effects from the convertible bond recognized in profit or loss (€ thousand)	4,157	0
Numerator for diluted earnings per share (€ thousand)	**7,776**	**3,619**
Number of shares (thousand)		
Denominator for basic earnings per share (weighted average number of shares, thousand)	**234,174**	**234,174**
Convertible bond	16,494	0
Denominator for diluted earnings per share (thousand)	**–**	**234,174**
Denominator for potentially diluted earnings per share (thousand)	**250,668**	**–**
Basic earnings per share (€)	–	0.02
Diluted earnings per share (€)	–	0.02

36 Information on the consolidated statement of cash flows

The consolidated statement of cash flows shows the changes in the cash and cash equivalents of the Heidelberg Group during the financial year as a result of the inflows and outflows of cash. Cash flows are broken down into operating, investing and financing activities (IAS 7). The changes in statement of financial position items shown in the consolidated statement of cash flows cannot be derived directly from the consolidated statement of financial position as the effects of currency translation and changes in the scope of consolidation do not affect cash and have therefore been eliminated.

€ 4,524 thousand (previous year: € 8,175 thousand) of investments in intangible assets, property, plant and equipment and investment property relates to intangible assets, € 46,815 thousand (previous year: € 72,207 thousand) to property, plant and equipment. Investments do not include additions from finance leases of € 601 thousand (previous year: € 1,513 thousand). € 48 thousand (previous year: € 12 thousand) of income from the disposal of intangible assets, property, plant and equipment and investment property relates to intangible assets and € 13,630 thousand (previous year: € 31,481 thousand) to property, plant and equipment.

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 (€ 232,657 thousand; previous year: € 157,492 thousand).

Detailed information on the consolidated statement of cash flows can be found in the consolidated management report.

37 Information on segment reporting

	Heidelberg Equipment		Heidelberg Services		Heidelberg Financial Services		Heidelberg Group	
	1-Apr-2012 to 31-Mar-2013	1-Apr-2013 to 31-Mar-2014	1-Apr-2012 to 31-Mar-2013	1-Apr-2013 to 31-Mar-2014	1-Apr-2012 to 31-Mar-2013	1-Apr-2013 to 31-Mar-2014	1-Apr-2012 to 31-Mar-2013	1-Apr-2013 to 31-Mar-2014
External sales	1,711,583	1,474,015	1,012,158	952,093	10,905	8,140	2,734,646	2,434,248
Depreciation and amortization	66,600	54,968	16,150	15,201	3	3	82,753	70,172
Non-cash expenses	233,434	173,151	85,624	52,598	7,404	4,987	326,462	230,736
Special items	50,633	7,607	14,208	2,387	32	0	64,873	9,994
Result of operating activities (segment result)	– 116,703	– 26,752	40,618	79,420	8,658	9,563	– 67,427	62,231
Investments	64,660	38,785	17,230	13,150	5	5	81,895	51,940

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 consolidated management report.

Regionally, we distinguish between Europe, Middle East and Africa, Asia/Pacific, Eastern Europe, North America and South America.

Further information on the business areas can be found in the chapters "Segment Report" and "Report on the Regions" in the consolidated 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-2012 to 31-Mar-2013	1-Apr-2013 to 31-Mar-2014
Result of operating activities (segment result)	– 67,427	62,231
Financial income	16,850	12,512
Financial expenses	75,719	72,997
Financial result	– 58,869	– 60,485
Income before taxes	**– 126,296**	**1,746**

Information by region

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

	1-Apr-2012 to 31-Mar-2013	1-Apr-2013 to 31-Mar-2014
Europe, Middle East and Africa		
Germany	393,922	336,770
Other Europe, Middle East and Africa regions	616,401	523,934
	1,010,323	860,704
Asia/Pacific		
China	429,435	413,528
Other Asia/Pacific regions	468,382	407,783
	897,817	821,311
Eastern Europe	303,774	285,693
North America		
USA	250,786	251,922
Other North America regions	124,554	98,149
	375,340	350,071
South America	147,392	116,469
	2,734,646	**2,434,248**

Of the non-current assets, which comprise intangible assets, property, plant and equipment and investment property, € 509,002 thousand (previous year: € 531,522 thousand) relates to Germany and € 224,152 thousand (previous year: € 240,660 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 consolidated management report, page 38). 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:

	2012/2013	2013/2014
Equity	401,521	358,804
– Net deferred taxes	27,863	43,842
Adjusted equity	**373,658**	**314,962**
Annual average	459,348	344,310
Pension provisions	415,361	450,206
Tax provisions	95,176	88,278
Net tax receivables/liabilities	6,533	708
Non-operating financial liabilities	396,524	459,171
Liabilities	**913,594**	**998,363**
Annual average	884,241	955,979
Adjusted total capital	**1,287,252**	**1,313,325**
Annual average	1,343,589	1,300,289

For the Heidelberg Group, capital management prioritizes 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 € 401,521 thousand to € 358,804 thousand. Based on total assets, the equity ratio therefore dropped from 17.2 percent to 16.0 percent.

Due to the improved free cash flow in the year under review, net debt was down year on year at € 238,379 thousand (previous year: € 261,371 thousand). The net debt is total financial liabilities less cash and cash equivalents and current securities.

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. On December 10, 2013, Heidelberg increased the high-yield bond by € 51 million to € 355 million. The increase was made with the same conditions as the issue of the high-yield bond in 2011; the issue price was 105.75 percent.

On July 10, 2013, Heidelberger Druckmaschinen Aktiengesellschaft issued an unsecured, unsubordinated convertible bond with an option for conversion into shares in Heidelberger Druckmaschinen Aktiengesellschaft. This convertible bond has an initial volume of € 60 million and is convertible into approximately 22.9 million no-par shares. The convertible bond was issued in denominations of € 100,000. It has a term of four years, was issued at 100 percent of the nominal value and is 100 percent repayable. The coupon is 8.50 percent p.a. and is distributed at the end of every quarter. The initial exercise price is € 2.62 per underlying share at an initial conversion ratio of 38,167.9389. Due to the conversion of five partial debentures on November 18, 2013 (see note 26), the original total nominal amount of the convertible bond decreased by € 0.5 million from € 60 million to € 59,5 million.

