

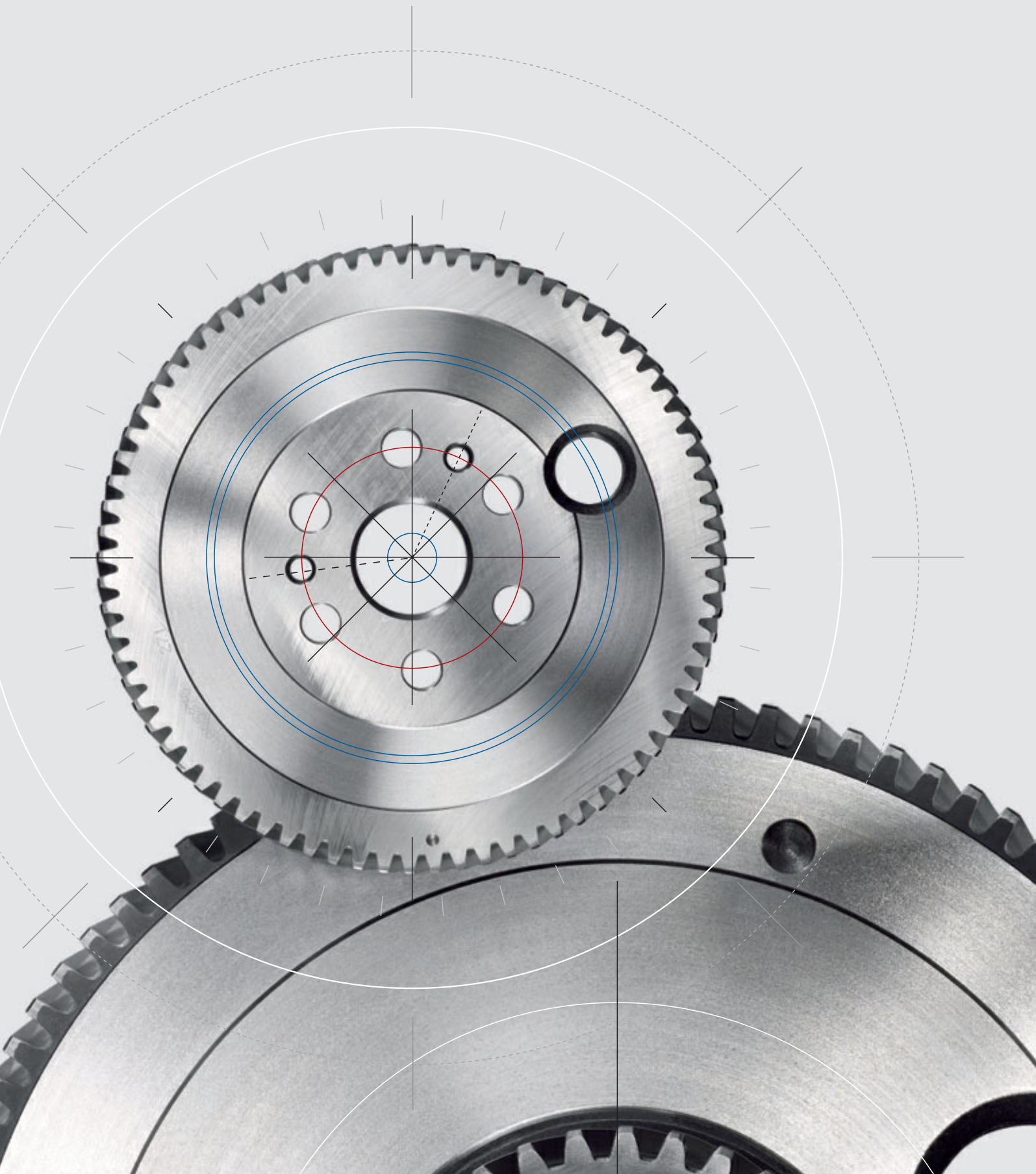


MAXIMUM PRECISION ...

ANNUAL REPORT 2006/2007

HEIDELBERG

> THE FIGURES



> 5-YEAR OVERVIEW – HEIDELBERG GROUP

Figures in € millions	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007
Incoming orders	4,170	3,852	3,700	3,605	3,853
Net sales	4,231	3,746	3,360	3,586	3,803
Foreign sales share in percent	87.6	88.8	85.3	86.9	85.1
Result of operating activities¹⁾	163	79	171	277	362
– in percent of sales	3.9	2.1	5.1	7.7	9.5
Profit before taxes	– 164	– 506	106	229	300
Net loss/profit	– 138	– 695	59	135	263
– in percent of sales	– 3.3	– 18.6	1.8	3.8	6.9
Research and development costs	391	317	211	214	237
Investments	243	164	162	169	178
Total assets	5,131	4,232	3,660	3,281	3,339
Working capital²⁾	1,515	1,288	1,091	1,199	1,299
Receivables from customer financing	860	769	565	496	431
Shareholders' equity	1,950	1,230	1,166	1,138	1,202
– in percent of total equity and liabilities	38.0	29.1	31.9	34.7	36.0
Financial debt³⁾	796	718	587	540	509
Net financial debt⁴⁾	957	861	731	672	562
Cash flow	51	– 121	232	345	398
– in percent of sales	1.2	– 3.2	6.9	9.6	10.5
Free cash flow	207	114	152	149	229
– in percent of sales	4.9	3.0	4.5	4.2	6.0
ROCE in percent⁵⁾	2.7	0.4	7.0	13.6	15.7
Value contribution in percent⁵⁾	– 7.8	– 9.9	– 2.2	4.4	5.8
Return on equity in percent⁶⁾	– 7.1	– 56.5	5.1	11.9	21.9
Earnings per share in €	– 1.67	– 8.16	0.69	1.58	3.23
Dividends in €⁷⁾	–	–	0.30	0.65	0.95
Share price at financial year-end in €	16.21	27.99	24.65	36.40	34.30
Market capitalization at financial year-end	1,393	2,405	2,118	3,023	2,735
Dividend yield in percent⁸⁾	–	–	1.22	1.79	2.77
Number of employees at financial year-end⁹⁾	24,023	22,513	18,416	18,436	19,171

¹⁾ Before restructuring expenses

²⁾ The sum of inventories and trade receivables less trade payables as well as payments on account

³⁾ Liabilities to banks including private placement and convertible bond

⁴⁾ The sum of financial debt and pension provisions less marketable securities as well as cash and cash equivalents

⁵⁾ Adjusted for positive one-time effects totaling net € 60 million in financial year 2006/2007

⁶⁾ After taxes

⁷⁾ For financial year 2006/2007 proposal of the Management Board and the Supervisory Board

⁸⁾ Based on the financial year-end price in Xetra trading

⁹⁾ Previous year's figures were adjusted for employees in the exemption phase of their partial retirement



> CONSOLIDATED FINANCIAL STATEMENTS

OF HEIDELBERGER DRUCKMASCHINEN AKTIENGESELLSCHAFT

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**Consolidated
income statement
of the Heidelberg Group
2006/2007**

> CONSOLIDATED INCOME STATEMENT

Figures in € thousands			
	Note	1-Apr-2005 to 31-Mar-2006	1-Apr-2006 to 31-Mar-2007
Net sales	8	3,585,511	3,802,752
Change in inventories		44,221	58,188
Other own work capitalized		51,560	59,745
Total operating performance		3,681,292	3,920,685
Other operating income	9	240,993	244,432
Cost of materials	10	1,600,731	1,715,285
Personnel expenses	11	1,096,615	1,163,333
Depreciation and amortization	12	134,466	128,816
Other operating expenses	13	813,343	795,915
Result of operating activities		277,130	361,768
Financial income	15	41,168	20,380
Financial expenses	16	89,075	82,516
Financial result	14	- 47,907	- 62,136
Income before taxes		229,223	299,632
Taxes on income	17	94,323	36,703
Consolidated net profit		134,900	262,929
Minority interests		148	- 64
Consolidated net profit – Heidelberg portion		134,752	262,993
Undiluted/diluted earnings per share according to IAS 33 (in € per share)	33	1.58	3.23

**Consolidated
balance sheet of the
Heidelberg Group
as of March 31, 2007**

> ASSETS

Figures in € thousands

	Note	31-Mar-2006	31-Mar-2007
Non-current assets			
Intangible assets	18	258,531	261,024
Tangible assets	19	523,207	528,241
Investment property	19	26,506	21,546
Financial assets ¹⁾	20	55,515	46,675
Receivables from customer financing	21	360,860	319,880
Other receivables and other assets	21	51,886	88,052
Income tax assets		–	74,098
Deferred tax assets	22	112,540	72,034
		<u>1,389,045</u>	<u>1,411,550</u>
Current assets			
Inventories	23	844,738	900,701
Receivables from customer financing	21	135,071	111,523
Trade receivables ²⁾	21	678,320	704,538
Other receivables and other assets ²⁾	21	137,896	122,096
Income tax assets		12,262	9,424
Marketable securities	24	187	2,908
Cash and cash equivalents	24	79,492	76,339
		<u>1,887,966</u>	<u>1,927,529</u>
Assets held for sale		<u>3,879</u>	<u>–</u>
Total assets		<u>3,280,890</u>	<u>3,339,079</u>

¹⁾ Of which: financial assets carried according to the equity method € 0 thousand (previous year: € 3,332 thousand)

²⁾ Previous year's figures were adjusted (see Note 1)

> EQUITY AND LIABILITIES

Figures in € thousands

	Note	31-Mar-2006	31-Mar-2007
Shareholders' equity	25		
Subscribed capital		212,610	203,080
Capital and revenue reserves		787,975	733,272
Consolidated net profit – Heidelberg portion		134,752	262,993
		1,135,337	1,199,345
Minority interests		2,375	2,326
		1,137,712	1,201,671
Non-current liabilities			
Provisions for pensions and similar obligations	26	211,606	132,940
Other provisions	27	325,071	374,035
Financial liabilities	28	430,006	421,504
Other liabilities	29	96,316	109,370
Deferred tax liabilities	22	70,671	85,710
		1,133,670	1,123,559
Current liabilities			
Other provisions	27	353,971	433,917
Financial liabilities	28	140,159	121,882
Trade payables ¹⁾		228,242	226,264
Income tax liabilities		4,868	8,185
Other liabilities ¹⁾	29	276,437	223,601
		1,003,677	1,013,849
Liabilities held for sale		5,831	–
Total equity and liabilities		3,280,890	3,339,079

¹⁾ Previous year's figures were adjusted (see Note 1)

> CONSOLIDATED CASH FLOW STATEMENT 2006/2007¹⁾

Figures in € thousands	1-Apr-2005 to 31-Mar-2006	1-Apr-2006 to 31-Mar-2007
Consolidated net profit	134,900	262,929
Depreciation and amortization ²⁾	138,820	130,480
Change in pension provisions	21,862	– 10,159
Change in deferred taxes/tax provisions	79,592	90,702
Result from disposals	– 30,267	– 76,323
Cash flow	344,907	397,629
Change in inventories	– 58,207	– 60,186
Change in customer financing	67,918	47,059
Change in trade receivables/trade payables	– 78,494	– 51,232
Change in other provisions	– 8,766	70,772
Change in other balance sheet items	138,254	– 79,440 ³⁾
Other operating changes	60,705	– 73,027
Inflow of funds from operating activities	405,612	324,602
Intangible assets/tangible assets/investment property		
Investments	– 169,457	– 178,546
Proceeds from disposals	45,068	91,141
Financial assets		
Investments	– 9,290	– 9,660
Proceeds from disposals	144	51,725
Pension funding	– 123,554	– 50,000
Outflow of funds from investment activity	– 257,089	– 95,340
Free cash flow	148,523	229,262
Treasury stock	– 96,849	– 130,024
Dividend payment	– 25,864	– 53,279
Assumption of financial liabilities	228,343	106,912
Repayment of financial liabilities	– 287,854	– 151,187
Outflow of funds from financing activity	– 182,224	– 227,578
Net change in cash and cash equivalents	– 33,701	1,684
Cash and cash equivalents at the beginning of the year	131,537	79,679
Changes in the scope of the consolidation	– 21,065	–
Currency adjustments	2,908	– 2,116
Net change in cash and cash equivalents	– 33,701	1,684
Cash and cash equivalents at year-end	79,679	79,247

¹⁾ For further details please refer to Note 34

²⁾ Relates to intangible assets, tangible assets, investment property, and financial assets

³⁾ Including non-current tax refund claims (corporate income tax balances) resulting from a change in the corporate income tax code totaling € – 74,098 thousand

> STATEMENT OF RECOGNIZED INCOME AND EXPENSE 2006/2007

Figures in € thousands	1-Apr-2005 to 31-Mar-2006	1-Apr-2006 to 31-Mar-2007
Consolidated net profit	134,900	262,929
Pension obligations ¹⁾	– 45,295	27,551
Foreign currency translation	1,862	– 53,260
Financial assets		
Market valuation of financial assets	27,545	– 361
Reversals booked to the income statement from the market valuation of financial assets	– 28,200	–
Cash flow hedges		
Market valuation of cash flow hedges without effect on the income statement	– 17,561	21,943
Reversals booked to the income statement from the market valuation of cash flow hedges	17,675	– 11,234
Total recognized income and expense without effect on the income statement²⁾	– 43,974	– 15,361
Total income and expense	90,926	247,568
– of which: Heidelberg Group	90,598	247,450
– of which: minority interests	328	118

¹⁾ Changes in actuarial gains and losses and in asset ceiling due to IAS 19.58b)

²⁾ The total of recognized income and expense without effect on the income statement includes deferred tax assets and deferred tax liabilities amounting to € –24,361 thousand (previous year: € 26,095 thousand)

Notes to the Consolidated Financial Statements for the Financial Year April 1, 2006 to March 31, 2007

> STATEMENT OF CHANGES IN EQUITY¹⁾

	Figures in € thousands							
	Subscribed capital ²⁾	Capital reserve	Pension obligations ³⁾	Foreign currency translation	Revenue reserves		Other revenue reserves	Total revenue reserves
					Market valuation of other financial assets	Market valuation of cash flow hedges		
April 1, 2005	219,926	5,406	-27,769	-151,415	1,339	-2,902	1,060,886	880,139
Total recognized income and expense without effect on the income statement	-	-	-45,295	1,682	-655	114	-	-44,154
Consolidated net profit	-	-	-	-	-	-	33,070	33,070
Total recognized income and expense	-	-	-45,295	1,682	-655	114	33,070	-11,084
Dividend payment	-	-	-	-	-	-	-	-
Stock options	-	3,136	-	-	-	-	-	-
Buyback of own shares	-7,316	-	-	-	-	-	-89,533	-89,533
Consolidations/other changes	-	-	-	2,330	-	-	-2,419	-89
March 31, 2006	212,610	8,542	-73,064	-147,403	684	-2,788	1,002,004	779,433
April 1, 2006	212,610	8,542	-73,064	-147,403	684	-2,788	1,002,004	779,433
Total recognized income and expense without effect on the income statement	-	-	27,551	-53,442	-361	10,709	-	-15,543
Consolidated net profit	-	-	-	-	-	-	81,640	81,640
Total recognized income and expense	-	-	27,551	-53,442	-361	10,709	81,640	66,097
Dividend payment	-	-	-	-	-	-	-	-
Stock options	-	1,156	-	-	-	-	-	-
Buyback of own shares	-9,530	15,822	-	-	-	-	-136,316	-136,316
Consolidations/other changes	-	-	-2,538	-	-	-	1,076	-1,462
March 31, 2007	203,080	25,520	-48,051	-200,845	323	7,921	948,404	707,752

Total capital and revenue reserves	Consolidated net profit/ Heidelberg portion	Shares of the Heidelberg Group	Minority interests	Total
885,545	58,842	1,164,313	2,140	1,166,453
- 44,154	-	- 44,154	180	- 43,974
33,070	101,682	134,752	148	134,900
- 11,084	101,682	90,598	328	90,926
-	- 25,772	- 25,772	- 92	- 25,864
3,136	-	3,136	-	3,136
- 89,533	-	- 96,849	-	- 96,849
- 89	-	- 89	- 1	- 90
<u>787,975</u>	<u>134,752</u>	<u>1,135,337</u>	<u>2,375</u>	<u>1,137,712</u>
787,975	134,752	1,135,337	2,375	1,137,712
- 15,543	-	- 15,543	182	- 15,361
81,640	181,353	262,993	- 64	262,929
66,097	181,353	247,450	118	247,568
-	- 53,112	- 53,112	- 167	- 53,279
1,156	-	1,156	-	1,156
- 120,494	-	- 130,024	-	- 130,024
- 1,462	-	- 1,462	-	- 1,462
<u>733,272</u>	<u>262,993</u>	<u>1,199,345</u>	<u>2,326</u>	<u>1,201,671</u>

¹⁾ Please refer to Note 25 for additional explanations

²⁾ Of Heidelberger Druckmaschinen Aktiengesellschaft

³⁾ Actuarial gains and losses and asset ceiling due to IAS 19.58b)

> DEVELOPMENT OF INTANGIBLE AND TANGIBLE ASSETS AND INVESTMENT PROPERTY

Figures in € thousands

	Beginning of financial year	Change in the scope of the consolidation	Additions	Transfers ¹⁾	Currency adjustments	Disposals	Acquisition and manufacturing cost Financial year-end
2005/2006							
Intangible assets							
Goodwill	107,646	–	–	–	86	–	107,732
Development costs	191,277	–	22,482	–	–	20,905	192,854
Software/other rights	102,614	–	10,799	– 1,445	680	11,789	100,859
Payments on account	3,069	–	4,560	– 24	–	–	7,605
	<u>404,606</u>	<u>–</u>	<u>37,841</u>	<u>– 1,469</u>	<u>766</u>	<u>32,694</u>	<u>409,050</u>
Tangible assets							
Land and buildings	705,835	–	2,721	– 1,109	1,844	11,089	698,202
Technical equipment and machinery	592,760	–	36,886	13,276	328	36,373	606,877
Furniture, fixtures, and other equipment	781,139	–	81,096	– 8,342	5,270	84,071	775,092
Payments on account and assets under construction	7,399	–	14,613	– 7,065	– 31	–	14,916
	<u>2,087,133</u>	<u>–</u>	<u>135,316</u>	<u>– 3,240</u>	<u>7,411</u>	<u>131,533</u>	<u>2,095,087</u>
Investment property	<u>70,459</u>	<u>–</u>	<u>1,712</u>	<u>1,726</u>	<u>–</u>	<u>2,340</u>	<u>71,557</u>
2006/2007							
Intangible assets							
Goodwill	107,732	2,058	–	–	– 69	–	109,721
Development costs	192,854	–	27,285	–	–	–	220,139
Software/other rights	100,859	1,923	8,222	7,230	– 404	10,686	107,144
Payments on account	7,605	–	50	– 7,230	– 36	–	389
	<u>409,050</u>	<u>3,981</u>	<u>35,557</u>	<u>–</u>	<u>– 509</u>	<u>10,686</u>	<u>437,393</u>
Tangible assets							
Land and buildings	698,202	1,766	7,316	– 11,252	– 3,640	88,227	604,165
Technical equipment and machinery	606,877	1,483	31,153	12,756	– 1,295	45,304	605,670
Furniture, fixtures, and other equipment	775,092	419	81,187	– 375	– 5,677	75,595	775,051
Payments on account and assets under construction	14,916	50	30,682	– 17,732	– 29	477	27,410
	<u>2,095,087</u>	<u>3,718</u>	<u>150,338</u>	<u>– 16,603</u>	<u>– 10,641</u>	<u>209,603</u>	<u>2,012,296</u>
Investment property	<u>71,557</u>	<u>–</u>	<u>101</u>	<u>– 10,097</u>	<u>–</u>	<u>635</u>	<u>60,926</u>

¹⁾ Including reclassifications of the assets held for sale²⁾ Including impairment loss of € 3,446 thousand (previous year: € 8,710 thousand), see Note 12

Beginning of financial year	Change in the scope of the consolidation	Depreciation ²⁾	Transfers	Currency adjustments	Disposals	Accumulated depreciation		Book values
						Write-ups	Financial year-end	Financial year-end
-	-	6,492	-	-	-	-	6,492	101,240
57,792	-	28,791	-	-	20,905	-	65,678	127,176
81,340	-	8,499	-833	602	11,259	-	78,349	22,510
-	-	-	-	-	-	-	-	7,605
139,132	-	43,782	-833	602	32,164	-	150,519	258,531
440,057	-	16,584	6	348	4,707	-	452,288	245,914
499,962	-	21,763	4,339	61	24,874	-	501,251	105,626
635,439	-	50,017	-5,440	3,404	65,079	-	618,341	156,751
-	-	-	-	-	-	-	-	14,916
1,575,458	-	88,364	-1,095	3,813	94,660	-	1,571,880	523,207
43,044	-	2,320	-	-	313	-	45,051	26,506
6,492	-	-	-	-	-	-	6,492	103,229
65,678	-	27,913	-	-	-	-	93,591	126,548
78,349	-	8,645	-	-315	10,393	-	76,286	30,858
-	-	-	-	-	-	-	-	389
150,519	-	36,558	-	-315	10,393	-	176,369	261,024
452,288	-	16,579	-6,016	-1,219	69,165	-	392,467	211,698
501,251	-	21,581	3,056	-573	35,420	-	489,895	115,775
618,341	-	47,368	-4,326	-2,686	57,004	-	601,693	173,358
-	-	-	-	-	-	-	-	27,410
1,571,880	-	85,528	-7,286	-4,478	161,589	-	1,484,055	528,241
45,051	-	4,899	-10,394	-	176	-	39,380	21,546

Consolidated Segment Report 2006/2007¹⁾

> SEGMENT INFORMATION BY DIVISION

Figures in € thousands							
	Press		Postpress		Financial Services		
	1-Apr-2005 to 31-Mar- 2006	1-Apr-2006 to 31-Mar- 2007	1-Apr-2005 to 31-Mar- 2006	1-Apr-2006 to 31-Mar- 2007	1-Apr-2005 to 31-Mar- 2006	1-Apr-2006 to 31-Mar- 2007	
External sales	3,141,745	3,321,330	397,433	444,426	46,333	36,996	
Depreciation ²⁾	120,376	121,941	13,374	6,626	716	249	
Non-cash expenses	361,938	413,816	35,293	41,307	34,980	23,355	
Research and development costs	191,531	212,734	22,401	24,267	–	–	
Result of operating activities (segment result)	248,067	313,585	–2,975	7,362	32,038	40,821	
Carrying amount of the shares in equity companies	3,332	–	–	–	–	–	
Investments	155,939	169,710	13,106	8,617	412	219	
Segment assets	2,255,041	2,336,401	251,275	268,962	509,185	437,364	
Segment debt	1,108,044	1,071,853	86,522	94,227	137,742	99,331	
Number of employees	16,425	17,100	1,925	1,988	86	83	

> SEGMENT INFORMATION BY REGION

Figures in € thousands							
	Europe, Middle East and Africa ³⁾		Eastern Europe ³⁾		North America		
	1-Apr-2005 to 31-Mar- 2006	1-Apr-2006 to 31-Mar- 2007	1-Apr-2005 to 31-Mar- 2006	1-Apr-2006 to 31-Mar- 2007	1-Apr-2005 to 31-Mar- 2006	1-Apr-2006 to 31-Mar- 2007	
External sales by customer location	1,509,032	1,692,010	362,653	377,157	593,158	621,563	
Investments	141,869	158,562	2,476	3,369	19,018	11,835	
Segment assets	1,836,968	1,940,218	186,522	165,116	389,633	335,482	

¹⁾ For additional explanations see Note 35

²⁾ Including impairment charges with effect to the income statement of € 3,446 thousand (previous year: € 8,710 thousand), see Note 12

³⁾ Previous year's figures were adjusted due to the reassignment of affiliated companies within the regions

Heidelberg Group

1-Apr-2005 to 31-Mar- 2006	1-Apr-2006 to 31-Mar- 2007
3,585,511	3,802,752
134,466	128,816
432,211	478,478
213,932	237,001
277,130	361,768
3,332	–
169,457	178,546
3,015,501	3,042,727
1,332,308	1,265,411
18,436	19,171

Latin America		Asia/Pacific		Heidelberg Group	
1-Apr-2005 to 31-Mar- 2006	1-Apr-2006 to 31-Mar- 2007	1-Apr-2005 to 31-Mar- 2006	1-Apr-2006 to 31-Mar- 2007	1-Apr-2005 to 31-Mar- 2006	1-Apr-2006 to 31-Mar- 2007
185,521	191,581	935,147	920,441	3,585,511	3,802,752
2,285	2,408	3,809	2,372	169,457	178,546
190,624	181,156	411,754	420,755	3,015,501	3,042,727

General Notes

1 Basis for the presentation of the consolidated financial statements

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 Commercial Law in Section 315a, Paragraph 1 of the Commercial Code. The consolidated financial statements also meet the overall provisions of the IFRS that were compulsory up to the financial year-end.

Certain income statement and balance sheet items have been combined to improve the clarity of presentation. A breakdown of these items is presented in the Notes to the Financial Statements. Receivables from and liabilities to affiliated enterprises are now included in trade receivables and liabilities as well as in other assets. The previous year's figures were adjusted accordingly (see Notes 21 and 29). The income statement has been prepared in accordance with the total cost method.

All amounts are stated fundamentally in € thousands. For subsidiaries located in countries that are not members of the European Monetary Union, the translation into euros occurs by translating the annual financial statements generated in the respective local currency to € (see Note 5).

This statement relates to financial year 2006/2007 (April 1, 2006 to March 31, 2007).

2 Application of changed or new standards

The Heidelberg Group applied all standards and interpretations compulsory during the financial year.

New accounting provisions

The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) approved additional standards and interpretations, whose application during financial year 2006/2007 is not yet compulsory or which have not yet been approved by the European Union (EU). The effects on the Heidelberg Group of the initial application of those standards that apply to Heidelberg's financial figures are currently being examined. Heidelberg is not currently planning to apply these standards at an early date.

Changes to IAS 23: Borrowing Costs

On March 29, 2007, the IASB issued the revised IAS 23 standard: Borrowing Costs. Basically, the revision to this standard focuses on the removal of the option of immediately recognizing borrowing costs for certain assets. Thus, borrowing costs that may be directly related to qualified assets are to be capitalized as part of the acquisition and manufacturing cost. The revision is applicable with regard to borrowing costs that relate to qualified assets whose capitalization starts on or after January 1, 2009.

IFRS 7: Financial Instruments – Disclosures

On August 18, 2005, the IASB published the IFRS 7 standard: Financial Instruments – Disclosures. The new standard introduces a centralization of the disclosure requirements for financial instruments. The disclosure requirements previously included in IAS 32 and in IAS 30, which were applicable to banks and similar financial institutions, were revised and brought together within IFRS 7. Relevant provisions of IAS 32 as well as IAS 30 in its entirety were revoked. Simultaneously with the publication of IFRS 7, IAS 1: Presentation of Financial Statements was revised by adding capital management disclosure requirements. Application of the sector-independent IFRS 7 as well as the changes in IAS 1 are compulsory for financial years beginning on or after January 1, 2007.

IFRS 8: Operating Segments

IFRS 8 was published on November 30, 2006 and replaces IAS 14: Segment Reporting. IFRS 8 makes use of the management approach, which is also established by SFAS 131, and thereby affords convergence with US GAAP. The management approach is based on segment reporting in accordance with an internal reporting structure. IFRS 8 requires the disclosure of information concerning management control figures utilized internally for resource allocation and the evaluation of segment performance. These may deviate from the amounts shown in the balance sheet and on the profit and loss statement. For this reason, segment information must be reconciled with the balance sheet as well as the profit and loss statement. IFRS 8 is compulsory for the first time for financial years beginning on or after January 1, 2009.

IFRIC 8: Scope of IFRS 2

If the identifiable consideration given appears to be less than the fair value of the equity instruments granted or liability incurred, this situation typically indicates that other consideration has been or will be received. IFRS 2 therefore applies. Application of IFRIC 8 is compulsory for the first time for financial years that begin on or after May 1, 2006.

IFRIC 9: Reassessment of Embedded Derivatives

This interpretation focuses on the recognition of embedded derivatives in line with the provisions of IAS 39. According to IFRIC 9, an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. A reassessment during the term of the contract is only permissible if the underlying contractual conditions and the associated payment flow differ significantly, with a determination made as to the extent to which a change in the scope of the payments from the embedded derivative and/or from the host contract may have changed with respect to the original payment flows. IFRIC 9 must be applied for financial years beginning on or after June 1, 2006.

IFRIC 10: Interim Financial Reporting and Impairment

IFRIC 10 is applicable to impairments to goodwill, to equity instruments classified as available for sale, and to unlisted equity instruments that are not measured at fair value. Impairments that occurred in the interim financial statements may not be reversed. IFRIC 10 is compulsory for the first time for financial years beginning on or after November 1, 2006.

IFRIC 11: IFRS 2 – Group and Treasury Share Transactions

This interpretation answers the question of how IFRS 2: Share-based payment applies to share-based payments under share-based payment agreements that comprise a company's own equity instruments or the equity instruments of another company in the same group. IFRIC 11 is compulsory for the first time for financial years beginning on or after March 1, 2007.

IFRIC 12: Service Concession Arrangements

IFRIC 12 applies to agreements under which the public sector grants to private companies contracts for the supply of public services. IFRIC 12 clarifies the question of how private companies book to their financial figures the rights and obligations resulting from these agreements. IFRIC 12 is compulsory for the first time for financial years beginning on or after January 1, 2008.

3 Scope of the consolidation

The consolidated financial figures of Heidelberger Druckmaschinen Aktiengesellschaft include a total of 70 (previous year: 71) domestic and foreign companies in which Heidelberger Druckmaschinen Aktiengesellschaft is in a position to exercise control as defined by IAS 27. Of these companies, 63 (previous year: 64) are located outside Germany. Control exists as defined by IAS 27 if the financial and corporate policy of a company can be influenced in order to derive benefits from its activity. The inclusion in the consolidated financial statements occurs at the time the controlling relationship is established. Subsidiaries that are of minor importance are excluded. The presentation of the shareholdings of the Heidelberg Group is published in the German electronic Federal Gazette. The significant consolidated subsidiaries included in the consolidated annual financial statements are listed in the Notes to the Financial Statements as an Appendix 'Major Shares in Affiliated Companies'.

The Heidelberg consolidated financial figures as of March 31 also include five companies with financial year-end on December 31. Significant transactions of these companies occurring between December 31 and March 31 are taken into consideration in the consolidated financial statements.

Compared with the previous year, the scope of the consolidation changed as follows:

> Initial consolidation:

BHS Druck- und Veredelungstechnik GmbH, Weiden, Germany, was consolidated for the first time during the fourth quarter of the financial year in connection with an acquisition by Gallus Ferd. Rüesch Aktiengesellschaft, St. Gallen, Switzerland, of a further 70 percent shareholding of BHS in addition to its previous 30 percent shareholding.

The purchase price comprised a fixed price plus a performance-related amount. The performance-related component must be paid if the result before interest expenditures, interest income, and income taxes (EBIT) of BHS for the six financial years running from February 1, 2005 to December 31, 2010 exceeds a certain amount. The additional purchase price is dependent on the level of the excess amount.

Had the acquisition been finalized at the beginning of the financial year, the Group would have had sales for 2006/2007 in the amount of € 3,833,211 thousand.

The acquired company generated a loss of € 1,255 thousand in the consolidated result during the financial year.

> Deconsolidation:

During the second quarter of the financial year, Linotype GmbH, Bad Homburg, was deconsolidated due to the sale of participations.

> Merger:

During the second quarter of the financial year, Heidelberg Boxmeer Participation B.V., Boxmeer, the Netherlands, was merged with Heidelberg Boxmeer B.V., Boxmeer, the Netherlands.

> Reporting according to the equity method:

Heidelberg Middle East FZ Co., Dubai, United Arab Emirates, is no longer reported according to the equity method.

The change in the scope of the consolidation had the following effects:

	2005/2006	2006/2007
Non-current assets	–	4,172
Current assets	– 326,429	13,484
Total assets	– 326,429	17,656
Shareholders' equity	–	– 668
Liabilities	– 326,429	18,324
Total equity and liabilities	– 326,429	17,656
Net sales	– 110,696	– 8,502
Net result	55,489	– 4,227

Assets and liabilities held for sale

In the Press segment, the sale of Linotype GmbH, Bad Homburg, was planned during the previous financial year and completed during the reporting year. For this reason, the following assets and liabilities were classified as being held for sale.

	31-Mar-2006	31-Mar-2007
Assets held for sale	3,879	–
Liabilities held for sale	5,831	–
Net assets held for sale	– 1,952	–
Cumulative expenses / income directly recorded in shareholders' equity in connection with assets held for sale	– 243	–

4 Principles of consolidation

In accordance with IFRS 3, companies are consolidated using the purchase method in the form of the complete revaluation method.

Sales, expenses and income, receivables and liabilities, and contingent liabilities among consolidated companies are eliminated. Transactions among consolidated companies in goods and services are calculated both on the basis of market prices and also on the basis of arm's length transfer prices. Assets from commercial transactions among consolidated companies included in inventories were adjusted to eliminate intercompany profits and losses. Taxes on intercompany profits and losses are taken into account and applied to deferred taxes.

5 Foreign currency translation

In the individual financial statements of the consolidated companies, which are drawn up in local currencies, monetary items in foreign currencies (cash and cash equivalents, receivables, and liabilities) are evaluated at the financial year-end exchange rate and booked directly to the income statement. Non-monetary items denominated in foreign currencies are posted at their historic exchange rates.

The translation of the financial figures of the companies included in the consolidation that are drawn up in foreign currencies is undertaken on the basis of the concept of the functional currency (IAS 21) in accordance with the 'modified closing rate method'. Since our subsidiaries financially, economically, and organizationally effect their transactions on an independent basis, the functional currency is fundamentally identical with each subsidiary's respective local currency. Assets and liabilities are accordingly 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 from retained earnings without effect on the income statement.

Foreign currency differences arising compared to the previous year's translation in the Heidelberg Group are also offset from retained earnings without effect on the income statement.

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

The foreign currency translation is based on the following exchange rates:

	Average rates of the year		Financial year-end rates	
	2005/2006	2006/2007	2005/2006	2006/2007
	1 € =	1 € =	1 € =	1 € =
AUD	1,6171	1,6766	1,6962	1,6506
CAD	1,4445	1,4652	1,4108	1,5487
CHF	1,5532	1,5890	1,5746	1,6215
GBP	0,6818	0,6781	0,6946	0,6793
HKD	9,4068	10,0418	9,3870	10,4322
JPY	137,7617	150,7933	141,9000	156,7500
USD	1,2113	1,2904	1,2096	1,3352

AUD = Australian Dollar

CAD = Canadian Dollar

CHF = Swiss Franc

GBP = Pound Sterling

HKD = Hong Kong Dollar

JPY = Japanese Yen

USD = US Dollar

6 General accounting and valuation policies

The accounting and valuation policies that are applied in the consolidated financial figures are presented below. Further explanations concerning individual items of the consolidated income statement and the consolidated balance sheet as well as corresponding figures are presented in Note 8 and following.

General principles

In the view of the IASB, the annual financial statements present a true and fair view as well as 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, if a true and fair view is to be presented, it is imperative that no deviation from the individual provisions occurs.

Uniform accounting and valuation policies

The annual consolidated financial figures are prepared on the basis of accounting and valuation policies that are applied uniformly throughout the Group. The same accounting and valuation policies are applied to determine pro rata shareholders' equity for the companies measured according to the equity method.

Continuity of accounting and valuation policies

The balance sheet generation and accounting methods were retained.