From July 30, 2014, Heidelberger Druckmaschinen Aktiengesellschaft is entitled to repay the convertible bond prematurely in full at the nominal value plus accrued interest. This requires that the share price multiplied by the applicable conversion ratio on 20 of the 30 consecutive trading days on the Frankfurt Stock Exchange before the announcement of the date of the early repayment exceeds 130 percent of the nominal value as of each of these 20 trading days.

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 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.

The convertible bond issued on July 10, 2013, lowered the revolving credit facility to around € 416 million. The increase of the high-yield bond on December 10, 2013, reduced the credit facility to around € 340 million. In parallel with this, it was agreed to prematurely extend the credit facility with the existing banking syndicate to mid-2017 and to reduce it further to around € 277 million on December 31, 2014.

One of the covenants of this credit facility 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 Consolidated Management Report (see pages 51 to 56) and the Corporate Governance Report.

The members of the Supervisory Board and the Management Board are listed in the separate overview presented on pages 132 to 134 (Supervisory Board) and page 135 (Management Board).

The total cash remuneration (= total remuneration) of the Management Board for the year under review including non-cash remuneration amounted to € 4,634 thousand (previous year: € 4,039 thousand), comprising variable single-year remuneration of € 1,434 thousand (previous year: € 1,460 thousand) and variable multi year remuneration of € 1,494 thousand (previous year: € 948 thousand).

The IFRS service cost for members of the Management Board amounted to € 1,099 thousand in the year under review (previous year: € 834 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 € 5,244 thousand (previous year: € 3,810 thousand); this comprises € 899 thousand (previous year: € 882 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, and the payments of € 1,543 thousand to Marcel Kiessling in connection with his departure in the year under review.

The pension obligations (defined benefit obligations) to former members of the Management Board and their surviving dependents amount to € 51,662 thousand (previous year: € 50,783 thousand); € 9,252 thousand (previous year: € 9,330 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.

For the year under review, the members of the Supervisory Board were granted fixed annual remuneration plus an attendance fee of € 500 per meeting day and remuneration for sitting on the Management Committee, the Audit Committee and the Committee on Arranging Personnel Matters totaling € 748 thousand (previous year: fixed annual remuneration plus a flat-rate reimbursement of € 500 per meeting day: € 384 thousand); 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 reporting year, transactions were carried out with related parties that resulted in liabilities of € 4,589 thousand (previous year: € 6,879 thousand), receivables of € 11,552 thousand (previous year: € 15,846 thousand), expenses of € 15,364 thousand (previous year: € 17,009 thousand) and income of € 7,869 thousand (previous year: € 8,089 thousand), which essentially includes sales. Write-downs of € 200 thousand (previous year: € 0 thousand) were recognized on receivables from related parties in the year under review. 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 € 481 thousand (previous year: € 616 thousand) from Heidelberger Druckmaschinen Aktiengesellschaft 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:

	2012/2013	2013/2014
Fees for		
Audits of financial statements	744	753
Other assurance services	36	413
Tax advisory services	1	6
Other services	678	704
	1,459	**1,876**

44 Events after the end of the reporting period

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

Heidelberg, May 26, 2014

HEIDELBERGER DRUCKMASCHINEN AKTIENGESELLSCHAFT
The Management Board

Dr. Gerold Linzbach

Dirk Kaliebe

Stephan Plenz

Harald Weimer

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 consolidated 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 26, 2014

HEIDELBERGER DRUCKMASCHINEN
AKTIENGESELLSCHAFT
The Management Board

Dr. Gerold Linzbach

Dirk Kaliebe

Stephan Plenz

Harald Weimer

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 consolidated management report for the financial year from April 1, 2013, to March 31, 2014. The preparation of the consolidated financial statements and the consolidated management report in accordance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315a (1) of the Handelsgesetzbuch (HGB – German Commercial Code) are the responsibility of the Management Board of the Company. Our responsibility is to express an opinion on the consolidated financial statements and the consolidated 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 consolidated 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 consolidated 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 consolidated management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315a (1) 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 consolidated 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, 2014

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Martin Theben	ppa. Stefan Sigmann
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Financial Section

2 / 2

List of shareholdings

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

Name	Country/Domicile		Shareholding in percent	Equity	Result after taxes
Affiliated companies included in the consolidated financial statements					
Domestic					
Gallus Druckmaschinen GmbH	D	Langgöns-Oberkleen	100 [1]	2,946	675
Gallus Stanz- und Druckmaschinen GmbH	D	Weiden	100 [2]	943	– 3,668
Heidelberg Boxmeer Beteiligungs-GmbH [3]	D	Heidelberg	100	127,091	371
Heidelberg China-Holding GmbH [3]	D	Heidelberg	100	58,430	11,115
Heidelberg Consumables Holding GmbH [3]	D	Heidelberg	100	20,025	– 4,452
Heidelberg Postpress Deutschland GmbH [3]	D	Heidelberg	100	25,887	– 20,730
Heidelberger Druckmaschinen Real Estate GmbH & Co. KG	D	Walldorf	100	116,310	6,286
Heidelberger Druckmaschinen Vermögensverwaltungsgesellschaft mbH	D	Walldorf	100	25	4
Heidelberger Druckmaschinen Vertrieb Deutschland GmbH [3]	D	Heidelberg	100	54,901	10,247
Heidelberg Print Finance International GmbH [3]	D	Heidelberg	100	34,849	2,254
Saphira Handelsgesellschaft mbH	D	Waiblingen	100	173	– 1,353
Abroad [4]					
Baumfolder Corporation	USA	Sidney, Ohio	100	2,580	– 610
Europe Graphic Machinery Far East Ltd.	PRC	Hong Kong	100	246	– 352
Gallus Ferd. Rüesch AG	CH	St. Gallen	100 [1]	– [5]	– [5]
Gallus Holding AG	CH	St. Gallen	30	– [5]	– [5]
Gallus Inc.	USA	Philadelphia, Pennsylvania	100 [2]	– [5]	– [5]
Heidelberg Americas, Inc.	USA	Kennesaw, Georgia	100	98,245	– 3,802
Heidelberg Asia Pte. Ltd.	SGP	Singapore	100	10,235	649
Heidelberg Baltic Finland OÜ	EST	Tallinn	100	7,180	769
Heidelberg Boxmeer B.V.	NL	Boxmeer	100	38,409	2,624
Heidelberg Canada Graphic Equipment Ltd.	CDN	Mississauga	100	6,460	690
Heidelberg China Ltd.	PRC	Hong Kong	100	11,487	3,918
Heidelberg do Brasil Sistemas Graficos e Servicos Ltda.	BR	São Paulo	100	4,096	– 5,160
Heidelberg France S.A.S.	F	Tremblay-en-France	100	6,023	– 249
Heidelberg Grafik Ticaret Servis Limited Sirketi	TR	Istanbul	100	4,778	18
Heidelberg Graphic Equipment (Shanghai) Co. Ltd.	PRC	Shanghai	100	88,008	19,560