Intangible assets

With the exception of goodwill, all intangible assets have a certain useful life and are therefore amortized. In accordance with IFRS 3 in association with IAS 36, goodwill will undergo an impairment test if there is an indication of a reduction in value. Purchased intangible assets are capitalized at cost and amortized on a straight-line basis over their expected useful life. Intangible assets produced within the Group are capitalized to the extent that the criteria of IAS 38 are fulfilled. Manufacturing costs include all directly attributable costs.

Research and development costs

Development costs for newly developed products are capitalized at manufacturing 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 revenue flows. Capitalized development costs include all direct costs and overheads that are directly attributable to the development process. Depreciation is based on the estimated period during which sales may be expected.

In accordance with IAS 38, research costs may not be capitalized and are therefore charged as an expense directly to the income statement.

Tangible assets

Tangible assets are reported at acquisition or manufacturing costs less straight-line depreciation and impairment losses.

There was no revaluation of tangible assets in accordance with the options provided in IAS 16. In addition to individual costs, production costs also include appropriate portions of direct costs and manufacturing overhead costs.

Interest on borrowed funds is booked as a direct expense (IAS 23). Depreciation based exclusively on tax rules is not applied.

Repair costs for tangible assets that do not result in an extension or substantial improvement of the respective asset are charged as an expense.

Investment property

Investment property (IAS 40: Investment Property) is carried at the amortized acquisition or manufacturing cost. The notes to the financial statements provide information on the fair value of investment property, which is recorded in line with such internationally acknowledged valuation methods as the discounted cash flow method or is derived from the current market price of comparable real estate.

Finance lease relationships

Under finance lease relationships, economic ownership is attributed to lessees in those cases in which they bear virtually all of the risks and opportunities associated with the ownership of the asset (IAS 17). To the extent that economic ownership is attributable to the Heidelberg Group, the cost is capitalized from the date on which the lease contract is concluded at the lower of the fair value or the present value of the minimum lease payments. Depreciation is taken using the straight-line method on the basis of the lower of useful economic life or the duration of the lease.

Amortization/Depreciation

As already in the previous year, amortization/depreciation of intangible assets, tangible assets, and investment property is recorded primarily on the basis of the following useful life periods, which are applied uniformly by the Group:

	Years
Development costs	3 to 6
Software/other rights	3 to 5
Buildings	25 to 50
Technical equipment and machinery	3 to 15
Motor vehicles	5 to 9
Factory and office equipment	3 to 13
Investment property	10 to 50

Impairment losses

The maintenance of the book value of all intangible assets (including capitalized development costs) and of all tangible assets is systematically reviewed at the end of each financial year. An impairment loss is taken to the extent that the recoverable amount for the asset is lower than the book value. The recoverable amount is the higher of the fair value less cost sales or the value in use. Provided the asset is part of an independent cash-generating unit, the impairment is determined on the basis of the recoverable amount of this cash-generating unit. Should the reasons for the impairment loss be eliminated, a write-up is taken up to the amount of the amortized costs (IAS 36).

The carrying amounts of the goodwill are subject to an impairment test if there is an indication of a decline in value. Regardless of whether there are grounds for an impairment, goodwill is monitored annually for possible impairment by means of an impairment test. An impairment loss is recorded when the recoverable amount is less than the carrying amount of a cash-generating unit, to which goodwill is associated. Impairment losses which must be recognized in addition to this are taken into account by reducing the carrying amount of the other assets on a prorated basis.

Joint ventures and associated companies

Shares in a joint venture are carried according to the equity method. Pro rata consolidation is not applied. The acquisition cost of associated companies consolidated in accordance with the equity method is increased or decreased each year in line with any changes in shareholders' equity relating to the shares held by the Heidelberg Group.

Participations and securities

For such financial instruments, the provisions of IAS 39 differentiate between whether they are 'financial instruments at fair value through profit and loss', 'held to maturity', or 'available for sale'.

Participations (including shares in affiliated enterprises) and marketable securities are classified as 'available for sale'. In line with IAS 39, these financial instruments are generally carried at fair value. Participations are measured at an acquisition cost since their fair value cannot be reliably determined. Marketable securities are generally measured at their stock market prices. These securities are measured at an acquisition cost if this cannot be reliably determined. The initial valuation occurs as of the settlement date. Unrealized profits

and losses arising from changes in fair value are posted to shareholders' equity without effect on the income statement, taking into consideration deferred taxes. At the time of a sale, realized profit or loss is booked directly to the income statement in the financial result. In accordance with IAS 39, an impairment loss is recognized in situations in which substantial objective indications for an impairment of an asset have occurred. The theoretically maximum remaining payment risk thereby corresponds to the capitalized values.

During the financial year, no transfers occurred among the various categories.

The appropriate classification of securities is established at the time of purchase and is monitored at the respective financial year-end. All ordinary purchases and sales of financial investments are carried on the balance sheet as per the settling day.

Loans

Loans are credits we grant, which in accordance with IAS 39 are classified as 'loans and receivables'. Non-current non-interest bearing and low-interest bearing loans are carried at their net present values. Measurement in subsequent periods occurs at amortized cost, taking into consideration the effective interest rate method. Write-downs are taken if there is a substantial objective indication of an impairment. The theoretically maximum remaining payment risk thereby corresponds to capitalized values.

Inventories

Inventories are carried at the lower of acquisition or manufacturing cost and net realizable value. Valuations are generally determined on the basis of the weighted average cost method. The First In, First Out (FIFO) method is applied for certain inventories.

Manufacturing cost includes production-related full costs determined on the basis of normal capacity utilization.

In particular, the manufacturing cost of products includes directly attributable direct costs (such as production materials and wages), as well as fixed and variable production overheads (for example, handling, general material, and general production costs), including an appropriate proportion of depreciation charges on production plant and equipment. Particular account is taken of costs that are charged to the specific production cost centers. Borrowing costs are not capitalized as part of acquisition or manufacturing costs (IAS 23).

The risks of holding inventories arising from reduced salability are accounted for by appropriate reductions in value. These write-downs are recorded on the basis of the future production program or actual consumption. In this regard, depending on the respective inventory item, individual periods of consideration are taken as a basis, which are monitored and adjusted based on appropriate judgment criteria. The valuation takes into account lower realizable net selling prices at financial year-end. If the reasons for a lower valuation no longer apply to inventories that have formerly been reduced in value and the net selling price has therefore risen, the reversal of the write-down is recorded as a reduction of material costs.

Receivables from customer financing

Receivables from customer financing represent claims under loans that are granted to our customers in connection with the financing of machinery sales, as well as receivables under finance lease relationships.

Finance lease relationships include leased-out installations that may be regarded financially as sales under non-current financing. In accordance with IAS 17, these receivables are shown in the amount of discounted future minimum lease payments.

In accordance with IAS 39, receivables from customer financing are shown at their fair value. In subsequent periods, measurement is undertaken at amortized cost taking into consideration the effective interest rate method. In the framework of customer financing, the risks of creditworthiness and of default arise due to the potential danger that our customers do not comply with their payment obligations. As a consequence, assets may deteriorate in value. Recognizable risks of non-payment are taken into account by establishing adequate risk provisions. The theoretically maximum remaining payment risk thereby corresponds to capitalized values.

Other receivables and other assets

Other receivables and other assets are measured at their amortized cost. Account has been taken of all recognizable risks of non-payment through corresponding allowances. The theoretically maximum remaining payment risk thereby corresponds to capitalized values.

Specifically negotiated construction contracts

In accordance with IAS 11, specifically negotiated construction contracts are carried on the basis of the percentage-of-completion method, with the amounts realized included in sales and, after deduction of customer payments on account received, in trade receivables. The stage of completion is determined based on the expenses incurred (cost-to-cost method). There were no significant orders at financial year-end that would necessitate recognition in accordance with IAS 11.

Cash and cash equivalents as well as securities

Cash on hand and bank deposits are carried at their nominal amount. Bank balances as well as securities included in cash and cash equivalents (see Note 34) have upon acquisition a term to maturity of up to three months.

Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated in accordance with the internationally customary liability method (IAS 12). Under this method, deferred tax entries are made for all temporary accounting and valuation differences in the balance sheet between IFRS valuations and fiscal valuations of the individual subsidiaries or controlled companies as well as of corresponding consolidation measures. Deferred tax assets for future benefits from tax loss carry-forwards are also taken into account. Deferred tax assets for accounting and valuation differences as well as for tax loss carry-forwards are recognized in the amount that is likely to be the taxable result in the future and to adequately ensure utilization. Deferred taxes are measured on the basis of the income tax rates of the respective countries. A tax rate of 37.37 percent (previous year: 37.42 percent) is used as a basis for the calculation of domestic deferred taxes. In addition to the corporation tax of 25 percent and the solidarity surtax of 5.5 percent, the rate of the average trade tax 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, an offset is only possible if the deferred tax assets and deferred tax liabilities relate to income taxes that are charged by the same tax authority and originate from the same company or in the same group of controlled companies ('Organkreis').

Assets and liabilities held for sale

Non-current assets and liabilities are classified as being held for sale if a sale is highly probable, if the asset in its current condition is available for immediate sale, and if a decision has been made to sell the asset or disposal group within a period of one year.

Assets held for sale are shown at the lower of the carrying amount and fair value less costs to sell. Assets held for sale are no longer subject to depreciation.

Provisions for pensions and similar obligations

The provisions for pensions and similar obligations comprise the obligations of the Group to establish provisions under both defined benefit plans as well as defined contribution plans. In the case of defined benefit plans the pension obligations are calculated by the so-called projected unit credit method (IAS 19). Under this method, expert actuarial reports are commissioned each year. The probability of death is calculated on the basis of the current Heubeck mortality tables (2005 G) or comparable foreign mortality tables. In the case of defined contribution plans (e.g., direct insurance policies), compulsory contributions are offset directly as an expense. No provisions for pension obligations are recorded, as in these cases our Company does not have any liability over and above its obligation to make premium payments. Service costs are carried under personnel expenses and the interest portion of the additions to provisions under the financial result. The return on plan assets is offset from personnel expenses at the level of the individual company up to the amount of expenses for pension claims. Any excess amount is shown in the financial result.

With the application of the revised IAS 19, the actuarial gains and losses in the Heidelberg consolidated financial statements are entirely offset from each other in shareholders' equity without effect on the income statement. Gains and losses recorded in shareholders' equity as well as the applicable deferred taxes are shown separately in the Statement of Recognized Income and Expense.

Other provisions

Other provisions are recognized to the extent that a past event gives rise to a current obligation, that the amount of the charge is more probable than improbable, and that the amount can be reliably estimated (IAS 37). This means that there must be a probability greater than 50 percent that the liability will be realized. Measurement is based on either the settlement amount that is most likely to be incurred or, in the case of a uniform distribution of the probabilities of occurrence, on the expected value.

Provisions are only recognized for legal or constructive obligations vis-à-vis third parties. Provisions are measured based on the full cost principle in relation to production, taking into consideration possible cost increases.

Provisions for restructuring measures were recorded to the extent that the criteria of IAS 37 were met.

Non-current provisions with a term to maturity of more than one year are carried at the discounted settlement value on the balance sheet date on the basis of appropriate interest rates, provided that the interest rate effect is significant. The underlying interest rates depend on the term of the obligation.

Liabilities

In accordance with IAS 39, liabilities are stated at their fair value. In subsequent periods, liabilities are measured at an amortized cost taking into consideration the effective interest rate method. Liabilities arising from finance lease relationships are recorded in the amount of the present value of the minimum lease payments.

Payments on account from customers

Payments on account received from customers are recorded under liabilities.

Deferred income

To the extent that they involve tax exempt allowances and taxable subsidies for investments, deferred income is booked and amortized in line with depreciation on a straight-line basis.

Derivative financial instruments

Derivative financial instruments in the Heidelberg Group comprise hedging instruments entered into for the purpose of managing risks associated with fluctuations in interest rates and foreign currency exchange rates. These instruments serve to reduce income volatility. Trading positions, i.e. derivatives without an underlying hedged item, are not entered into. We currently make use of over-the-counter (OTC) instruments. These include:

- > forward exchange transactions,
- > foreign currency options, and
- > interest-rate swaps.

The scope of hedge accounting by financial derivatives comprises recognized assets or liabilities, unrecognized firm commitments and highly probable forecast transactions.

In accordance with IAS 39, derivatives fulfill the criteria of assets and liabilities, as a result of which they must be capitalized (other assets) or accrued (other liabilities) at fair value. The initial measurement occurs as of the trading date.

In compliance with IAS 39, for hedge accounting the distinction between a fair value hedge and a cash flow hedge is of basic importance.

The goal of a fair value hedge is to offset the changes in fair value of recognized assets and liabilities with countervailing changes in the fair value of the designated hedging instrument. Any profit or loss resulting from the fair value change in the designated hedging instrument must immediately be recorded in the income statement. From the inception of the hedging relationship, changes in fair value of the hedged item attributable to the hedged risk shall be recognized in profit and loss.

A cash flow hedge serves to hedge the variability in cash flows that typically arise in connection with floating-rate assets or liabilities recognized in the balance sheet, that arise from unrecognized firm commitments in foreign currencies or from highly probable forecast transactions. The profits and losses from the derivatives designated as a hedging instrument are included in shareholders' equity without effect on the income statement until the respective hedged item becomes effective.

Hedging instruments whose underlying hedged items no longer exist are classified as held for trading.

Share-based compensation

Stock options covered by IFRS 2 are measured based on their respective fair value at the time the options are granted. The measurement of stock appreciation rights (SAR) occurs at the respective fair value of the option at financial year-end. The expenses and the corresponding addition to capital reserves as well as the addition to the provision are recorded on a pro rata basis. The determination of the respective fair value is based on a recognized financial-mathematical option price measurement model (Monte Carlo simulation).

Contingent liabilities

Contingent liabilities are potential obligations that relate to past events and whose existence will not be confirmed until one or several 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, and/or if it is not possible to estimate the amount of the obligation to a sufficiently reliable extent. The valuation of contingent liabilities on the balance sheet date is based on the existing extent of liability.

7 Estimates and judgements

In presenting the consolidated financial statements, certain assumptions and estimates are made that have an effect on the amount and presentation of assets and liabilities, on information on contingent assets as well as liabilities at financial year-end, and on income and expenses for the reporting period. The preparer of consolidated financial statements has a degree of discretion here.

The following issues are in particular effected by assumptions and estimates:

- > assessing the recoverability of goodwill;
- > recognition and measurement of other provisions; and
- > recognition and the measurement of provisions for pensions and similar obligations.

Within the framework of the impairment test for goodwill, the recoverable amount of the cash-generating unit is determined by the fair value less the cost to sell or the higher value in use. The fair value here reflects the best estimate of the amount for which an independent outside party would acquire the cash-generating units at financial year-end. The value in use is the present value of the estimated future cash flows that can be anticipated from the continued use of the cash-generating unit. A change in determining factors may change the fair value or the value in use and could result in the recording of impairment losses.

The amount and probability of utilization are estimated in the recognition and measurement of other provisions. Measurement is based on the settlement value that has the greatest probability of occurrence, or if the probability of occurrence is equally distributed, on the expected value of the settlement values. The amount of the actual utilization could deviate from the estimates.

The calculation of the provisions for pensions and similar obligations is based on the parameters listed in Note 26. Increasing or reducing the interest rate used in calculations by one quarter of a percentage point, respectively, to 5.0 percent or 4.5 percent would result in a € 24,965 thousand reduction in pension claims or, respectively, a € 26,658 thousand increase. The after-tax offset of actuarial losses in shareholders' equity would be reduced, respectively, by € 15,635 thousand or increased by € 16,696 thousand.

The assumptions and estimates are based on currently available information and data. Actual developments could deviate from the estimates. The carrying amounts of the relevant assets and liabilities are accordingly adjusted if actual amounts deviate from estimated values.

Notes to the Consolidated Income Statement

8 Net sales

Product sales are recorded if the relevant risks and rewards that are related to the ownership of the sold merchandise and products 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 probable to an adequate degree.

As already in the previous year, substantial contract revenue from **customer-specific manufacturing** arising from the application of the percentage-of-completion method did not occur.

Sales from **services** are recorded when the services are made available, provided that the amount of the income can be reliably allocated and the inflow of economic benefit arising from the transaction is probable. Non-current service contracts are generally subject to linear allocation of sales.

Income from **operating and finance lease relationships** is recorded based on the provisions of IAS 17.

In addition to income from sales of products and services, net sales continue to comprise income from commissions, from finance lease and operating lease relationships totaling € 7,720 thousand (previous year: € 4,284 thousand) as well as interest revenue from customer financing and finance lease relationships amounting to € 36,996 thousand (previous year: € 46,333 thousand).

Further explanations concerning net sales are presented in the Reports of the Divisions as well as in the Reports from the Regions. Classification of net sales by division and regions is shown in the section Segment Information.

9 Other operating income

	2005/2006	2006/2007
Reversal of other provisions	71,493	50,701
Income from the deconsolidation of companies	24,540	37,594
Income from disposals of intangible assets, tangible assets, and investment property	7,374	37,337
Income from written-off receivables	37,752	28,908
Income from operating facilities	23,268	20,108
Hedging transactions / foreign-exchange profit	33,736	10,488
Other income	42,830	59,296
	<u>240,993</u>	<u>244,432</u>

Income resulting from deconsolidations during the financial year results from the sale of the shares in Linotype GmbH, Bad Homburg. Income resulting from deconsolidations in the previous year is in connection with the transfer of the specialized investment funds to the Heidelberg Pension-Trust e.V., Heidelberg within the scope of a Contractual Trust Arrangement (CTA). Income from disposal of tangible assets, intangible assets, and investment property basically includes income from the sale-and-lease-back transaction for the Heidelberg Research and Development Center.

10 Cost of materials

	2005/2006	2006/2007
Expenses for raw materials, consumables, and supplies, as well as for goods purchased	1,379,200	1,462,150
Costs of purchased services	212,521	249,613
Interest expense of Financial Services	9,010	3,522
	<u>1,600,731</u>	<u>1,715,285</u>

The ratio of the cost of materials to total operating performance of 43.7 percent is nearly unchanged from the previous year's figure of 43.5 percent.

11 Personnel expenses and number of employees

	2005/2006	2006/2007
Wages and salaries	897,858	978,323
Expenses for pension claims ¹⁾	37,404	44,862
Return on plan assets	-6,910	-30,703
Other social security contributions and benefit payments	168,263	170,851
	<u>1,096,615</u>	<u>1,163,333</u>

¹⁾ See Note 26

Interest expenses of the pension claims is shown under the financial result. Return on plan assets is offset from personnel expenses at the level of the individual company up to the amount of expenses for pension claims. Any excess amount is shown in the financial result.

The number of **employees**¹⁾ totaled:

	2005/2006	Average	As of	
		2006/2007	31-Mar-2006	31-Mar-2007
Wage earners	6,902	7,477	6,961	7,691
Salaried employees	10,780	10,672	10,813	10,829
Apprentices	742	712	662	651
	18,424	18,861	18,436	19,171

¹⁾ Excluding trainees, graduating students, employees during their child-care leave of absence, and employees in the exemption phase of their partial retirement

12 Depreciation and amortization

Depreciation and amortization of € 128,816 thousand (previous year: € 134,466 thousand) is attributable to intangible assets totaling € 36,558 thousand (previous year: € 43,782 thousand), tangible assets of € 85,528 thousand (previous year: € 88,364 thousand), investment property of € 4,899 thousand (previous year: € 2,320 thousand), and assets held for sale (impairments) totaling € 1,831 thousand (previous year: € 0 thousand).

Of the impairment losses to intangible assets, tangible assets, and investment property totaling € 3,446 thousand (previous year: € 8,710 thousand), an amount of € 69 thousand (previous year: € 233 thousand) is attributable to technical equipment and machinery; € 41 thousand (previous year: € 9 thousand) to furniture, fixtures, and other equipment; and € 3,336 thousand (previous year: € 114 thousand) to investment property. Other impairment losses in the previous year were attributable to goodwill (previous year: € 6,492 thousand), development costs (previous year: € 1,536 thousand), and software and other rights (previous year: € 326 thousand).

13 Other operating expenses

	2005/2006	2006/2007
Special direct sales expenses including freight charges	128,582	168,880
Other deliveries and services not included in the cost of materials	127,502	134,627
Travel expenses	56,319	60,978
Rent and leases (excluding car fleet)	63,284	58,470
Costs of information technology	57,311	54,537
Provisions for doubtful accounts and other assets	66,995	43,359
Additions to provisions (relates to several expense accounts)	46,943	40,459
Legal and consulting fees	25,509	26,346
Other research and development costs	19,175	22,310
Costs of car fleet	19,623	19,804
Insurance expense	18,527	16,734
Costs of mail and payment transactions	13,805	13,614
Expenses from operating facilities	10,976	12,800
Public-sector fees and other taxes	11,029	11,006
Hedging transactions/exchange rate losses	19,317	8,276
License fees	3,919	5,251
Office supplies, newspapers, technical literature	4,444	4,315
Losses from disposals of intangible assets and tangible assets	1,736	1,325
Other overhead costs	118,347	92,824
	<u>813,343</u>	<u>795,915</u>

Despite increased business volumes the total of other operating expenses was reduced slightly due to efficient cost management.

14 Financial result

	2005/2006	2006/2007
Financial income	41,168	20,380
Financial expenses	89,075	82,516
Financial result	<u>- 47,907</u>	<u>- 62,136</u>

15 Financial income

	2005/2006	2006/2007
Interest and similar income	22,019	12,792
Income from financial assets/loans/marketable securities	19,149	7,588
Financial income	41,168	20,380

The decline in financial income is economically related to the transfer of the specialized investment funds to Heidelberg Pension-Trust e.V., Heidelberg, within the framework of the Contractual Trust Arrangement (CTA) at the end of financial year 2005/2006.

16 Financial expenses

	2005/2006	2006/2007
Interest and similar expenses	64,737	68,649
– of which: net interest expenses for pensions	(30,686)	(22,802)
Expenses from financial assets/loans/marketable securities	24,338	13,867
Financial expenses	89,075	82,516

Net interest expenses for pensions comprise interest expenses for pension rights less the portion of return on plan assets that was not settled within personnel expense (see Note 11).

Expenses from financial assets, loans, and marketable securities comprise amortizations of financial assets amounting to € 1,664 thousand (previous year: € 5,901 thousand). No expenses from specialized investment funds were included during the past financial year (previous year: € 6,046 thousand).

17 Taxes on income

Effective and deferred tax expenses and income apply to German and foreign taxes on income and are broken down as follows:

	2005/2006	2006/2007
Effective taxes		
Germany	37,187	- 54,038
Abroad	8,872	64,875
	<u>46,059</u>	<u>10,837</u>
Deferred taxes		
Germany	33,584	9,036
Abroad	14,680	16,830
	<u>48,264</u>	<u>25,866</u>
	<u>94,323</u>	<u>36,703</u>

Taxes on income comprise the domestic corporate tax, including the solidarity surtax, as well as the trade tax, and comparable taxes of the foreign subsidiaries.

As in the previous year, no significant income was recognized from the application of loss carry-backs during the financial year.

There were no significant changes in tax expenses as a result of modifications to respective tax rates in the countries in which Heidelberg does business.

There was no impact on deferred taxes as a result of the introduction of new taxes levied in the countries in which Heidelberg does business.

Deferred tax liabilities on temporary differences in connection with shares in subsidiaries and associated companies were not taken into account, since no reversal of these differences is likely to occur in the foreseeable future.

As in the previous year the application of changed or new standards did not result in any additional tax expenses or tax income.

All still unused tax loss carry-forwards amounting to € 330,982 thousand (previous year: € 556,409 thousand) are primarily attributable to foreign subsidiaries. Total tax loss carry-forwards, for which no deferred tax assets were recognized, amount to € 325,986 thousand (previous year: € 547,575 thousand). Of this amount, a total of € 929 thousand is potentially available through 2010, € 5,492 thousand through 2011, and € 319,565 thousand through 2009, € 11 thousand through 2010, € 11,535 through 2011, and € 319,565 thousand through 2013 and later.

Taxes on income are higher due to the utilization of tax loss carry-forwards, for which deferred tax assets were recorded in previous years amounting to € 1,115 thousand (previous year: € 15,035 thousand).

Deferred tax assets are only recognized for tax loss carry-forwards if their realization is assured in the near future. Deferred tax assets on current tax losses amounting to € 255 thousand (previous year: € 1,186 thousand) were recognized during the financial year. As in the previous year, during the financial year no deferred tax assets were recognized relating to not yet applicable tax loss carry-forwards during the financial year. During the reporting year, write-downs of deferred tax assets for loss carry-forwards created in previous years amounting to € 72 thousand (previous year: € 14,042 thousand) were recorded.

Effective taxes were reduced during the reporting year by € 18,116 thousand (previous year: € 8,122 thousand) as a result of deferred tax assets for tax loss carry-forwards that had not previously been taken into account. The still unused tax credits for which no deferred tax assets have been capitalized in the balance sheet amount to € 925 thousand (previous year: € 6,735 thousand); they expire by the latest on March 31, 2025.

Expenses and income not related to the reporting period arising from effective income taxes amount, respectively, to € 4,953 thousand (previous year: € 2,201 thousand) and € 5,642 thousand (previous year: € 1,334 thousand).

Due to a change in the corporate income tax code, corporate income tax balances that are being disbursed in ten equal annual payments from 2008 through 2017 are booked to the income statement with a present value of € 73,375 thousand and shown under income tax receivables.

Taxes on income developed as follows with relation to income before taxes:

	2005/2006	2006/2007
Income before taxes	229,223	299,632
Theoretical tax rate in percent ¹⁾	37.42	37.37
Theoretical tax expense	85,775	111,972
Change in theoretical tax income due to:		
– corporate income tax balance from previous years due to a change in the corporate income tax code	–	– 73,375
– corporate income tax reduction plus solidarity surcharge for dividend	–	– 7,556
– differing tax rate	– 9,756	– 12,487
– tax loss carry-forwards ²⁾	9,015	– 17,468
– tax decrease due to tax-exempt income	– 24,729	– 25,167
– tax increase due to non-deductible expenses	9,905	17,147
– change in tax provisions/taxes attributable to previous years	29,138	50,634
– other	– 5,025	– 6,997
Taxes on income	94,323	36,703
Tax rate in percent	41.15	12.25

¹⁾ The reduction in the theoretical tax rate results from the adjustment of the trade tax assessment rates

²⁾ Amortization of loss carry-forwards, utilization of non-capitalized loss carry-forwards, and non-recognition of current losses

Notes to the Consolidated Balance Sheet

18 Intangible assets

Goodwill includes amounts arising from the acquisition of businesses (asset deals) and from the capital consolidation. For the purpose of impairment testing, the assets are allocated to the cash-generating units. These correspond to the segments. The carrying amounts of the goodwills associated with the cash-generating units Press and also Postpress total, respectively, € 93,620 thousand (previous year: € 91,631 thousand) and € 9,609 thousand (previous year: € 9,609 thousand).

The initial consolidation of BHS Druck- und Veredelungstechnik GmbH (see Note 3) resulted in goodwill of € 2,058 thousand, which is included in the cash-generating unit 'Press.'

According to IAS 36, in line with the impairment test the recoverable amount of the cash-generating units is determined based on the fair value less the cost to sell, or the value in use. In this process, the fair value reflects the best estimate of the amount for which an independent outside party would acquire the cash-generating units at the financial year-end. The value in use is the present value of the estimated future cash flows, anticipated from the continued use of a cash-generating unit. Calculation of the value in use is based on the planning that is authorized by the Management Board, which results from medium-term planning for a period of five years. This planning process is based on past experience as well as forecasts of future market development. As a result, as in the previous year, there was no impairment requirement for the Press and Financial Services cash-generating units. During the previous year, we recorded a goodwill impairment loss in the Postpress segment totaling € 6,492 thousand.

The discount rates used within the scope of the impairment test are established for the cash-generating units on the basis of market data and amount to 7.6 percent (previous year: 7.6 percent) after taxes. Before taxes, the discount rates amount to 11.0 percent (previous year: 11.6 percent). For the extrapolation of cash flows beyond the detailed planning period, Heidelberg applies steady growth rates of 0 percent to 1 percent to take into account the expected inflation.

Capitalized **development costs** relate for the most part to the development of machinery in the Press Division. Non-capitalized development costs from all Divisions – including research expenses – amount to € 209,716 thousand in the reporting year (previous year: € 191,450 thousand).

19 Tangible assets and investment property

The fair value of investment property (IAS 40: Investment Property) amounts to € 35,780 thousand (previous year: € 44,396 thousand). Of this amount, the measurement of € 22,500 thousand (previous year: € 22,500 thousand) was undertaken by an independent expert. As in the previous year, during the current reporting year only current income or expenses of minor importance were incurred in connection with investment property.

The book values of the assets included in fixed assets originating from finance lease contracts, in which we act as lessee, amount to € 11,321 thousand (previous year: € 13,372 thousand) for furniture, fixtures, and other equipment – largely motor vehicles and personal computers.

The book values of the assets arising from operating lease relationships, in which we act as lessor, total € 19,348 thousand (previous year: € 8,955 thousand). These assets – largely printing presses leased out to customers – are included in technical equipment and machinery. During the financial year, the cumulative depreciation and amortization on March 31, 2007 amounted to € 16,955 thousand (previous year: € 9,030 thousand). Depreciation and amortization totaled € 6,059 thousand (previous year: € 2,426 thousand and impairments € 69 thousand (previous year: € 233 thousand) during the financial year. Future lease income of € 6,016 thousand is anticipated from operating lease relationships – of which payments of up to one year totaled € 2,507 thousand; € 3,357 thousand longer than one year and up to five years, and € 152 thousand over five years.

The book values of tangible assets that are at times unused, are no longer used, or are pledged as collateral, are currently of minor importance within our Group.

In the case of the finance lease relationships under which our customers are considered to be the economic owners, appropriate receivables have been capitalized under current assets in the amount of the discounted future minimum lease payments. Leased objects are therefore not included under fixed assets.

20 Financial assets

Financial assets include shares in affiliated companies totaling € 22,371 thousand (previous year: € 16,967), other investments of € 16,236 thousand (previous year: € 25,488 thousand), and securities amounting to € 8,068 thousand (previous year: € 9,728 thousand). Financial assets had included shares in affiliated companies and joint ventures of € 3,332 thousand in the previous year. Other investments comprise largely the shares held in Goss International Corporation, Bolingbrook, Illinois, USA. Since these corporations are

not listed on a stock exchange, it is not possible to reliably determine their fair value. The shares are measured at cost. We performed an impairment test on the respective carrying amounts; as a result of which there was no requirement to recognize an impairment loss.

The decline in the carrying amount of securities primarily resulted from an impairment loss.

21 Receivables and other assets

	31-Mar-2006 ¹⁾			31-Mar-2007		
	Current	Non-current	Total	Current	Non-current	Total
Receivables from customer financing	135,071	360,860	495,931	111,523	319,880	431,403
Trade receivables	678,320	–	678,320	704,538	–	704,538
Other receivables and other assets						
Other tax refund claims	38,895	–	38,895	21,717	1,430	23,147
Loans	465	3,858	4,323	248	6,008	6,256
Derivative financial instruments	15,872	3,359	19,231	23,018	6,462	29,480
Deferred interest payments	3,740	–	3,740	1,795	–	1,795
Prepaid expenses	21,495	1,228	22,723	12,389	1,054	13,443
Other assets	57,429	43,441	100,870	62,929	73,098	136,027
	137,896	51,886	189,782	122,096	88,052	210,148

¹⁾ Previous year's figures were adjusted (see Note 1)

Receivables from customer financing

Non-current **receivables from customer financing** comprise receivables totaling € 46,030 thousand (previous year: € 56,656 thousand) that have a term to maturity of over five years.

Receivables from customer financing are shown in the following table:

Contract currency	Book value 31-Mar-2006 in € thousands	Term to maturity in years	Effective interest rate in percent	Book value 31-Mar-2007 in € thousands	Term to maturity in years	Effective interest rate in percent
EUR	201,386	up to 8	up to 12	191,589	up to 8	up to 12
USD	153,519	up to 8	up to 12	102,659	up to 8	up to 12
GBP	33,974	up to 7	up to 13	28,815	up to 7	up to 14
JPY	22,388	up to 10	up to 5	13,225	up to 8	up to 5
Other	84,664	–	–	95,115	–	–
	<u>495,931</u>			<u>431,403</u>		

Effective interest rates correspond to nominal interest rates agreed upon.

Receivables from customer financing include leasing receivables under finance lease agreements in which in particular our financing companies act as lessors. Lease agreements are subject to the following parameters:

	31-Mar-2006				31-Mar-2007			
	1 year or less	from 1 to 5 years	over 5 years		1 year or less	from 1 to 5 years	over 5 years	
Total lease payments	–	–	–	75,119	–	–	–	47,036
Lease payments received	–	–	–	–25,498	–	–	–	–13,384
Outstanding lease payments	3,574	34,423	11,624	49,621	3,652	26,572	3,428	33,652
Interest portion of outstanding lease payments	–577	–3,627	–1,010	–5,214	–683	–3,713	–325	–4,721
Present value of outstanding lease payments (carrying amount)	<u>2,997</u>	<u>30,796</u>	<u>10,614</u>	<u>44,407</u>	<u>2,969</u>	<u>22,859</u>	<u>3,103</u>	<u>28,931</u>

Other receivables and other assets

Non-current receivables under tax refund claims, loans, derivative financial instruments, and other assets include assets with terms to maturity of over five years in the amount of € 35,565 thousand (previous year: € 1,676 thousand).

The book values of receivables and other assets are largely identical with fair values. Any discrepancies that arise are of minor financial importance.

The derivative financial instruments include assets arising from cash flow hedges amounting to € 29,203 thousand (previous year: € 16,294 thousand) and from fair value hedges totaling € 123 thousand (previous year: € 370 thousand).

22 Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are broken down as follows:

	31-Mar-2006		31-Mar-2007	
	Asset	Liability	Asset	Liability
Tax loss carry-forwards	2,214	–	1,269	–
Assets:				
Intangible assets/tangible assets/ investment property	6,673	69,391	5,706	63,441
Financial assets	147	473	–	36
Inventories, receivables, and other assets	56,018	39,173	40,288	46,081
Marketable securities	–	55,695	–	51,247
Liabilities:				
Provisions	144,119	–	117,479	–
Liabilities	11,278	13,848	13,724	31,337
Gross amount	220,449	178,580	178,466	192,142
Balance	107,909	107,909	106,432	106,432
Carrying value	112,540	70,671	72,034	85,710

Due to currency translation, deferred tax assets were decreased with recognition directly in equity by € 4,732 thousand (previous year: € 2,793 thousand increase). Furthermore, due to changes in fair value of financial assets and hedging instruments from cash flow hedges recognized directly in equity as well as removed from equity, deferred tax assets were reduced by € 6,993 thousand without effect on the income statement (previous year:

€ 1,041 thousand increase). The decline in deferred tax assets as a result of the recognition of actuarial gains (previous year: losses) directly in equity under IAS 19 totaled € 17,368 thousand (previous year: € 25,054 thousand increase). Due to changes in the scope of the consolidation, deferred tax liabilities increased by € 586 thousand (previous year: € 0 thousand) without effect on the income statement.

Deferred tax assets include current deferred taxes amounting to € 62,744 thousand (previous year: € 74,776 thousand). Deferred tax liabilities include current deferred taxes totaling € 50,113 thousand (previous year: € 40,236 thousand).

23 Inventories

	31-Mar-2006	31-Mar-2007
Raw materials and supplies	109,315	130,679
Work and services in process	316,426	350,720
Finished goods and merchandise	397,733	406,977
Payments on account	21,264	12,325
	<u>844,738</u>	<u>900,701</u>

In order to adjust inventories to the net selling price, write-downs totaling € 19,747 thousand were recorded during the financial year (previous year: € 29,226 thousand). The reason for the write-down to the lower net realizable value is primarily the decreased likelihood of market success for a small part of our inventories. No inventories were pledged as collateral either during the reporting year or in the previous year.