Name	Country/Domicile		Shareholding in percent	Equity	Result after taxes
Heidelberg Graphic Equipment Ltd. – Heidelberg Australia –	AUS	Notting Hill, Melbourne	100	23,095	17,601
Heidelberg Graphic Equipment Ltd. – Heidelberg New Zealand –	NZ	Auckland	100	4,246	586
Heidelberg Graphic Equipment Ltd. – Heidelberg UK –	GB	Brentford	100	12,119	3,651
Heidelberg Graphic Systems Southern Africa (Pty) Ltd.	ZA	Johannesburg	100	2,112	332
Heidelberg Graphics (Beijing) Co. Ltd.	PRC	Beijing	100	1,170	773
Heidelberg Graphics (Thailand) Ltd.	TH	Bangkok	100	7,031	1,603
Heidelberg Graphics (Tianjin) Co. Ltd.	PRC	Tianjin	100	13,676	14,169
Heidelberg Graphics Taiwan Ltd.	TWN	Wu Ku Hsiang	100	4,873	427
Heidelberg Group Trustees Ltd.	GB	Brentford	100	0	0
Heidelberg Hong Kong Ltd.	PRC	Hong Kong	100	13,082	1,587
Heidelberg India Private Ltd.	IN	Chennai	100	5,572	533
Heidelberg International Finance B.V.	NL	Boxmeer	100	46	– 1
Heidelberg International Ltd. A/S	DK	Ballerup	100	44,353	7,809
Heidelberg International Trading (Shanghai) Co. Ltd.	PRC	Shanghai	100	651	596
Heidelberg Japan K.K.	J	Tokyo	100	27,408	6,169
Heidelberg Korea Ltd.	ROK	Seoul	100	3,320	1,301
Heidelberg Magyarország Kft.	HU	Kalasch	100	6,899	540
Heidelberg Malaysia Sdn Bhd	MYS	Petaling Jaya	100	– 728	– 419
Heidelberg Mexico Services, S. de R.L. de C.V.	MEX	Mexico City	100	1,581	120
Heidelberg Mexico, S. de R.L. de C.V.	MEX	Mexico City	100	9,951	1,661
Heidelberg Philippines, Inc.	PH	Makati City	100	4,795	713
Heidelberg Polska Sp z.o.o.	PL	Warsaw	100	10,645	1,700
Heidelberg Praha spol s.r.o.	CZ	Prague	100	2,039	361
Heidelberg Print Finance Australia Pty Ltd.	AUS	Notting Hill, Melbourne	100	25,773	931
Heidelberg Print Finance Korea Ltd.	ROK	Seoul	100	15.542	324
Heidelberg Print Finance Osteuropa Finanzierungsvermittlung GmbH [6)]	A	Vienna	100	11,961	225
Heidelberg Schweiz AG	CH	Bern	100	12,126	4,331
Heidelberg Shenzhen Ltd.	PRC	Shenzhen	100	6,311	1,065
Heidelberg Slovensko s.r.o.	SK	Bratislava	100	2,029	264

Name	Country/Domicile		Shareholding in %	Equity in € thousands	Net result after taxes in € thousands
Heidelberg Sverige AB	S	Solna	100	7,240	1,309
Heidelberg USA, Inc.	USA	Kennesaw, Georgia	100	132,831	18,377
Heidelberger CIS OOO	RUS	Moscow	100	– 3,684	– 686
Heidelberger Druckmaschinen Austria Vertriebs-GmbH	A	Vienna	100	23,557	7,948
Heidelberger Druckmaschinen Osteuropa Vertriebs-GmbH [6]	A	Vienna	100	7,750	7,023
Heidelberger Druckmaschinen WEB-Solution CEE Ges.m.b.H	A	Vienna	100	2,046	– 20
Hi-Tech Coatings International B.V.	NL	Zwaag	100	9,882	636
Hi-Tech Coatings International Limited	GB	Aylesbury, Bucks	100	8,682	534
Linotype-Hell Ltd.	GB	Brentford	100	4,140	0
Modern Printing Equipment Ltd.	PRC	Hong Kong	100	2,880	– 402
MTC Co., Ltd.	J	Tokyo	99.99	7,294	– 7
P.T. Heidelberg Indonesia	ID	Jakarta	100	6,151	1,966
Affiliated companies not included in the consolidated financial statements owing to immateriality for the net assets, financial position and results of operations					
Domestic					
D. Stempel AG i.A. [7]	D	Heidelberg	99.23	95	– 42
Heidelberg Catering Services GmbH [3]	D	Wiesloch	100	386	– 1,915
Heidelberg Direkt Vertriebs GmbH [7]	D	Heidelberg	100	342	9
Menschick Trockensysteme GmbH	D	Renningen	100 [8]	397	54
Kurpfalz Asset Management GmbH [3]	D	Heidelberg	100	26	1
Sporthotel Heidelberger Druckmaschinen GmbH [3]	D	Heidelberg	100	26	– 258
Abroad [4]					
Cerm Benelux NV	BE	Oostkamp	100	1,052	71
Gallus Ferd. Rüesch (Shanghai) Co. Ltd.	PRC	Shenzhen	100 [8]	180	– 63
Gallus Printing Machinery Corp.	USA	Philadelphia, Pennsylvania	100 [8]	– 1,025	– 225
Gallus Australia Pty Ltd.	AUS	Bayswater	100 [8]	136	39
Gallus India Private Limited	IN	Mumbai	100 [8]	224	94

Name	Country/Domicile		Shareholding in %	Equity in € thousands	Net result after taxes in € thousands
Gallus Mexico S. de R.L. de C.V.	MEX	Mexico City	100[8]	–[9]	–[9]
Gallus Scandinavia A/S	DK	Glostrup	100[8]	–686	–140
Gallus South East Asia Pte. Ltd.	SGP	Singapore	100[8]	–294	–413
Gallus-Group UK Ltd.	GB	Royston	100[8]	445	102
Heidelberg Asia Procurement Centre Sdn Bhd	MYS	Petaling Jaya	100	99	–59
Heidelberg Graphic Systems Ltd.	CY	Nicosia	99.99	0	10
Heidelberg Lebanon	LB	Beirut	99.96	360	–537
Heidelberg Postpress Slovensko spol. s.r.o.	SK	Nové Mesto nad Váhom	100	5,335	738
Heidelberg Used Equipment Ltd.[7]	GB	Brentford	100	591	40
Heidelberger Druckmaschinen Ukraina Ltd.	UA	Kiev	100	–1,292	–685
Inline Cutting L.L.C.	USA	Hartland, Wisconsin	100[8]	–1,252	0
Associated companies accounted for using the equity method owing to immateriality for the net assets, financial position and results of operations					
Domestic					
Neo7even GmbH	D	Siegen	49	1,671	–320
Abroad[4]					
Heidelberg Middle East FZ Co.	AE	Dubai	50	543	0
Print Media Academy Ceska Republika a.s.	CZ	Pardubice	24	31	6
Other shareholdings (>5%)					
Domestic					
SABAL GmbH & Co. Objekt FEZ Heidelberg KG	D	Munich	99.90	–4,390	–503

[1] Indirect equity investment through Gallus Holding AG
[2] Indirect equity investment through Gallus Ferd. Rüesch AG
[3] Before profit transfer
[4] Disclosures for companies outside Germany in accordance with IFRS
[5] Exemption in accordance with section 286(2) sentence 3 HGB
[6] Before profit transfer and capital transactions
[7] Prior-year figures, since financial statements not yet available
[8] Indirect equity investment (Gallus Group)
[9] Newly established company, financial statements not yet available

The Supervisory Board*

Robert J. Koehler
Former 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)
Freudenberg SE

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

Edwin Eichler
Independent business consultant of Eichler M+B Consulting, Weggis, Switzerland, and Chief Executive Officer of SAPINDA Holding B.V., Amsterdam/the Netherlands
a) SGL Carbon SE
SMS Holding GmbH
b) Hoberg & Driesch GmbH & Co. KG (Advisory Board)
Member of the University Council at the Technical University of Dortmund
Fr. Lürssen Werft GmbH & Co. KG (Advisory Board)
Schmolz & Bickenbach AG, Switzerland (Chairman of the Administration Board)

Wolfgang Flörchinger**
through July 23, 2013***
Full-time member of the Works Council, Heidelberg/Wiesloch-Walldorf

Martin Gauß**
through July 23, 2013***
Chairman of the Speakers Committee for the Executive Staff, Heidelberg

Mirko Geiger**
First Senior Representative of IG Metall, Heidelberg
a) ABB AG

Gunther Heller**
through July 23, 2013***
Chairman of the Works Council, Amstetten

Jörg Hofmann**
Vice Chairman of IG Metall, Frankfurt
a) Daimler AG
Robert Bosch GmbH

* At the end of December 2012, the Management Board of Heidelberger Druckmaschinen Aktiengesellschaft initiated status proceedings in accordance with section 97 of the Stock Corporation Act (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. Since the end of the Annual General Meeting in July 2013, the Supervisory Board consists of only 12 members (previously 16).

Dr. Siegfried Jaschinski
Partner of MainFirst Bank AG, Frankfurt am Main
b) MainFirst Holding AG, Switzerland
(Member of the Administration Board)

Dr. Herbert Meyer
Independent business consultant, Königstein / Taunus and Member of the Auditor Oversight Commission (AOC), Berlin
a) HT Troplast GmbH
MainFirst Bank AG
b) Verlag Europa Lehrmittel GmbH
(Member of the Advisory Board)
MainFirst Holding AG, Switzerland

Dr. Gerhard Rupprecht
through July 23, 2013 ***
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 **
Full-time member of the Works Council, Heidelberg/Wiesloch-Walldorf

Lone Fønss Schrøder
Non-executive member of the managing bodies of German and foreign companies, Hornbaek, Denmark
a) Bilfinger 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)
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
KEX Knowledge Exchange AG (Chairman)
b) Gallus Holding AG, Switzerland
(Member of the Administration Board)
Brose Fahrzeugteile GmbH & Co. KG
(Member of the Advisory Board)

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

Christoph Woesler **
since July 23, 2013
Head of Procurement Electric/Electronics
Chairman of the Speakers Committee for the Executive Staff, Wiesloch-Walldorf

** Employee representative
*** As of the date of departure
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
through July 23, 2013
Mirko Geiger
Dr. Gerhard Rupprecht
through July 23, 2013
Lone Fønss Schrøder
since July 23, 2013
Prof. Dr.-Ing. Günther Schuh
Peter Sudadse
since July 23, 2013