24 Marketable securities as well as cash and cash equivalents

As of March 1, 2006, the specialized investment funds were transferred to a trustee, Heidelberg Pension-Trust e.V., Heidelberg, within the framework of the Contractual Trust Arrangement (CTA). The CTA provides for the funding of pension obligations. Through this transfer, the securities have become the plan assets of the pension fund, these assets are offset against pension obligations (see Note 26).

Marketable securities totaling € 2,908 thousand (previous year: € 187 thousand) are classified as 'available for sale' under the provisions of IAS 39. They are entirely composed of shares and fixed-income securities.

Cash and cash equivalents comprise cash on hand and bank deposits. Restraints of disposal restrictions due to foreign exchange restrictions exist on cash and cash equivalents totaling € 33,866 thousand. Bank balances are held at banks with unquestionable credit standing exclusively for short-term cash management purposes.

25 Shareholders' equity

Capital stock/number of issued shares¹⁾/treasury stock

On November 8, 2005, the Management Board of Heidelberger Druckmaschinen Aktiengesellschaft approved the acquisition of the Company's own shares in an amount of up to 5 percent of the capital stock (up to 4,295,424 shares) during the period November 9, 2005 through January 19, 2007. The Management Board made use of the authorization by the Annual General Meeting on July 20, 2005 to acquire the Company's own shares in an amount of up to 10 percent of the capital stock (up to 8,590,848 shares) through January 19, 2007. The repurchased shares may thereby only be utilized to reduce the Company's capital stock, for the employee share participation programs, or for other forms of share distribution to the employees of the Company or of a subsidiary in accordance with the authorization of the Annual General Meeting of July 20, 2005.

Overall, 2,911,000 shares were repurchased during the financial year 2005/2006, with the mathematical portion in capital stock of € 7,452 thousand representing 3.4 percent of the capital stock as of March 31, 2005. Of this amount, 53,223 shares (with a mathematical portion in capital stock of € 136 thousand representing 0.06 percent of the capital stock as of March 31, 2005) were used for the employee share participation program; the shares were purchased at a cost of € 1,560 thousand and resold to the employees at a price of € 639 thousand. The remaining 2,857,777 shares with a mathematical portion in capital stock of € 7,316 thousand, representing 3.3 percent of the capital stock as of March 31, 2005, were withdrawn by means of a capital retirement process, which was approved by the Management Board on March 31, 2006. As a result of the retirement, capital stock was reduced from € 219,925,708.80 (or 85,908,480 shares) by € 7,315,909.12 (or 2,857,777 shares) to € 212,609,799.68 (or 83,050,703 shares). Including transaction fees of € 125 thousand, the price for the acquisition of the 2,857,777 shares amounted to a total of € 96,849 thousand.

¹⁾ No-par bearer shares

The authorization granted by the Annual General Meeting on July 20, 2005 would have expired on January 19, 2007. To ensure seamless authorization for the Company, the authorization was cancelled in accordance with a decision by the Annual General Meeting of July 20, 2006 with effect at the close of the Annual General Meeting on July 20, 2006, and replaced by a new authorization to acquire the Company's own shares. According to this new authorization, up to January 19, 2008, the Management Board of Heidelberger Druckmaschinen Aktiengesellschaft is authorized to acquire the Company's own shares for any permissible purpose in an amount of up to the lower of 10 percent of either the current capital stock or of the capital stock at the time of the exercise of the authorization.

On October 31, 2006, the Management Board of Heidelberger Druckmaschinen Aktiengesellschaft approved a further share buyback program. The Board made use of an authorization granted by the Annual General Meeting on July 20, 2006. Within the framework of this share buyback program, the Company's own shares may be purchased in an amount of up to 5 percent of the capital stock (up to 4,152,535 shares) during the period November 7, 2006 through January 19, 2008 at the latest. The repurchased shares may only be utilized for the reduction of the Company's capital stock or for employee share participation programs, as well as other forms of share distribution to the employees of the Company or of a subsidiary or to individuals who are or were employed by the Company or affiliated enterprises.

During financial year 2006/2007, a total of 3,803,846 shares were repurchased, with a mathematical portion in capital stock of € 9,738 thousand, or 4.6 percent of the capital stock as of March 31, 2006. Of this amount, a total of 81,188 shares with a mathematical portion in capital stock of € 208 thousand, or 0.1 percent of the capital stock as of March 31, 2006, were utilized for the employee share participation program. These shares were purchased at a cost of € 3,053 thousand and resold to the employees at a price of € 1,384 thousand. The Company utilized a total of 3,322,658 shares with a mathematical portion in capital stock of € 8,506 thousand, accounting for 4.0 percent of the capital stock as of March 31, 2006, within the framework of the capital retirement that was approved by the Management Board on March 30, 2007. As a result of the retirement, the capital stock was reduced from € 212,609,799.68 (or 83,050,703 shares) by € 8,506,004.48 (or 3,322,658 shares) to € 204,103,795.20 (or 79,728,045 shares). The acquisition cost for the 3,322,658 shares amounted to € 116,639 thousand. Additional transaction fees amounted to € 127 thousand. The total cost of acquisition thereby amounted to € 116,766 thousand. The remaining 400,000 shares, which were all acquired in March 2007, were

still being held as treasury stock as of March 31, 2007. The amount accounted for by the capital stock totals € 1,024 thousand, with a mathematical portion in the capital stock of 0.5 percent as of March 31, 2007. The acquisition cost totaled € 13,246 thousand. Additional transaction fees were € 12 thousand. The total cost of acquisition thereby amounted to € 13,258 thousand.

Furthermore, 275,000 additional shares were repurchased during the period April 1, 2007 through May 7, 2007, the time of the presentation of the annual financial statements of Heidelberg Druckmaschinen Aktiengesellschaft.

Convertible bond

On February 9, 2005, a convertible bond in the nominal amount of € 280 million was issued by Heidelberg International Finance B.V., Boxmeer, the Netherlands, our wholly-owned financing subsidiary, under the guarantee of Heidelberg Druckmaschinen Aktiengesellschaft, Heidelberg. Each bond has a face value of € 100,000 and matures on February 9, 2012. This issue carries a conversion right to no-par shares of Heidelberg Druckmaschinen Aktiengesellschaft which, at the discretion of the respective bearer, may be exercised from March 22, 2005 to January 30, 2012 in accordance with the conditions governing the bonds at a conversion price determined upon issue of € 39.63 (before possible adjustments for dividend payouts and changes in capitalization). The interest coupon is 0.875 percent p.a. and is payable annually – for the first time on February 9, 2006. The annual yield to maturity is 3 percent. Beginning on February 9, 2009, in accordance with the conditions governing the bonds, following a corresponding announced period of notice Heidelberg is entitled to repay the convertible bond in its entirety or in part through payment of the then accrued face value plus interest accrued up to the day of the repayment. On February 9, 2010, the respective bearer of the convertible bond has the right to the accelerated repayment of the bond through payment of the then accrued face value plus interest accrued up to the day of the repayment.

At the time of the issue of the convertible bond, a total of approximately 7 million no-par shares from contingent capital would correspond to the granted conversion rights.

As of July 21, 2006, in accordance with the conditions governing the bonds, the conversion price was adjusted from € 39.37 to € 38.80. This adjustment occurred due to the dividend payment of € 0.65 per share.

In accordance with a decision of the Annual General Meeting on July 20, 2006, the Management Board was authorized, in agreement with the Supervisory Board, to issue through July 19, 2011, either at one time or in stages, bearer warrants and/or convertible bonds in a total face value of up to € 500,000,000.00 with a term to maturity of a maximum of 30 years, as well as to grant option

rights to the holders of bonds with warrants or conversion rights for the holders of convertible bonds to bearer shares of the Company in a pro rata amount of the capital stock in a total amount of up to € 21,260,979.20 subject to the conditions of the option or convertible bond.

Contingent capital

According to a decision of the Annual General Meeting of September 29, 1999, the capital stock may be increased on a contingent basis by a maximum of € 10,996,288.00 through the issue of up to 4,295,425 shares (Contingent Capital I). According to a decision of the Annual General Meeting of July 21, 2004, the capital stock may be increased on a contingent basis by up to € 21,992,570.88 through the issue of up to 8,590,848 new no-par bearer shares in the pro rata amount of € 2.56 each (Contingent Capital II). The increase in contingent capital is for the purpose of supporting the granting of option rights or option obligations to the bearers of warrants under bonds with warrants in accordance with the option conditions; or for the purpose of granting conversion rights or conversion obligations to the bearers of convertible bonds in accordance with the convertible bond conditions, which are issued by the Company or a subsidiary affiliated company up until July 20, 2009 as authorized in the enabling resolution of the Annual General Meeting of July 21, 2004.

In accordance with a decision of the Annual General meeting of July 20, 2006, the capital stock may be increased on a contingent basis by up to € 21,260,979.20 through the issue of up to 8,305,070 new no-par bearer shares in the pro rata amount of € 2.56 each (Contingent Capital 2006). This increase in contingent capital is for the purpose of supporting the granting of option rights or option obligations to the bearers of warrants under bonds with warrants in accordance with the option conditions; or for the purpose of granting conversion rights or conversion obligations to the bearers of convertible bonds in accordance with the convertible bond conditions, which are issued by the Company or a subsidiary affiliated company up until July 19, 2011 as authorized in the enabling resolution of the Annual General Meeting of July 20, 2006. The new shares are issued at the option or conversion price to be determined according to the enabling resolution as described under 'Convertible bond'.

Authorized capital

By resolution of the Annual General Meeting of July 20, 2006, the Management Board, in agreement with the Supervisory Board, is authorized, through July 1, 2009, to increase the capital stock of the Company by up to € 63,782,937.60 against payment in cash or in kind through the issue of new shares at one time or in stages (Authorized Capital 2006). In the case of the issue of shares against contributions in kind, the Management Board, in

agreement with the Supervisory Board, is authorized to exclude the subscription right of shareholders. The shareholders are to be granted subscription rights if the capital is increased against cash contributions. However, the Management Board, in agreement with the Supervisory Board, is authorized to exclude residual amounts from the subscription right of shareholders. The Management Board, in agreement with the Supervisory Board, is furthermore authorized to exclude the subscription rights of shareholders in the case of capital increases against cash contributions if the disbursement amount fails to fall substantially below the stock market price. Nevertheless, this authorization only applies under the condition that the shares issued under the exclusion of subscription rights in accordance with Article 186, Paragraph 3, Number 4 of the Stock Corporation Act may not exceed 10 percent of capital stock, either at the time of validity or at the time of the exercise of this authorization.

Retained earnings

The retained earnings include: the earned but not yet distributed profit of Heidelberger Druckmaschinen Aktiengesellschaft and its consolidated subsidiaries in previous years, the effects of consolidation, exchange rate effects, changes in fair value of financial assets, and hedging instruments from cash flow hedges recognized directly in equity in accordance with IAS 39, and the actuarial gains and losses from pension obligations. Due to the purchase of own shares, retained earnings were reduced accordingly.

Minority interests

Minority interests refer to the minority interests in shareholders' equity of two foreign subsidiaries.

Proposed appropriation of the profit of Heidelberger Druckmaschinen Aktiengesellschaft

In accordance with the resolution of the Annual General Meeting of July 20, 2006, the distributable profit for financial year 2005/2006 amounting to € 54,365,130.50 was distributed as follows: distribution of a dividend of € 0.65 per share (total dividend: € 53,111,956.95) and carry-forward of the residual amount of € 1,253,173.55.

In accordance with the proposed appropriation of profit for financial year 2006/2007, the distributable profit totaling € 75,935,587.10 is as follows: distribution of a dividend of € 0.95 per share (total dividend: € 75,100,392.75), and carry-forward of the residual amount of € 835,194.35. A dividend of € 0.95 is payable for each share that is eligible for a dividend on the day of the presentation of the annual financial figures of Heidelberger Druckmaschinen Aktien-

gesellschaft (May 7, 2007) (79,053,045 shares). The Management Board and the Supervisory Board propose to increase the profit carry-forward if the total dividend is further reduced as a result of additional share buybacks up to the time of the Annual General Meeting.

26 Provisions for pensions and similar obligations

We maintain benefit programs for the majority of employees for the period following their retirement – either through the direct program or one financed by payments of premiums to private institutions. The level 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. The liabilities include both those arising from current pensions as well as vested pension rights for pensions payable in the future. The pension payments expected following the beginning of benefit payments are apportioned over the employee's overall period of employment. The group of beneficiaries participating in the defined benefit plans financed by funds at Heidelberger Druckmaschinen Aktiengesellschaft and Heidelberger Druckmaschinen Vertrieb Deutschland GmbH has been closed.

The expenses for defined contribution plans amounted to € 71,189 thousand during the reporting year.

Under the provisions of IAS 19, we made use of the so-called 'third option', with the actuarial gains and losses and the limits according to IAS 19.58b) offset to shareholders' equity without effect on the income statement.

In March 2006, plan assets totaling € 455,975 thousand of Heidelberger Druckmaschinen Aktiengesellschaft and Heidelberger Druckmaschinen Vertrieb Deutschland GmbH were transferred to a trustee, Heidelberg Pension-Trust e.V., Heidelberg, within the framework of a Contractual Trust Arrangement (CTA). In July 2007, an additional € 50,000 thousand were transferred to the trustee within the framework of the CTA. The CTA provides for the funding of pension obligations.

Calculation of the pension provisions is based on the following assumptions:

Figures in percent	2005/2006		2006/2007	
	Germany	Abroad	Germany	Abroad
Discount rate	4.25	4.26	4.75	4.48
Expected return on fund assets	6.50	5.55	6.50	5.40
Estimated future salary increases	2.75	2.80	2.75	2.97
Estimated future pension increases	1.75	2.04	1.75	2.49

To determine the expected return on plan assets, we utilize realized amounts based on past experience and forecasts concerning the expected development of the plan assets. The forecasts are generated by experienced portfolio executives as well as experts in the investment and real estate industry.

Presentation of information concerning pensions is structured as follows:

- 1) Composition and development of the net carrying amounts
- 2) Reconciliation of the defined benefit obligation and the fair value of the plan assets to the provisions for pensions
- 3) Development of the defined benefit obligation
- 4) Development of the fair value of the plan assets
- 5) Composition of the plan assets
- 6) Breakdown of pension plan costs

- 1) The net carrying amounts break down as follows:

	31-Mar-2006	31-Mar-2007
Provisions for pensions and similar obligations	211,606	132,940
Reported assets	4,809	32,639
Net carrying amounts at financial year-end	206,797	100,301

The net carrying amounts developed as follows:

	2005/2006	2006/2007
Net carrying amounts at the beginning of the financial year	625,892	206,797
Expenses from pension liabilities	61,071	66,968
Pension benefit payments	- 22,235	- 7,721
Pension funding	- 512,691	- 71,115
Changes in actuarial gains (-) or losses (+)	72,174	- 45,249
Expected return on plan assets	- 14,801	- 49,733
Change in asset ceiling due to IAS 19.58b)	92	668
Changes in the scope of the consolidation, currency adjustments, other changes	- 2,705	- 314
Net carrying amounts at financial year-end	206,797	100,301

2) Provisions for pensions and similar obligations derive from the defined benefit obligation and the fair value of the plan assets as follows:

	31-Mar-2006	31-Mar-2007
Present value of defined benefit obligation (funded)	841,874	946,726
Less fair value of the plan assets	- 785,321	- 875,990
Underfunding of pension plans	56,553	70,736
Present value of defined benefit obligation (unfunded)	144,797	23,450
Total present value of pension claims	201,350	94,186
Asset ceiling due to IAS 19.58b)	5,447	6,115
Sub-total	206,797	100,301
Therein included reported assets	4,809	32,639
Provisions for pensions and similar obligations	211,606	132,940

3) The defined benefit obligation developed as follows:

	2005/2006	2006/2007
Defined benefit obligation at the beginning of the financial year	861,192	986,671
Current service cost	22,494	25,136
Interest expense	38,577	41,832
Pension benefit payments	- 30,572	- 31,720
Changes in actuarial gains (-) or losses (+)	100,022	- 53,211
Changes in the scope of the consolidation, currency adjustments, other changes	- 5,042	1,468
Defined benefit obligation at financial year-end	986,671	970,176
- of which: funded	841,874	946,726
- of which: not funded	144,797	23,450

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

	2005/2006	2006/2007
Fair value of the plan assets at the beginning of the financial year	240,655	785,321
Expected return on plan assets	14,801	49,733
Pension funding	512,691	71,115
Pension benefit payments from the funds	- 8,337	- 23,999
Changes in actuarial gains (+) or losses (-)	27,848	- 7,962
Changes in the scope of the consolidation, currency adjustments, other changes	- 2,337	1,782
Fair value of the plan assets at financial year-end	<u>785,321</u>	<u>875,990</u>

Actual return on plan assets amounts to € 41,771 thousand (previous year: € 42,649 thousand).

5) The plan assets break down as follows:

	31-Mar-2006	31-Mar-2007
Fixed-income securities	336,113	425,280
Shares	302,310	322,896
Cash and cash equivalents	94,648	59,830
Investment property	17,483	28,199
Qualifying insurance policy	26,387	27,799
Other	8,380	11,986
	<u>785,321</u>	<u>875,990</u>

6) The plan assets break down as follows:

	2005/2006	2006/2007
Current service cost ¹⁾	22,494	25,136
Interest expense	38,577	41,832
Expenses from pension liabilities	61,071	66,968
Expected return on plan assets	- 14,801	- 49,733
Expenses for other pension plans ¹⁾	14,910	19,726
	<u>61,180</u>	<u>36,961</u>

¹⁾ Expenses for the pension plan that are included in personnel expenses before they are balanced with the return on plan assets total € 44,862 thousand (previous year: € 37,404 thousand)

Return on plan assets is included in personnel expenses up to the amount of the corresponding expense for pension claims; any excess is shown together with interest expenditures in the financial result.