MEDIATION COMMITTEE UNDER ARTICLE 27 PARAGRAPH 3 OF THE CODETERMINATION ACT

Robert J. Koehler
Rainer Wagner
Wolfgang Flörchinger
through July 23, 2013
Dr. Herbert Meyer
since July 23, 2013
Dr. Gerhard Rupprecht
through July 23, 2013
Peter Sudadse
since July 23, 2013

COMMITTEE ON ARRANGING PERSONNEL MATTERS OF THE MANAGEMENT BOARD

Robert J. Koehler (Chairman)
Rainer Wagner
Dr. Gerhard Rupprecht
through July 23, 2013
Beate Schmitt
Prof. Günther Schuh
since July 23, 2013

AUDIT COMMITTEE

Dr. Herbert Meyer (Chairman)
Dr. Siegfried Jaschinski
Mirko Geiger
Rainer Wagner

NOMINATION COMMITTEE

Robert J. Koehler (Chairman)
Edwin Eichler
since July 23, 2013
Dr. Gerhard Rupprecht
through July 23, 2013
Lone Fønss Schrøder
since July 23, 2013

STRATEGY COMMITTEE

Robert J. Koehler (Chairman)
Rainer Wagner
Edwin Eichler
Mirko Geiger
Dr. Siegfried Jaschinski
Dr. Herbert Meyer
Dr. Gerhard Rupprecht
through July 23, 2013
Lone Fønss Schrøder
Prof. Dr.-Ing. Günther Schuh

The Management Board

Dr. Gerold Linzbach
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)

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
through March 31, 2014
Heidelberg
Head of the Heidelberg
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)

Harald Weimer
since April 1, 2014
Heidelberg
Head of the Heidelberg
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

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

Supervisory Board and Corporate Governance

3 /

Report of the Supervisory Board

ROBERT J. KOEHLER
CHAIRMAN OF THE SUPERVISORY BOARD

Dear shareholders,

In financial year 2013/2014, Heidelberg's overriding goal was to return to profitability. The consistent implementation of the restructuring program and a clear focus on profitable business resulted in success. Despite these positive developments, all of the Group's areas and processes remain under scrutiny. Heidelberg will continue to change so as to be able to react more flexibly to fluctuations in business, especially in connection with new machinery. Heidelberg's success will only be possible through the development of economically resistant fields of business, competitive products, a great ability to innovate and, especially, highly motivated employees. The pronounced recovery of the Heidelberg share price is also an indication that Heidelberg is on the right track: It has been above € 2 since November 2013 and its peak price has nearly doubled within a year.

Close cooperation between Management Board and Supervisory Board
The Supervisory Board meetings were characterized by intense and open communication regarding the Company's situation, the development of the business and financial position, fundamental questions of corporate strategy, existing development opportunities in important growth markets, and compliance issues. We were in continual dialog with the Management Board in regular Supervisory Board and committee meetings and in additional meetings with shareholder representatives. Additionally, the Chairman of the Supervisory Board maintained regular contact with the CEO with regard to preparation and coordination issues.

The 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.

In financial year 2013/2014, the Heidelberg Supervisory Board performed the duties incumbent upon it according to legal provisions and the Articles of Association with utmost care. We monitored the Management Board's management of the business on a regular basis and advised on the strategic development of the Company and major individual measures. For this purpose, the Supervisory Board accepted detailed reports from the Management Board. The always positive cooperation between the Management Board and Supervisory Board was demonstrated not just in the four ordinary and two extraordinary Supervisory Board meetings, in which the Management Board informed us in detail of current developments and business trends, but also in the many discussions and reports with the CEO, the CFO and their colleagues on the Management Board between meetings.

The Supervisory Board discussed the Management Board's reports in detail and debated the prospects of the Company and its individual areas.

We were promptly and extensively involved in all significant decision-making processes at all times. Resolutions on urgent issues were passed by way of written procedure; this occurred three times 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 and decisions 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, results of operations and the liquidity situation 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.

In its meeting on June 5, 2013, the Supervisory Board approved the consolidated and annual financial statements for the financial year 2012/2013 after hearing and discussing the auditor's report, thereby following the recommendation of the Audit Committee. It also approved the agenda for the 2013 Annual General Meeting. In addition, the Supervisory Board discussed plans for capital market measures and decided on the level of target attainment for measuring the Management Board bonuses for the financial year 2012/2013 on the basis of the contractual system approved in the Annual General Meeting on July 26, 2012 (see this Annual Report, page 55 ff.). Moreover, the Supervisory Board considered the amendments to the German Corporate Governance Code.

In the meeting before the Annual General Meeting on July 23, 2013, the Supervisory Board discussed the reporting of the Management Board on the business situation as in every meeting held in the year under review and 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.

In the constituent meeting after the Annual General Meeting, the Supervisory Board (which had been adjusted to the size of the Company and reduced to 12 members) elected Robert J. Koehler as its Chairman and Rainer Wagner as Deputy, plus the members of the following committees: the Mediation Committee, Personnel Matters Committee, Management Committee, Audit Committee and Nomination Committee. These committees represent shareholders and employees equally. In addition, a Strategy Committee was newly formed that comprises all shareholder representatives and two employee representatives. The Supervisory Board also decided to commission PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft as the auditor for the financial year 2013/2014. Furthermore, it also dealt in the meeting with the revision of the Supervisory Board's Rules of Procedure, which was necessitated by amendments to the German Corporate Governance Code.

Following the account of the current business situation in the Supervisory Board meeting on November 27, 2013, the Supervisory Board was then informed in detail about the status of the ongoing negotiations with banks regarding the extension or renewal of the credit facility and the increase of the high-yield bond (HYB). In order to ease communication and decision-making in future, a temporary special HYB tap issue committee was formed. Finally, the 2013 Declaration of Compliance was approved in this meeting.

The topics of the Supervisory Board's last meeting of the reporting year, on March 26, 2014, were the planning for the coming financial year and projections for the following years. The Supervisory Board acknowledged and approved the planning presented.