At financial year-end, it was not possible to reliably estimate expected future contributions to the employee pension funds.

The cumulative actuarial losses and the cumulative asset ceiling in accordance with IAS 19.58b) is € 62,712 thousand at financial year-end.

The experience adjustments to the plan liabilities amounts to € 2,318 thousand (previous year: € 3,926 thousand), with the defined benefit obligation at the end of the reporting year totaling € 970,176 thousand (previous year: € 986,671). The experience adjustments to the plan assets amount to € -7,962 thousand (previous year: € 27,825 thousand) for the financial year, with a fair value of the plan assets at the end of the reporting year totaling € 875,990 thousand (previous year: € 785,321 thousand).

27 Other provisions

	31-Mar-2006			31-Mar-2007		
	Current	Non-current	Total	Current	Non-current	Total
Tax provisions	9,246	195,745	204,991	19,444	250,450	269,894
Other provisions						
Liabilities arising from human resources	121,871	72,135	194,006	174,460	53,286	227,746
Liabilities arising from sales and service activities	129,874	26,735	156,609	161,879	30,567	192,446
Other	92,980	30,456	123,436	78,134	39,732	117,866
	<u>344,725</u>	<u>129,326</u>	<u>474,051</u>	<u>414,473</u>	<u>123,585</u>	<u>538,058</u>
	<u>353,971</u>	<u>325,071</u>	<u>679,042</u>	<u>433,917</u>	<u>374,035</u>	<u>807,952</u>

	31-Mar-2006	Changes in the scope of the consolidation, currency adjustments, transfers	Utilization	Release	Addition	31-Mar-2007
Tax provisions	204,991	67	15,309	1,003	81,148	269,894
Other provisions						
Liabilities arising from human resources	194,006	-4,353	105,737	8,408	152,238	227,746
Liabilities arising from sales and service activities	156,609	8,577	64,120	35,821	127,201	192,446
Other	123,436	-10,989	45,417	6,461	57,297	117,866
	<u>474,051</u>	<u>-6,765</u>	<u>215,274</u>	<u>50,690</u>	<u>336,736</u>	<u>538,058</u>
	<u>679,042</u>	<u>-6,698</u>	<u>230,583</u>	<u>51,693</u>	<u>417,884</u>	<u>807,952</u>

Additions include interest expenses totaling € 2,349 thousand.

As in the past, **tax provisions** primarily record the risks of additional assessments. Risks associated with the merger of Linotype-Hell Aktiengesellschaft with Heidelberger Druckmaschinen Aktiengesellschaft are included as well.

The provisions from the **human resources** area largely include bonuses of € 56,452 thousand (previous year: € 31,969 thousand), vacation, overtime, and flextime balances totaling € 69,190 thousand (previous year: € 55,704 thousand), expenses for early retirement payments and for the partial retirement program of € 21,924 thousand (previous year: € 17,547 thousand), service anniversary expenses in the amount of € 17,399 thousand (previous year: € 16,559 thousand), and provisions for the stock option program and the long-term incentive plan totaling € 971 thousand (previous year: € 5,703 thousand).

The provisions from **sales and service activities** largely comprise warranty and guarantee obligations of € 143,408 thousand (previous year: € 125,350 thousand). The provisions for warranty obligations or obligations to undertake subsequent performance, or for product liability, are designed to cover risks that are either not insured or which go beyond insurable risks. The provisions for guarantee obligations are mainly connected with customer financing. Obligations for which appropriate provisions have not been created are carried under contingent liabilities. In connection with the provisions for guarantee obligations, there are claims against third parties in connection with the transfer of printing presses. Additional **rights to recourse** against third parties are outstanding partly in the form of guarantees. Outstanding claims are not recognized.

Remaining other provisions include provisions for potential losses arising from pending transactions totaling € 2,356 thousand (previous year: € 3,788 thousand), provisions for outstanding supplier invoices totaling € 20,254 thousand (previous year: € 15,938 thousand), as well as provisions for liabilities in connection with research and development activities of € 2,910 (previous year: € 6,467 thousand). Also included are provisions for restructuring measures amounting to € 8,723 thousand (previous year: € 20,033 thousand).

28 Financial liabilities

	31-Mar-2006 ¹⁾			31-Mar-2007		
	Current	Non-current	Total	Current	Non-current	Total
Convertible bond	–	278,296	278,296	–	286,533	286,533
Borrower's note loans ²⁾	7,256	137,500	144,756	7,279	130,500	137,779
To banks	109,004	8,034	117,038	84,460	–	84,460
From finance lease contracts	7,609	6,176	13,785	6,929	4,471	11,400
Other	16,290	–	16,290	23,214	–	23,214
	<u>140,159</u>	<u>430,006</u>	<u>570,165</u>	<u>121,882</u>	<u>421,504</u>	<u>543,386</u>

¹⁾ The financial liabilities to affiliated enterprises are now included under other financial liabilities. We have accordingly restated the previous year's figures.

²⁾ Including deferred interest payment

Convertible bond

Please refer to Note 25 Shareholders' Equity for information concerning the convertible bond.

Borrower's note loans

Three floating-rate borrower's note loans with a face value of € 137,500 thousand (previous year: € 144,500 thousand) are currently outstanding. Whereas one of these loans, with a face value of € 32,500 thousand, has an amortizing repayment structure and matures in 2011, the two other loans with respective face values of € 55,000 thousand and € 50,000 thousand provide for bullet maturity repayment, respectively, in 2009 and 2013.

The contractually arranged interest rate adjustment periods amount to up to six months.

Liabilities to banks

Liabilities to banks (including note loan), all of which carry floating rates, are shown in the following table:

Type	Contract currency	Book value 31-Mar-2006 in € thousands	Term to maturity in years	Effective interest rate in percent	Book value 31-Mar-2007 in € thousands	Term to maturity in years	Effective interest rate in percent
Loan	EUR	243,991	up to 7	up to 4.0	203,523	up to 6	up to 5.1
Current account	EUR	4,113	–	up to 4.0	4,191	–	up to 4.6
Other	Various	13,690	up to 1	up to 5.2	14,525	up to 1	up to 14.0
		<u>261,794</u>			<u>222,239</u>		

The stated effective interest rates correspond largely to the agreed-upon nominal interest rates.

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

The **credit lines** not yet fully used in our Group amount to € 1,084,014 thousand at financial year-end.

As an integral part of the long-term securing of liquidity, in July 2005 Heidelberg arranged a syndicated credit line from an underwriting syndicate under the co-management of Commerzbank Aktiengesellschaft, Dresdner Bank Aktiengesellschaft, and Deutsche Bank Aktiengesellschaft. This syndicated credit line, amounting to over € 550 million, has an initial period of validity through 2010 and carries two options to renew an additional year.

In July 2006, Heidelberg took advantage of the first option to prolong the period of validity of the syndicated credit line to July 29, 2011. All the syndicate banks agreed to the application to prolong.

Current liabilities to banks (with a term to maturity up to one year) amounting to € 84,460 thousand (previous year: € 109,004 thousand) comprise credits totaling € 20,000 thousand under this syndicated credit line (previous year: € 0 thousand).

As of March 31, 2007 there were no non-current liabilities to banks (previous year: € 8,034 thousand).

Liabilities arising from finance lease relationships

Liabilities from finance lease relationships are as follows:

	31-Mar-2006				31-Mar-2007			
	1 year or less	from 1 to 5 years	over 5 years		1 year or less	from 1 to 5 years	over 5 years	
Total lease payments	–	–	–	34,466	–	–	–	25,241
Lease payments made	–	–	–	–20,285	–	–	–	–13,480
Outstanding lease payments	7,908	6,273	–	14,181	7,168	4,593	–	11,761
Interest portion of outstanding lease payments	–299	–97	–	–396	–239	–122	–	–361
Present value of outstanding lease payments (carrying amount)	7,609	6,176	–	13,785	6,929	4,471	–	11,400

29 Other liabilities

	31-Mar-2006			31-Mar-2007		
	Current	Non-current	Total ¹⁾	Current	Non-current	Total
Advance payments received on orders	95,539	–	95,539	79,653	–	79,653
From derivative financial instruments	11,159	3,120	14,279	6,505	861	7,366
From other taxes	57,529	–	57,529	39,592	–	39,592
Relating to social security	17,171	–	17,171	9,254	–	9,254
Deferred income	27,618	24,552	52,170	34,561	35,587	70,148
Other	67,421	68,644	136,065	54,036	72,922	126,958
	276,437	96,316	372,753	223,601	109,370	332,971

¹⁾ Previous year's figures were adjusted (see Note 1)

Derivative financial instruments

Derivative financial instruments include liabilities arising from cash flow hedges amounting to € 3,690 thousand (previous year: € 8,951 thousand) and from fair value hedges totaling € 3,676 thousand (previous year: € 1,452 thousand).

As in the previous year, non-current liabilities from derivative financial instruments do not include any liabilities that have a term to maturity of over five years.

Deferred income

Deferred income includes taxable investment subsidies amounting to € 4,946 thousand (previous year: € 5,597 thousand), tax-exempt investment grants of € 1,980 thousand (previous year: € 4,268 thousand), and other deferred income totaling € 63,222 thousand (previous year: € 42,305 thousand).

Taxable subsidies comprise funds under the regional economic promotion program for investing in Brandenburg. The subsidies were mostly for Heidelberger Druckmaschinen Aktiengesellschaft in connection with universal responsibility for the development area totaling € 4,946 thousand (previous year: € 5,379 thousand).

Tax exempt allowances comprise allowances according to the Investment Allowance Act of 1991/1996/1999/2005/2007 amounting to € 1,980 thousand (previous year: € 2,178 thousand), which concern the Brandenburg plant.

Other deferred income comprises largely advance payments for future maintenance and services, and non-recurring payments for inheritable building rights under sale-and-lease-back agreements. These amounts are released to the income statement over the term of the agreement.

Additional information

With regard to liabilities, book values are largely in line with fair values. Any discrepancies that may arise are of minor financial importance.

Liabilities are not secured by collateral, with the exception of trade payables for which the usual reservation of proprietary rights exists.

Liabilities that do not legally arise until after the financial year-end are of minor financial importance.

30 Derivative financial instruments

The Corporate Treasury Department, which is organized as part of Heidelberg Druckmaschinen Aktiengesellschaft, is responsible for all hedging and financing activities of Heidelberg Druckmaschinen Aktiengesellschaft and our subsidiaries. It is also responsible for the cash pooling operations of our Group as a whole.

The prerequisite for an adequate risk management system is a well-founded database. The Corporate Treasury Department of Heidelberg 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 also to derive appropriate action plans and strategies with which to manage these risks on a central basis in accordance 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. During the past financial year, the Heidelberg Group was at all times in a position to promptly meet its financial liabilities; in accordance with our planning, it will maintain this capability in the future as well. This is also reflected in the partially utilized credit lines (see Note 28).

Within the Corporate Treasury Department, we ensure that there is both a functional and a physical separation of the trading, processing, and risk control activities, and this is regularly reviewed by our internal audit department. The risk control activities include an ongoing market evaluation of contractual transactions.

Corresponding contracts with outside banks with top credit ratings are concluded primarily with Heidelberg Druckmaschinen Aktiengesellschaft. The credit ratings of these business partners are reviewed on a regular basis.

The derivative financial assets and liabilities that are designated as hedging instruments are offset by opposing value developments of the underlying hedged items. All derivative financial instruments are carried as assets or liabilities at their corresponding fair values.

Currency risks arise in particular as a result of US dollar and Japanese yen exchange rate fluctuations in connection with receivables and liabilities, as well as highly probable forecast transactions and unrecognized firm commitments.

These risks as well as **risks arising from interest rate movements** are hedged by derivative financial instruments as follows:

	Nominal volumes		Fair values	
	31-Mar-2006	31-Mar-2007	31-Mar-2006	31-Mar-2007
Hedging of foreign currency risk				
Cash flow hedge				
Forward exchange transactions	604,084	513,078	6,003	6,062
– of which assets	(394,220)	(325,375)	(8,330)	(8,983)
– of which liabilities	(209,864)	(187,703)	(– 2,327)	(– 2,921)
Currency options transactions	1,315,239	822,148	321	16,143
– of which assets	(654,085)	(450,424)	(5,915)	(16,572)
– of which liabilities	(661,154)	(371,724)	(– 5,594)	(– 429)
	<u>1,919,323</u>	<u>1,335,226</u>	<u>6,324</u>	<u>22,205</u>
Fair value hedge				
Forward exchange transactions	290,816	366,774	– 1,082	– 3,553
– of which assets	(85,112)	(42,748)	(370)	(123)
– of which liabilities	(205,704)	(324,026)	(– 1,452)	(– 3,676)
Interest-rate hedging				
Cash flow hedge				
Interest-rate swaps	186,972	160,440	1,019	3,308
– of which assets	(120,925)	(125,553)	(2,049)	(3,648)
– of which liabilities	(66,047)	(34,887)	(– 1,030)	(– 340)

The nominal volumes result from the total of all the purchase and sale amounts of the underlying hedged items. The fair values correspond to changes in values arising from a notional revaluation taking into consideration market parameters applicable at financial year-end. The determination of fair values occurs with the aid of standardized valuation methods (discounted cash flow method and option pricing models).

Hedging of foreign currency risk

Cash flow hedge

The forward exchange and currency options transactions that were open at financial year-end secure the currency risks over the next twenty-four months that are expected from purchase volumes of our subsidiaries. Therefore, the term to maturity of these derivatives at financial year-end was up to two years. Of the underlying hedged items, at financial year-end 41 percent (previous year: 77 percent) of the hedging volume was accounted for by the US dollar and 39 percent by the Japanese yen (previous year: 6 percent).

The hedging instruments generated assets of € 25,555 thousand at financial year-end (previous year: € 14,245 thousand) as well as liabilities totaling € 3,350 thousand (previous year: € 7,921 thousand), which were recognized in equity and booked to the income statement over the subsequent 24 months.

Fair value hedge

This concerns the exchange rate hedging of loan receivables in foreign currencies. The opposite results from the market valuation of hedging instruments and the translation of underlying hedged items at spot exchange rates are shown in the income statement.

Interest-rate hedging

Cash flow hedge

We limit the risk from increasing interest expenses for our refinancing by using interest-rate swaps, under which Heidelberg receives variable-rate interest and pays fixed interest (payer interest rate swap). The terms to maturity of these interest-rate swaps range up to six years and correspond to our planning horizon; interest-rate swaps in the nominal amount of € 110,440 thousand (previous year: € 121,047 thousand) have a term to maturity of less than five years, with the remainder having a term to maturity of over five years. The valuation of these transactions at financial year-end resulted in assets of € 3,648 thousand (previous year: € 2,049 thousand) as well as liabilities totaling € 340 thousand (previous year: € 1,030 thousand), which after deduction of deferred interest payments of € 42 thousand (previous year: € 327 thousand) were recorded without effect on the income statement in shareholders' equity and will be booked to net interest income during the time span of the transactions. Deferred interest payments included in the fair values of interest-rate swaps were booked directly to the income statement.

Held for trading

In the previous year, due to the transfer of an asset-backed transaction in the US, USD payer interest rate swaps previously classified as cash flow hedges were reclassified as held for trading. Assets amounted to € 1,325 on a nominal volume of € 77,960 thousand and liabilities of € 2,634 thousand on a nominal volume of € 110,615. In the previous year, market values were booked to the income statement. No interest-rate swaps classified as held for trading were held during the financial year.

Value at risk

Under the **value at risk method**, the maximum loss potential that could result from a change in market prices is calculated based on historic price fluctuations with a confidence interval of 95 percent and a holding period of one day. We make use of professional treasury software to determine the value at risk, which at financial year-end amounts to € 162 thousand (previous year: € 52 thousand) for interest rate derivatives and € 1,240 thousand (previous year: € 2,064 thousand) for foreign currency-based derivative financial instruments.

Payment risk

The outstanding derivative financial instruments result in a **theoretical risk of nonpayment (credit risk)** of € 22,094 thousand (previous year: € 6,922 thousand). Since the counterparties are banks with top credit ratings, an actual loss from derivatives is currently not expected.

31 Contingent liabilities

Contingent liabilities from guarantees, amounting to € 218,686 thousand as of March 31, 2007 (previous year: € 291,018 thousand), comprise in particular guarantees provided for the liabilities of third parties in connection with non-current customer financing, which in turn largely correspond with recourse rights on the delivered assets.

32 Other financial liabilities

Other financial liabilities are broken down as follows:

	31-Mar-2006				31-Mar-2007			
	1 year or less	from 1 to 5 years	over 5 years		1 year or less	from 1 to 5 years	over 5 years	
Lease obligations	53,511	141,397	224,391	419,299	58,454	133,120	229,491	421,065
Investments	25,423	–	–	25,423	71,593	2,937	–	74,530
	<u>78,934</u>	<u>141,397</u>	<u>224,391</u>	<u>444,722</u>	<u>130,047</u>	<u>136,057</u>	<u>229,491</u>	<u>495,595</u>

The figures shown are nominal values.

The minimum lease payments for operating lease relationships primarily comprise:

- > The Research and Development Center (Heidelberg) totaling € 49,778 (previous year: € 0 thousand);
- > the Print Media Academy (Heidelberg) in the total value of € 54,452 thousand (previous year: € 57,971 thousand);
- > the World Logistic Center (WLC) (Wiesloch-Walldorf plant) in the total value of € 34,785 thousand (previous year: € 37,491 thousand);
- > the administrative and manufacturing building in Rochester, New York, USA, in the total value of € 94,029 thousand (previous year: € 107,843 thousand);
- > the administrative and manufacturing building in Durham, New Hampshire, USA, in the total value of € 23,283 thousand (previous year: € 27,080 thousand); and
- > motor vehicles in the total value of € 30,620 thousand (previous year: € 22,902 thousand).

Investments are largely financial obligations in connection with orders of tangible assets. The increase in this item results largely from obligations arising from the construction of a new assembly hall at the Wiesloch-Walldorf plant.

Some of the other financial commitments are associated with potential income from rights of use.

Additional information

33 Earnings per share in accordance with IAS 33

	2005/2006	2006/2007
Consolidated net profit – Heidelberg portion in € thousands	134,752	262,993
Number of shares in thousands (weighted average)	85,357	81,393
Result in € per share	1.58	3.23

The undiluted earnings per share are calculated by dividing the consolidated net profit attributable to Heidelberg by the weighted average number of the shares outstanding during the reporting year of 81,393 thousand shares (previous year: 85,357 thousand shares). A dilution of the earnings per share can result from so-called potential shares. At financial year-end, no consideration of shares that could potentially dilute basic earnings per share due to the issue of the convertible bond in February 2005 was necessary, since none of the required conditions for the conversion were fulfilled at financial year-end. If conversion occurs, the bond could have a dilutive effect. Please refer to Note 25 Shareholders' Equity regarding the structure of the convertible bond issue.

The options from the share-based compensation of the Heidelberg Group also have no dilutive effect on earnings (IAS 33.38). Diluted earnings per share thus correspond to undiluted earnings per share.

34 Information on the cash flow statement

The cash flow statement shows the changes in cash and cash equivalents of the Heidelberg Group during the financial year as a result of the inflow and outflow of cash. This cash flow statement covers payment flows that are broken down in terms of operating, investing, and financing activities (IAS 7).

Taxes on income paid and refunded during the financial year totaled, respectively, € 22,281 thousand (previous year: € 20,935 thousand) and € 8,551 thousand (previous year: € 3,132 thousand). Interest paid and received amount to, respectively, € 26,484 thousand (previous year: € 29,301 thousand) and € 48,693 thousand (previous year: € 67,060 thousand).

The additions from finance lease relationships in the amount of € 7,450 thousand (previous year: € 5,412 thousand) are not included in the investments in intangible assets and tangible assets. The proceeds from the disposals of financial assets comprise, among other things, the sales price for the divestiture of Linotype GmbH, Bad Homburg. The cash and cash equivalents that were sold amounting to € 2 thousand were offset from the sales price. Among other things, the investments in financial assets comprise the purchase price for the acquisition of BHS Druck- und Veredlungstechnik GmbH, Weiden (see Note 3). The acquired cash and cash equivalents totaling € 339 thousand were offset from the purchase price.

Detailed information on the cash flow statement is provided in the Management Report.

Cash and cash equivalents break down as follows:

	31-Mar-2006	31-Mar-2007
Current marketable securities	187	2,908
Cash	79,492	76,339
Cash and cash equivalents	79,679	79,247

35 Information concerning segment reporting

The segment information is based on the **'risk and reward approach'**.

The Press Division integrates not only all the components, products, and solutions provided by Prepress, Sheetfed Offset, Packaging, and Flexo Printing, but our sales activities in Web Offset Printing as well. All Finishing operations are integrated within the Postpress Division. We offer customer financing services in the Financial Services Division.

Regionally, we focus on Europe, Middle East and Africa, Eastern Europe, North America, Latin America, and Asia/Pacific.

Additional information concerning the business areas can be found in the Reports of the Divisions and the Reports from the Regions. The establishment of transfer prices for internal Group sales is undertaken using a market-driven approach, based on the principle of 'dealing at arm's length'.

Inter-segmental sales are of minor financial significance and may therefore be ignored.

Non-cash expenses comprise the following:

	2005/2006	2006/2007
Provisions for doubtful accounts and other assets	66,995	43,359
Additions to provisions	365,216	435,119
	432,211	478,478

Additions to provisions exclude expenditures from restructuring measures, as these are shown separately under segment information.

Research and development costs result from development costs incurred in the financial year, however, excluding depreciation on development costs for the financial year.

Investments comprise investments in intangible assets, tangible assets, and investment property.

The **number of employees** was recorded as of the respective balance sheet date.

Segment assets and **segment liabilities** result from assets or liabilities per balance sheet as follows:

	31-Mar-2006	31-Mar-2007
Assets per balance sheet	3,280,890	3,339,079
– financial assets	– 55,515	– 46,675
– marketable securities	– 187	– 2,908
– finance receivables	– 45,676	– 68,066
– deferred tax assets ¹⁾	– 112,854	– 72,034
– tax refund claims	– 51,157	– 106,669
Segment assets	<u>3,015,501</u>	<u>3,042,727</u>

¹⁾ Including deferred tax assets from assets held for sale amounting to € 0 thousand (previous year: € 314 thousand).

Financial receivables comprise financial receivables from affiliated enterprises as well as other financial assets.

	31-Mar-2006	31-Mar-2007
Liabilities per balance sheet	2,143,178	2,137,408
– tax provisions	– 204,991	– 269,894
– tax obligations	– 62,453	– 47,777
– financial obligations	– 472,755	– 468,616
– deferred tax liabilities	– 70,671	– 85,710
Segment liabilities	<u>1,332,308</u>	<u>1,265,411</u>

Financial obligations comprise the individual items shown in Note 28, excluding financial liabilities attributable to customer financing.

36 Declaration of Compliance in accordance with Article 161 of the Stock Corporation Act

The Supervisory Board and the Management Board of Heidelberger Druckmaschinen Aktiengesellschaft issued the Declaration of Compliance in accordance with Article 161 of the Stock Corporation Act and made it permanently accessible to shareholders. Earlier Declarations of Compliance were also made permanently accessible.

37 Information concerning the Supervisory and Management Board of the Company

The basic characteristics of the systems of remuneration and amounts for the members of the Supervisory Board and Management Board are presented in the Compensation Report, which is part of the Management Report (see pages 103 – 111).

The members of the Supervisory Board and of the Management Board are listed in the overview presented on pages 84 – 85 (Supervisory Board) and 87 (Management Board).

The total cash remuneration of the Management Board for the reporting year amounted to € 2,293 thousand (previous year: € 2,438 thousand), of which remuneration for bonuses totaled € 1,134 thousand (previous year: € 1,314 thousand). Expenses for entitlements (long-term incentive plan) during the reporting year totaled € 36 thousand (previous year: € 0 thousand). The overall remuneration accordingly amounted to € 2,329 thousand (previous year: € 2,438 thousand).

An amount of € 557 thousand (previous year: € 612 thousand) was added to the pension provisions for the Management Board members for service and interest costs in accordance with the provision of the IFRS; of which service costs amounted to € 252 thousand (previous year: € 300 thousand).

During the financial year, a total of 13,500 performance shares units were allotted to the members of the Management Board under the long-term incentive plan 2006. In connection with 100 percent goal attainment, the fair value of the performance shares at the time of the granting totaled € 447 thousand. At financial year-end, the Management Board members received a total of 86,250 stock options (previous year: 126,000 stock options) under the Stock Option Plan.

Former members of the Management Board and their survivors received € 2,614 thousand (previous year: € 2,216 thousand). Of this amount, € 797 thousand (previous year: € 792 thousand) relate to liabilities to former members of the Management Board of Linotype-Hell Aktiengesellschaft and their survivors, which were taken over in financial year 1997/1998 within the framework of universal succession. The pension obligations ('defined benefit obligations') to former members of the Management Board and their survivors total € 39,429 thousand (previous year: € 37,873). Of this amount, € 9,681 thousand (previous year: € 10,441 thousand) relate to the pension obligations of the former Linotype-Hell Aktiengesellschaft, acquired in financial year 1997/1998 under the provisions of universal succession. Former members of the Management Board held 189,000 stock options (previous year: 157,500 stock options) at financial year-end.

No credits or advances were made to members of the Company's Management Board or the Supervisory board. The Heidelberg Group has not undertaken a contingent liability either for the members of the Management Board or the Supervisory Board.

A fixed remuneration of € 382 thousand (previous year: € 390 thousand) and a variable remuneration of € 146 thousand (previous year: € 61 thousand) were granted to the members of the Supervisory Board for financial year 2006/2007.

38 Transactions with related parties

Business dealings are undertaken between Heidelberger Druckmaschinen Aktiengesellschaft and its subsidiaries with numerous companies in the ordinary course of business. This also includes associated companies, which are regarded as related companies of the Heidelberg Group. All business dealings were concluded at terms that are customary in the market and which as a matter of principle do not differ from delivery and service relationships with other companies.

No significant transactions were undertaken by the Heidelberg Group with closely related individuals.

39 Stock option plan¹⁾

The Annual General Meeting of September 29, 1999 approved a contingent increase of capital stock by up to € 10,996,288.00 through the issue of up to 4,295,425 shares (Contingent Capital I). The sole purpose of the contingent capital increase is to grant subscription rights to members of the Company's Management Board, to members of the Management Board of subsidiaries in Germany and abroad, and to other senior executives within the Heidelberg Group.

Authorization of the Management Board and Supervisory Board

The Management Board has been authorized to grant subscription rights to eligible persons within a period of five years from the time the contingent capital goes into effect. The subscription rights are to be issued by means of their entry in the Commercial Register in tranches of no more than 30 percent of the overall volume in a single financial year. The Supervisory Board has the sole responsibility for granting subscription rights to members of the Management Board.

Vesting period/option life

The subscription rights may only be exercised after the end of the vesting period. The vesting period commences when the subscription rights are issued and ends three years after the issue date. The option life of the subscription rights commences when the subscription rights are issued and ends six years after the date of issue. Subscription rights that have not been exercised or cannot be exercised by the end of the option life expire without compensation.

¹⁾ Explanations concerning the stock option plan are simultaneously part of the Corporate Governance Report (see page 99 and following for more information)

Exercise period and exercise waiting periods

Subscription rights may be exercised at any time after the end of the waiting period during the respective option life. However, the subscription rights may not be exercised during waiting periods that have been established by the Management Board and Supervisory Board – for example, periods of at least ten trading days before dates on which reports on the Company’s business development are published. The entire period or parts of the period between the end of a financial year and the conclusion of the respective regular Annual General Meeting may also be designated as exercise waiting periods.

Investment for own account

When granting subscription rights, the precondition may be imposed that the eligible persons must acquire shares of the Company on their own account and that they retain the shares for the appropriate vesting period.

Condition for exercising subscription rights

The subscription rights may only be exercised if the market price of the Company’s shares between the issue and the exercising of the subscription rights outperforms the value of the Dow Jones EURO STOXX Index (hereinafter referred to as the ‘Index’) as calculated on the basis of the total shareholder return method. The target shall be deemed to have been reached if the performance thereby determined of our share exceeds the Index. If subscription rights are not exercised despite the target having been reached, they may not be exercised again until the target has been reached again.

Exercise price

The exercise price is defined as the average closing price of our shares on the final ten consecutive trading days in Frankfurt am Main before the relevant subscription period for the respective subscription rights (the ‘exercise price’). If the closing price of our shares in the electronic trading system of Deutsche Börse Aktiengesellschaft (which is used to ascertain the target) is more than 175 percent of the exercise price determined in accordance with the above section (the ‘threshold amount’) on the last day of trading before the subscription rights are exercised, the exercise price shall be increased by the amount by which the relevant market price exceeds the threshold amount. This does not affect the provisions of Section 9 Paragraph 1 of the German Stock Corporation Act (AktG).

Non-transferability/dividend rights of the new shares

The subscription rights are not legally transferable. The new shares are entitled to a share in the profit from the beginning of the financial year in which the issue occurs.

Tranches for 2000 – 2004

The principal underlying conditions for the various tranches are shown in the following table:

	End of vesting period	End of option life	Exercise price in €	Number of stock options ¹⁾ 31-Mar-2006	Number of stock options ¹⁾ 31-Mar-2007
Tranche 2000	13-Sep-2003	13-Sep-2006	68.51	281,370	–
Tranche 2001	12-Sep-2004	12-Sep-2007	53.52	356,475	356,475
Tranche 2002	11-Sep-2005	11-Sep-2008	42.08	375,460	375,460
Tranche 2003	12-Sep-2006	12-Sep-2009	22.26	1,382,370	1,374,870
Tranche 2004	18-Aug-2007	18-Aug-2010	25.42	529,485	525,735
				2,925,160	2,632,540

The development of entitlements to stock options that have been granted are shown in the following table:

	2005/2006		2006/2007	
	Number of stock options ¹⁾	Weighted average exercise price in €	Number of stock options ¹⁾	Weighted average exercise price in €
Outstanding options at the beginning of the financial year	3,624,035	36.31	2,925,160	33.63
Stock options				
granted	–	–	–	–
returned	192,145	34.56	11,250	23.31
exercised	–	–	–	–
forfeited	506,730	52.40	281,370	68.51
during the financial year				
Outstanding options at financial year-end	2,925,160	33.63	2,632,540	29.95
Options to be exercised at financial year-end	–	–	–	–

¹⁾ Including Stock Appreciation Rights (SARs)

Servicing the subscription rights

It is currently intended to deliver the old shares that are acquired on the stock market upon exercise of the subscription rights to the authorized individuals. These individuals are to thereby receive the plan profit in the form of shares. However, this only applies if no cash settlement was required – for example, due to the form of the subscription rights as Stock Appreciation Rights (SARs).

Accounting and valuation methods

During the previous financial year, for the first time we applied the provisions of IFRS 2: Share-Based Payment for applicable tranches (Tranche 2003 and Tranche 2004, as well as the SARs of Tranches 1999 to 2004).

The total expenditure from share-based programs amounted to € 3,874 thousand during the financial year (previous year: € 1,254 thousand). Provisions as well as the share premium amounted to, respectively, € 940 thousand (previous year: € 5,703 thousand) and € 9,431 thousand (previous year: € 8,542 thousand).

Overall liabilities for the tranches for which IFRS 2 was applicable were recorded based on a Monte Carlo simulation that takes into account the relative target of the option plan. The measurement of the significant tranches is based on the following parameters:

	Tranche 2003	Tranche 2004
Valuation date	12-Sep-2003	18-Aug-2004
Exercise price in €	22.26	25.42
Price of Heidelberg share in €	25.44	23.90
Expected dividend yield	2.16 %	2.43 %
Risk-free interest rate	3.61 %	3.52 %
Volatility Heidelberg share	39.11 %	39.13 %
Volatility EURO STOXX	24.73 %	23.98 %
Correlation between Heidelberg share price and EURO STOXX	0.26	0.26
Fair value in €	5.76	4.87

Volatilities and correlations were determined on the basis of historic daily closing prices. The actual term to maturity was used for the expected option life in the option price model. Furthermore, upon reaching the relative target in the simulation, it was assumed that the options were exercised early in all cases, in which the exercise profit exceeds the discounted amount of 75 percent of the original exercise price over the option's term to maturity.

40 Long-Term Incentive Plan (LTI)¹⁾

The long-term incentive plan (LTI Plan) is structured as follows:

Participants

The Company offers participation in the LTI Plan to selected members of the Heidelberg Group's senior management: in addition to the members of the Management Board, to all the members of the Executive group. Eligibility is based on total remuneration, broken down into four groups.

Performance Share Units (PSU)/ investment for own account

The plan grants a certain number of so-called Performance Share Units (PSUs) – dependent, however, on employees undertaking an investment for their own account. As a prerequisite, participants must invest in shares of Heidelberger Druckmaschinen Aktiengesellschaft in the form of an investment for their own account. The actual number of PSUs granted depends on certain performance criteria. Ultimately, the PSUs are provided either in the form of cash payments or by delivery of shares in the Company.

The PSUs are not legally transferable, cannot be pledged as collateral, and are not bequeathed to one's heirs.

The number of PSUs and the investment required for one's own account, apportioned into groups, is broken down as follows:

	Number	Own investment
Group I	4,500 PSUs	1,500 shares
Group II	1,800 PSUs	600 shares
Group III	900 PSUs	300 shares
Group IV	450 PSUs	150 shares

Option life of Performance Share Units

The PSUs have a term to maturity of three years. They were granted on April 1, 2006 and expire at the end of March 31, 2009.

¹⁾ Explanations concerning the long-term incentive plan are simultaneously part of the Corporate Governance Report (see page 99 and following for more information)

Performance criteria

Performance criteria comprise the average arithmetical free cash flow rate (free cash flow divided by net sales) achieved by the company during the option life of the Performance Share Units as well as the arithmetical average EBIT percentage rate (EBIT divided by net sales) achieved by the company during the option life in line with the following table:

Average EBIT percentage rate	< 7.0 %	7.0 %	8.0 %	9.0 %	10.0 %	11.0 %	>= 12.0 %
Pro rata number of PSUs (in percent of the number of distributed PSUs)	–	10.0 %	20.0 %	35.0 %	50.0 %	60.0 %	70.0 %
Average free cash flow rate	< 3.0 %	3.0 %	4.5 %	6.0 %	7.0 %	>= 8.0 %	–
Pro rata number of PSUs (in percent of the number of distributed PSUs)	–	10.0 %	25.0 %	50.0 %	60.0 %	70.0 %	–

The two targets are weighted equally. The free cash flow rate, EBIT (earnings before interest and taxes), and net sales correspond to the terms used within the framework of the recognition according to the IFRS. They are determined based on the examined consolidated financial statements in accordance with the IFRS for the financial years falling within the respective set period. The extent to which the target is achieved is determined by linear interpolation between the values shown in the tables.

Disbursement

During the option life of the LTI, the Company is authorized, at its own discretion, to determine whether an authorized party should receive one share for each Performance Share Unit in place of cash. This decision may be made for all, for a certain number, or for a determinable number of Performance Share Units.

Cap

The plan provides for a cap on profit opportunities. The profit per PSU is limited to double the recorded average share price for a period of three months following the time at which the unit is issued.

Accounting and valuation principles

Measurement of the LTI is based on IFRS 2. The total expenditure attributable to the LTI amounted to € 299 thousand during the financial year. The provision for this totals € 31 thousand and the share premium € 268 thousand.