In addition, two extraordinary meetings of the Supervisory Board on February 18, 2014, and March 4, 2014, dealt with the realignment of the Company and the accompanying personnel changes on the Management Board, namely the consensual departure of Mr. Marcel Kiessling and the appointment of Mr. Harald Weimer as a Management Board member.

Corporate governance

The corporate governance of the Company was a regular topic of the discussions in the Supervisory Board, as were the recommendations of the German Corporate Governance Code revised in 2013. We updated our Rules of Procedure once in the year under review to take the 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. These can be found on our Web site www.heidelberg.com under the heading "Investor Relations/Corporate Governance".

Work in the committees
The Supervisory Board has formed six committees in order to perform its duties efficiently and to aid a focused discussion of issues:

- Mediation Committee
- Management Committee
- Nomination Committee
- Personnel Matters Committee
- Audit Committee
- Strategy Committee

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 three times in the 2013/2014 reporting year. Its work focused on remuneration issues, the transition from the former Member of the Board and Head of the Heidelberg Services segment Mr. Marcel Kiessling to Mr. Harald Weimer and other issues concerning members of the Management Board. The Audit Committee held five meetings. It examined questions pertaining to 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, the accounting policies applied, and the specifics of the annual and consolidated financial statements. Other issues discussed included the liquidity situation of the Heidelberg Group and the refinancing, the development of the capital structure (own and borrowed funds), risk management, the internal controlling and audit system, compliance, the implementation of the Focus efficiency program, the application of new accounting provisions such as the recognition of pension provisions, investment controlling, and sales financing. The Strategy Committee met once. The Nomination Committee did not meet and the Mediation Committee in accordance with Section 27 (3) of the German Codetermination Act (MitBestG) also did not have to be convened. In the year under review, a temporary special committee, the HYB tap issue committee, was formed.

Heidelberg refinances successfully
In the reporting year, important steps were taken to ensure the financial framework remains stable. The refinancing process was started by issuing a convertible bond in July 2013. In addition, the syndicated credit facility arranged in 2011 was prematurely extended with the existing banking syndicate in connection with the increase of the high-yield bond in December. This further improved our financing structure and extended the maturities of the major elements of our borrowing to 2017 and 2018.

Heidelberg thus has a sound financial framework for business development and a diversified financing structure.

Strategic development through cooperation and partnerships
The strategic partnership agreed between Heidelberg and Fujifilm in November 2013 is intended to strengthen the existing business of both companies and, especially on the basis of inkjet technology, create a platform from which to tap into new business areas in future-oriented markets. The established and successful partnership with Ricoh in the entry-level segment of digital printing is being further intensified. Heidelberg has excellent market access and can thus become a global player in the digital printing market.

Heidelberg enhanced its portfolio again in January 2014 by taking a share in the German software manufacturer Neo7even based in Siegen. The investment allowed the Company to enter the growing multi-channel publishing segment.

Audit of the non-consolidated and consolidated financial statements
The Annual General Meeting on July 23, 2013, appointed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft as the auditor. This company audited the non-consolidated financial statements for

the 2013/2014 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. 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, 2014. 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 (Group) 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, 2014. 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, 2014.

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 23, 2013, in accordance with the German Codetermination Act. The shareholder representative Dr. Gerhard Rupprecht was not reelected. The employee side did not reelect Mr. Wolfgang Flörchinger or Mr. Gunther Heller. Furthermore, Mr. Martin Gauß resigned his office. Mr. Christoph Woesler was elected to the Supervisory Board in his place as representative of the executive staff. All of these gentlemen formerly were long-standing members of the Supervisory Board, and the Supervisory Board and the Management Board thank them for their many years of valuable advice. Mr. Marcel Kiessling left the Management Board by amicable arrangement on March 31, 2014. His successor, Mr. Harald Weimer, has been the Management Board member responsible for Services since April 1, 2014. The Supervisory Board will continue to monitor the Company's interests and its long-term development and work towards its well-being.

Thank you from 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 sustainably profitable enterprise once again.

Wiesbaden, June 5, 2014

FOR THE SUPERVISORY BOARD

Robert Koehler

ROBERT J. KOEHLER
CHAIRMAN OF THE SUPERVISORY BOARD

Corporate governance and compliance

- Recommendations of the German Corporate Governance Code complied with few exceptions
- Supervisory Board made smaller as planned and thus adjusted to the size of the Company
- Compliance activities anchored in Heidelberg Group by Code of Conduct
- Planned focus in FY 2014/2015: Review, revision and/or adjustment of the existing compliance management system

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 2013/2014 financial year. At the 2013 Annual General Meeting, the Supervisory Board was reduced in size from 16 to 12 members as planned, 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 27, 2013:

"Since issuing its last declaration of compliance on November 28, 2012, Heidelberger Druckmaschinen Aktiengesellschaft has complied 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 Federal Gazette on June 15, 2012, in the period prior to June 9, 2013, and, moreover, with all recommendations of the Government Commission of the German Corporate Governance Code as amended May 13, 2013 and as promulgated by the German Federal Ministry of Justice in the official section of the Federal Gazette on June 10, 2013, in the period from June 10, 2013 to November 27, 2013, with the following exceptions, and will continue to comply with these recommendations in the future with the following exceptions:

The previously reported non-compliance with item 5.4.5 no longer applies with effect from January 1, 2014, as the Chairman of the Supervisory Board Mr. Robert J. Koehler will have ended his active Management Board work at this time.

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 15, 2012, and as amended May 10, 2013, 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 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, prospectively on November 26, 2014, 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 27, 2013, 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 activities of the Heidelberg Group are subject to various national and international legal provisions and guidelines as well as the Group's own Code of Conduct, which was introduced on June 1, 2005, and has since remained largely unchanged. The Code of Conduct 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 use and practice these rules for fair, constructive and productive dealings in day-to-day operations with respect to the general public, customers and suppliers, competitors, other business partners and shareholders, but also other Heidelberg employees. Therefore, integrity in everyday business and respectful cooperation at all work levels is expected.

The central task of the Compliance Office is to ensure Company-wide compliance with these regulations – both by the Group's bodies and each individual employee. The Compliance Office is integrated into the legal department. The Chief Compliance Officer reports directly and is subordinate to the CEO.

Heidelberg's measures to ensure compliance with Company-wide regulations are based on a preventative and risk-based approach. 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, presentations 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 the 2014/2015 financial year, a priority will be the review, revision and/or adjustment of the existing compliance management system in order to improve it also in light of current developments. Plans include a stronger top-down approach, the expansion of own resources, the establishment of a whistleblower system, an accompanying communication campaign and the optimization of processes. Another priority will remain advice and training for employees in the areas of corruption prevention and antitrust law in particular. Internal findings and comparison and communication with other companies contribute to the ongoing development of our compliance management system.

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, June 5, 2014

For the Supervisory Board	For the Management Board
Robert J. Koehler	Dr. Gerold Linzbach

Glossary

4D printing
Heidelberg defines "4D printing" as the inkjet-based individual printing of three-dimensional objects.

A

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.

B

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.

Business area (BA)
Heidelberg's business units within its segment structure. Each business area formulates plans for how best to leverage the potential offered by its respective sub-markets.

C

Carbon footprint
A measure of the total amount of carbon dioxide (CO_2) emitted directly or indirectly as a result of an activity or in the production and/or life stages of a product.

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.

Consumables
With Saphira, Heidelberg offers a wide range of consumables covering all needs from prepress to press and postpress, including printing plates, inks and coatings, blankets and rollers, chemicals and wearing parts.

Convertible bond
A type of security issued by a company, generally with a nominal interest rate, granting the bearer the right to exchange it for shares at a predefined ratio during the conversion period.

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.

D

Digital printing
A group of printing processes in which the image to be printed is transferred directly from a computer to a printing press without the use of a static printing plate. Most digital print systems are either toner-based or use liquid ink ("inkjet printing").

F

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.

Free float
For a stock corporation, the free float is the total number of shares available for trading on the stock exchange. In the ideal case, 100 percent of a stock corporation's shares are exchange-traded. Where less than 100 percent of the shares are exchange-traded, the non-traded shares are held by major shareholders as "blocks" of shares.

I

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.

K

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.

M

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.

Multi-channel publishing

The cross-media, cross-platform publication of content, often including multimedia. The initial data is prepared in such a way as to be usable across different applications and devices without requiring further processing.

O

OEM (original equipment manufacturer)

An OEM is a buyer of hardware components (hardware) produced by another hardware manufacturer (supplier). The OEM installs these hardware components in its products and sells them under its own name.

P

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.

Q

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.

R

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.

S

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.

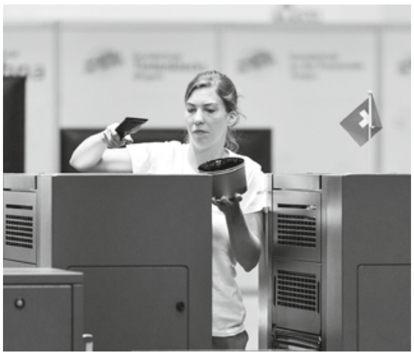
W

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.

Chronicle 2013/2014

04/13



04/13

Longest Speedmaster in 70 × 100 format installed in Scotland

A customer from Scotland extended its range of creative print finishes by investing in the longest printing press ever manufactured by Heidelberg in the 70 × 100 format. The Speedmaster XL 106 has 17 print units and can be used in particular for finishing packaging with high-end effects.

05/13

High level of interest at China Print

More than 180,000 visitors were provided with information about the Company’s latest products and services. China is Heidelberg’s most important individual market.

New service offering

With Remote Monitoring customers can minimize the unplanned downtime of printing presses via the Internet, ensuring smooth press operation around the clock.

06/13

Cleverly combining Internet and print

The new Prinect Smart Automation software enables fully automated print job processing, e.g. jobs generated via the Internet.

07/13

Convertible bond successfully placed

Heidelberg further optimized its financing structure with the issue of a € 60 million convertible bond. With this move, the Company has continued to diversify its financing base while further improving its maturity profile.

Best young printers recognized

The best young printers in the world were honored at WorldSkills 2013 in Leipzig. Heidelberg supported both the preliminary contest in Germany and the international competition in Leipzig.

08/13

Success on the packaging market

The first Speedmaster XL 162 large-format press in Italy was installed. A major packaging printer will use it to produce both short runs for point-of-sale applications and long runs for food packaging.

09/13

1,000th press delivered by Chinese site

The Company’s site in Qingpu near Shanghai has delivered 1,000 sheetfed offset presses since its establishment in 2006, reflecting the continued expansion of Heidelberg’s position in the growing Chinese and Asian market.

11/13

Strategic partnership with Fujifilm

Heidelberg and Fujifilm announced a partnership in the area of inkjet technology printing. The aim is to develop the next generation of products for the attractive digital printing market.

03 / 14

Small-format product portfolio realigned
In future, Heidelberg will cover the entire range of small-format applications with the Speedmaster SM/SX 52 and the Linoprint digital printing system. As a consequence, production of the Printmaster GTO 52 for small-format offset printing was discontinued.

12 / 13
Successful refinancing
Heidelberg further optimized its financing structure and extended the existing syndicated credit facility ahead of schedule. At the same time, the bond was increased by € 51 million.

Investment in software manufacturer Neo7even
This investment will allow Heidelberg to enter the growth segment of multi-channel publishing. The aim is to use Neo7even's software to open up new business options for print shops by enabling them to offer their customers media-neutral publishing services, e.g. print and online, to a greater extent in future.

01 / 14
Eco-friendly consumables
Heidelberg tightened its criteria for eco-friendly consumables once again, adapting them to reflect the latest international environmental standards. The range of available Saphira Eco products was also expanded.

Qingpu site certified
All Heidelberg sites are subject to strict quality standards. The integrated management system at the Company's Chinese site in Qingpu, Shanghai, has now also successfully obtained ISO 9001 and ISO 14001 certification from the certification body DQS GmbH.

02 / 14
Series production starts for Speedmaster XL 75 Anicolor
Series production of the Speedmaster XL 75 Anicolor began in Wiesloch-Walldorf. After the Anicolor zoneless short inking unit proved so successful in the 30 × 50 format for short and very short runs, this technology was extended to the 50 × 70 format.

03 / 14
A success story: the Speedmaster XL 106
The 10,000th printing unit in this series left the production site in Wiesloch-Walldorf and was delivered to a print shop in France. The Speedmaster XL 106 has firmly established itself on the market and achieved a leading position among long perfecting presses and in the area of packaging printing (folding cartons and labels).

Digital future
In order to expand its digital offering, the Company is investing in technologies such as digital inkjet printing and entering entirely new market segments with the printing on three-dimensional objects. Heidelberg is cooperating with high-profile partners in order to achieve this. The digital segment accounts for around one-third of research and development spending.

Change in the Management Board
As part of the realignment of the Company, the Heidelberg Supervisory Board appointed Harald Weimer as a regular member of the Management Board with effect from April 1, 2014. Marcel Kiessling left the Company by mutual consent with effect from March 31, 2014.

Financial calendar 2014/2015

June 11, 2014	➡ Press Conference, Annual Analysts' and Investors' Conference
July 24, 2014	➡ Annual General Meeting
August 13, 2014	➡ Publication of First Quarter Figures 2014/2015
November 12, 2014	➡ Publication of Half-Year Figures 2014/2015
February 4, 2015	➡ Publication of Third Quarter Figures 2014/2015
June 10, 2015	➡ Press Conference, Annual Analysts' and Investors' Conference
July 24, 2015	➡ Annual General Meeting

Subject to change

Publishing information

Kurfürsten-Anlage 52–60
69115 Heidelberg
Germany
www.heidelberg.com

Investor Relations
Phone: +49-62 21-92 60 22
Fax: +49-62 21-92 51 89
investorrelations@heidelberg.com

Produced on Heidelberg machines using Heidelberg technology.

Consultancy/Concept/Text Dr. Thomas Quinn, Frankfurt am Main
Concept/Design Strichpunkt GmbH, Stuttgart
Proofreading AdverTEXT, Düsseldorf
Photo credits Chronicle: Archive Heidelberger Druckmaschinen AG
Image pages: Robert Brembeck, Konrad Fersterer, Jan Siefke, Foto Lautenschlager, St. Gallen, Switzerland, Andreas Hofweber
Image rights © Geo Rittenmyer/Corbis
Print W. Kohlhammer Druckerei GmbH & Co. KG, Stuttgart
Finishing BELTZ Grafische Betriebe, Bad Langensalza

Printed in Germany.
This Annual Report is a translation of the official German Annual Report of Heidelberger Druckmaschinen Aktiengesellschaft.
The Company disclaims responsibility for any misunderstanding or misinterpretation due to this translation.

carbon neutral
natureOffice.com | DE-159-474622
print production

FSC www.fsc.org MIX From responsible sources FSC® C016267

Printed with Saphira Eco
HEIDELBERG

Five-year overview – Heidelberg Group

Figures in € millions	2009/2010	2010/2011	2011/2012	2012/2013*)	**2013/2014*)**
Incoming orders	2,371	2,757	2,555	2,822	2,436
Net sales	2,306	2,629	2,596	2,735	2,434
Foreign sales share in percent	83.8	84.9	85.1	85.6	86.2
EBITDA [1]	– 25	104	90	80	143
in percent of sales	– 1.1	3.9	3.5	2.9	5.9
Result of operating activities [2]	– 130	4	3	– 3	72
Income before taxes	– 286	– 143	– 229	– 126	2
Income after taxes	– 229	– 129	– 230	– 117	4
in percent of sales	– 9.9	– 4.9	– 8.9	– 4.3	0.1
Research and development costs	121	121	129	118	117
Investments	62	79	70	82	52
Total assets	2,879	2,643	2,518	2,338	2,244
Net working capital [3]	1,031	908	915	872	727
Receivables from sales financing	212	178	156	118	91
Equity	579	869	576	402	359
in percent of total equity and liabilities	20.1	32.9	22.9	17.2	16.0
Financial liabilities	816	395	438	419	481
Net debt [4]	695	247	243	261	238
Cash flow	– 179	– 41	– 130	– 41	70
in percent of sales	– 7.8	– 1.6	– 5.0	– 1.5	2.9
Free cash flow	– 62	75	10	– 18	22
in percent of sales	– 2.7	2.9	0.4	– 0.6	0.9
ROCE in percent	– 8.8	0.7	0.3	– 0.4	6.8
Return on equity in percent [5]	– 39.6	– 14.8	– 39.9	– 29.2	1.0
Earnings per share in €	– 2.94	– 0.83	– 0.98	– 0.50	0.02
Dividend in €	–	–	–	–	–
Share price at financial year-end in € [6]	3.36	3.34	1.50	1.80	2.23
Market capitalization at financial year-end	416	779	351	421	523
Number of employees at financial year-end [7]	15,796	15,197	14,813	13,694	12,539

*) First-time adoption of IAS 19 (2011) in financial year 2013/2014. The figures of the 2012/2013 financial were restated. The figures of the financial years 2009/2010 through 2011/2012 have not been restated.

[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 and securities
[5] After tax
[6] Adjusted to the number of shares following the capital increase; Xetra closing price, source prices: Bloomberg
[7] Number of employees excluding trainees

Visit us at www.

heidelberg-heart-of-print.com

Heidelberger Druckmaschinen AG
Kurfürsten-Anlage 52 – 60 | 69115 Heidelberg, Germany | www.heidelberg.com

HEIDELBERG