Overall liabilities are recorded based on a Monte Carlo Simulation. Measurement is based on the following parameters:

	22-Dec-2006	30-Mar-2007
Period of measurement		
Beginning value in €	36.88	36.88
Price of a Heidelberg share in €	34.93	34.30
Expected dividend yield	3.06 %	3.15 %
Interest rate	3.78 %	3.94 %
Volatility of a Heidelberg share	24.94 %	26.13 %
Fair value in €	33.14	32.56

To ensure a long-term procedure based on objective criteria, the historic volatility is used for volatility. Determination is based on closing prices for a share of Heidelberger Druckmaschinen Aktiengesellschaft. The remaining term to maturity of the PSU is used as the time slot for determining volatility. This results from the option life of the program plus the reference period.

41 Exemption according to Section 264 Paragraph 3 of the Commercial Code

During the financial year, the following subsidiaries made use of the provisions of Section 264 Paragraph 3 of the German Commercial Code with regard to disclosure of the exemption regulation:

Heidelberger Druckmaschinen Vertrieb Deutschland GmbH, Heidelberg;
 Heidelberg Postpress Deutschland GmbH, Heidelberg;
 Heidelberg China-Holding GmbH, Heidelberg;
 Heidelberg Boxmeer Beteiligungs-GmbH, Heidelberg;
 Print Finance Vermittlung GmbH, Heidelberg.

42 Audit fee

During the reporting year, we incurred the following expenses for the services of our auditor:

Fee for	2006/2007
Audit of financial statements	806
Audit-related services or other audit work	75
Tax consultancy services	6
Other services	1
	888

**43 Information on events
after financial year-end**

No significant events occurred after the financial year-end.

Heidelberg, May 8, 2007

Heidelberger Druckmaschinen Aktiengesellschaft



Bernhard Schreier



Dirk Kaliebe



Dr. Jürgen Rautert

Auditor's Report

We have audited the consolidated financial statements prepared by the Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg, comprising the balance sheet, the income statement, the statement of recognized income and expense, cash flow statement, and the notes to the consolidated financial statements, together with the group management report for the business year from April 1, 2006 to March 31, 2007. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ('Handelsgesetzbuch': German Commercial Code) are the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with §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) and additionally observed the International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position, and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the

determination of the entities to be included in consolidation, the accounting and consolidation principles used, and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to §315a Abs.1 HGB and give a true and fair view of the net assets, financial position, and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, May 16, 2007

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

P. Albrecht
Wirtschaftsprüfer
(German Public Auditor)

M. Theben
Wirtschaftsprüfer
(German Public Auditor)

> FURTHER INFORMATION

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List of major shares in affiliated companies (Figures in € thousands according to IFRS)

Name	Location	Share in share- holders' equity	Share- holders' equity	Net profit after taxes	Sales	Yearly average number of employees
Europe, Middle East and Africa						
Heidelberger Druckmaschinen Vertrieb Deutschland GmbH ^{1) 2)}	D Heidelberg	100	53,616	25,900	533,341	901
Heidelberg Graphic Equipment Ltd. ³⁾	GB Brentford	100	50,509	496	256,681	440
Heidelberg Postpress Deutschland GmbH ^{1) 2)}	D Heidelberg	100	25,617	-9,739	198,997	986
Heidelberg France SAS	F Tremblay-en-France	100	31,458	1,877	180,017	272
Heidelberg Schweiz Aktiengesellschaft	CH Bern	100	16,942	1,954	69,593	165
Heidelberg International Ltd. A/S	DK Ballerup	100	44,753	125	48,430	65
Heidelberg Sverige AB	S Spanga	100	3,933	730	28,615	52
Heidelberg Graphic Systems Southern Africa (Pty) Ltd. ³⁾	ZA Johannesburg	100	1,954	98	27,256	105
Print Finance Vermittlung GmbH ^{1) 2)}	D Heidelberg	100	34,849	1,327	15,496	-
Eastern Europe						
Heidelberger Druckmaschinen Osteuropa Vertriebs-GmbH ⁴⁾	A Vienna	100	149,573	9,524	128,742	44
Heidelberg Polska Sp z.o.o.	PL Warsaw	100	9,992	2,174	66,423	124
Heidelberger CIS OOO	RUS Moscow	100	-5,425	-2,435	59,365	245
Heidelberger Druckmaschinen Austria Vertriebs-GmbH	A Vienna	100	169,643	8,537	50,919	120
North America						
Heidelberg USA, Inc. ³⁾	USA Kennesaw	100	106,908	23,644	439,114	911
Heidelberg Canada Graphic Equipment Ltd.	CDN Mississauga	100	17,121	1,473	123,117	264
Heidelberg Print Finance Americas, Inc. ³⁾	USA Dover	100	137,937	10,983	12,206	11

Name	Location	Share in share-holders' equity	Share-holders' equity	Net profit after taxes	Sales	Yearly average number of employees
Latin America						
Heidelberg Mexico Services S. de R.L. de C.V. ³⁾	MEX Mexico City	100	605	-4,368	51,217	140
Heidelberg do Brasil Sistemas Graficos e Servicos Ltda.	BR São Paulo	100	2,091	-3,441	39,182	267
Asia / Pacific						
Heidelberg Japan K.K.	J Tokyo	100	19,725	-1,685	226,748	418
Heidelberg China Ltd.	RC Hong Kong	100	11,385	8,743	170,591	166
Heidelberg Graphic Equipment Ltd.	AUS Melbourne	100	19,654	1,980	90,534	214
Heidelberg Hong Kong Ltd.	RC Hong Kong	100	28,969	6,333	80,542	105
Heidelberg Malaysia Sdn Bhd	MYS Petaling Jaya	100	2,862	1,045	48,206	163
Heidelberg Asia Pte Ltd.	SGP Singapore	100	6,701	804	33,965	126
Heidelberg Graphic Equipment Ltd.	NZ Auckland	100	5,403	725	29,695	42

¹⁾ Profit and loss transfer agreement with Heidelberger Druckmaschinen Aktiengesellschaft

²⁾ According to HGB

³⁾ Pre-consolidated financial statements

⁴⁾ Profit and loss transfer agreement with Heidelberger Druckmaschinen Austria Vertriebs-GmbH

The Supervisory Board

Dr. Mark Wössner

Entrepreneur, Munich
Chairman of the Supervisory Board

- * DaimlerChrysler Aktiengesellschaft;
Douglas Holding Aktiengesellschaft;
eCircle Aktiengesellschaft (Chairman);
Loewe Aktiengesellschaft;
- ** Citigroup Global Markets Deutschland AG & Co. KGaA (Chairman in Germany and Chairman of the Advisory Council)

Rainer Wagner^{***}

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

Martin Blessing

Member of the Management Board of Commerzbank Aktiengesellschaft, Frankfurt am Main

- * AMB Generali Holding Aktiengesellschaft;
Commerzbank Inlandsbanken Holding Aktiengesellschaft;
CommerzLeasing und Immobilien Aktiengesellschaft;
ThyssenKrupp Services Aktiengesellschaft;
- ** BRE Bank SA, Poland

Prof. Dr. Clemens Börsig¹⁾

– through March 31, 2007 –
Graduate degree in business administration, Frankfurt am Main

- * Deutsche Bank Aktiengesellschaft (Chairman);
Deutsche Lufthansa Aktiengesellschaft;
Linde Aktiengesellschaft
- ** Foreign & Colonial Eurotrust plc, UK (Non-executive member of the Board of Directors)

Wolfgang Flörchinger^{***}

Member of the Works Council, Heidelberg/Wiesloch-Walldorf

Martin Gauß^{***}

Chairman of the Speakers Committee for the Executive Staff, Heidelberg

Mirko Geiger^{***}

First Senior Representative of IG Metall, Heidelberg

- * IWKA Aktiengesellschaft

Gunther Heller^{***}

Chairman of the Works Council, Amstetten

Dr. Jürgen Heraeus

Entrepreneur, Hanau

- * Heraeus Holding GmbH (Chairman);
GEA Group Aktiengesellschaft (Chairman);
Lafarge Roofing GmbH;
Messer Group GmbH (Chairman);
- ** Argor-Heraeus S.A., Switzerland (Chairman of the Administration Board)

Jörg Hofmann^{***}

– since April 3, 2006 –
Regional head of IG Metall, Baden-Wuerttemberg region, Stuttgart

- * Robert Bosch GmbH;
Berthold Leibinger GmbH

¹⁾ Information as of resignation from the Supervisory Board

* Membership in other Supervisory Boards

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

*** Employee representative

Dr. Siegfried Jaschinski

– since April 3, 2007 –
Chairman of the Management Board of Landesbank Baden-Wuerttemberg, Stuttgart

- * HSBC Trinkaus & Burkhardt Aktiengesellschaft;
Landesbank Rheinland-Pfalz Girozentrale (Chairman of the Administration Board);
LBBW Immobilien GmbH (Chairman);
- ** DekaBank Deutsche Girozentrale (Administration Board)

Robert J. Koehler

Chairman of the Management Board of SGL Carbon Aktiengesellschaft, Wiesbaden

- * Benteler Aktiengesellschaft (Chairman);
Demag Cranes Aktiengesellschaft;
LANXESS Aktiengesellschaft;
Pfleiderer Aktiengesellschaft

Uwe Lüders

Chairman of the Management Board of L. Possehl & Co. mbH, Lübeck

Dr. Gerhard Rupprecht

Member of the Management Board of Allianz SE, Munich
Chairman of the Management Board of Allianz Deutschland Aktiengesellschaft, Munich

- * Fresenius Aktiengesellschaft;
Allianz Beratungs- und Vertriebs-Aktiengesellschaft (Chairman);
Allianz Lebensversicherungs-Aktiengesellschaft (Chairman);
Allianz Private Krankenversicherungs-Aktiengesellschaft (Chairman);
Allianz Versicherungs-Aktiengesellschaft (Chairman);
- ** Allianz Life Insurance Co. Ltd., Korea

Beate Schmitt***

– since April 3, 2006 –
Member of the Works Council, Heidelberg/Wiesloch-Walldorf

Dr. Klaus Sturany

Former Member of the Management Board of RWE Aktiengesellschaft, Essen

- * Bayer Aktiengesellschaft;
Commerzbank Aktiengesellschaft;
Hannover Rückversicherung Aktiengesellschaft;
- ** Österreichische Industrieholding Aktiengesellschaft

Peter Sudadse***

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

Committees of the Supervisory Board

Management Committee

Dr. Mark Wössner (Chairman)

Rainer Wagner

Martin Blessing

Martin Gauß

Mirko Geiger
– since April 26, 2006 –

Dr. Gerhard Rupprecht

Mediation Committee under Article 27 Paragraph 3 of the Codetermination Act

Dr. Mark Wössner

Rainer Wagner

Martin Blessing

Wolfgang Flörchinger

Committee on Arranging Personnel Matters of the Management Board

Dr. Mark Wössner (Chairman)

Rainer Wagner

Dr. Gerhard Rupprecht

Audit Committee

Dr. Klaus Sturany (Chairman)

Prof. Dr. Clemens Börsig
– through March 31, 2007 –

Dr. Jürgen Heraeus
– since April 26, 2007 –

Mirko Geiger

Rainer Wagner

The Management Board

Bernhard Schreier

Bruchsal

Chairman

- * ABB Aktiengesellschaft;
Gerling-Konzern Allgemeine Versicherungs-Aktiengesellschaft;
Heidelberger Druckmaschinen Vertrieb Deutschland GmbH (Chairman);
- ** Heidelberg Graphic Equipment Ltd., UK
(Chairman of the Board of Directors);
Heidelberg Japan K.K., Japan;
Heidelberg Americas, Inc., USA
(Chairman of the Board of Directors);
Heidelberg USA, Inc., USA
(Chairman of the Board of Directors);
Heidelberger Druckmaschinen Austria Vertriebs-GmbH, Austria (Advisory Board);
Heidelberger Druckmaschinen Osteuropa Vertriebs-GmbH, Austria (Advisory Board);

Dirk Kaliebe

Sandhausen

– since October 1, 2006 –

- * Heidelberger Druckmaschinen Vertrieb Deutschland GmbH;
- ** Heidelberg Graphic Equipment Ltd., UK;
Heidelberg Americas Inc., USA

Dr. Jürgen Rautert

Heidelberg

Dr. Herbert Meyer¹⁾

Königstein/Taunus

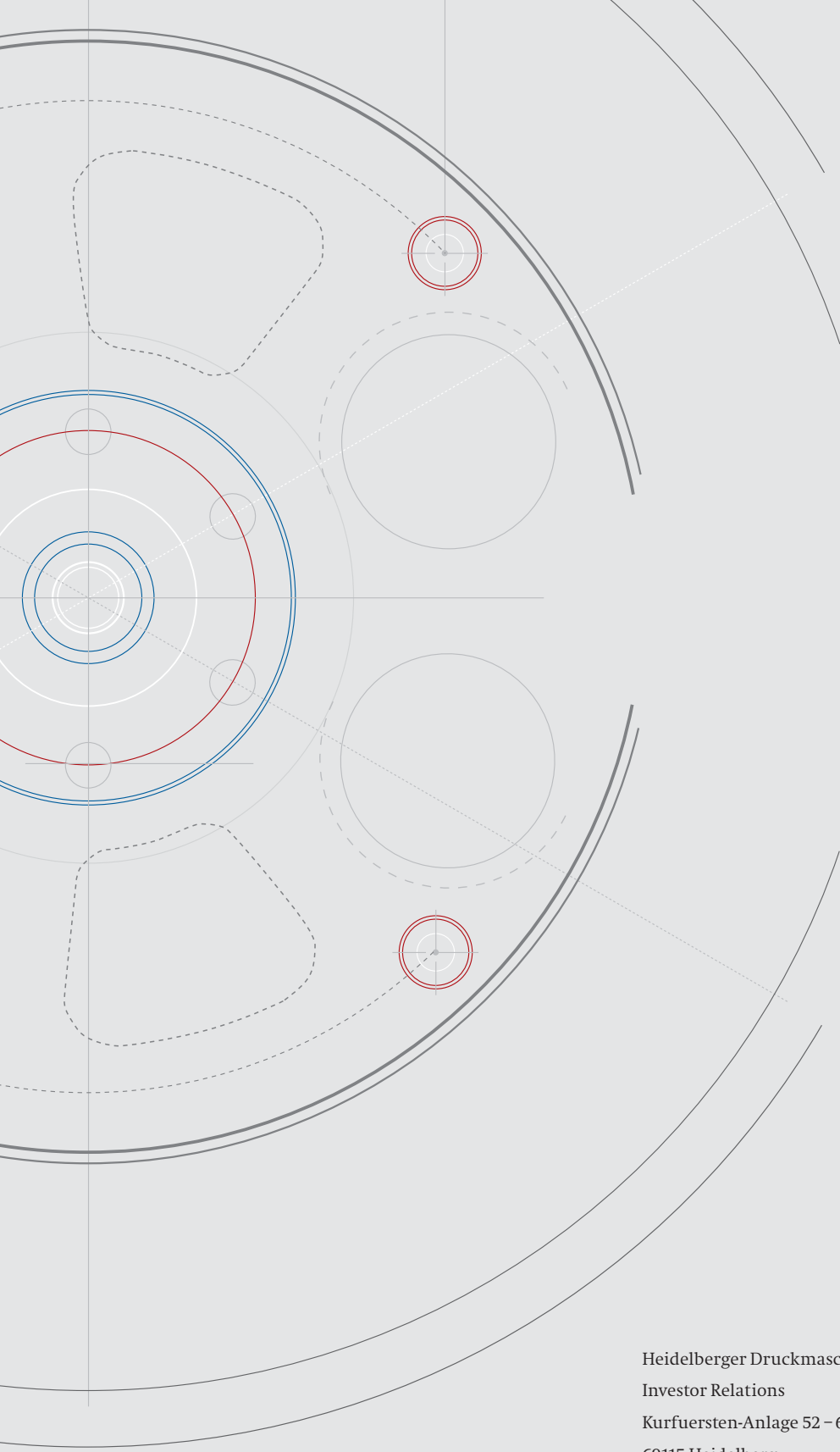
– through September 30, 2006 –

- * Deutsche Beteiligungs Aktiengesellschaft;
IWKA Aktiengesellschaft;
Sektellerei Schloss Wachenheim Aktiengesellschaft;
Heidelberger Druckmaschinen Vertrieb Deutschland GmbH;
- ** Goss International Corporation, USA;
Heidelberg Graphic Equipment Ltd., UK;
Heidelberg Americas, Inc., USA;
Heidelberg USA, Inc., USA;
Heidelberger Druckmaschinen Austria Vertriebs-GmbH, Austria (Advisory Board);
Heidelberger Druckmaschinen Osteuropa Vertriebs-GmbH, Austria (Advisory Board);
Verlag Europa Lehrmittel GmbH
(Advisory Board)

¹⁾ Information as of resignation

* Membership in Supervisory Boards

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



Heidelberger Druckmaschinen Aktiengesellschaft

Investor Relations

Kurfuersten-Anlage 52 – 60

69115 Heidelberg

Germany

E-mail: investorrelations@heidelberg.com

Phone: +49-62 21-92 60 21

Fax: +49-62 21-92 51 89

Financial Calendar 2007/2008



June 13, 2007	Press Conference, Annual Analysts' and Investors' Conference
July 26, 2007	Annual General Meeting
August 2, 2007	Publication of 1st Quarter Figures 2007/2008
November 6, 2007	Publication of Half-Year Figures 2007/2008
February 5, 2008	Publication of 3rd Quarter Figures 2007/2008
May 7, 2008	Publication of Preliminary Figures 2007/2008
June 10, 2008	Press Conference, Annual Analysts' and Investors' Conference
July 18, 2008	Annual General Meeting
August 5, 2008	Publication of 1st Quarter Figures 2008/2009
November 6, 2008	Publication of Half-Year Figures 2008/2009

Subject to change

> THE FACTS

... WITH STRONG CUSTOMER ORIENTATION

WHAT DO CUSTOMERS EXPECT FROM OUR PRODUCTS AND SERVICES? THE QUICKEST ANSWER TO THIS QUESTION IS SIMPLY: SECURITY FOR THEIR PRODUCTION PROCESS AND THEIR INVESTMENT. WE GO TO GREAT LENGTHS TO SATISFY THIS REQUIREMENT, ENSURING THAT ALL ASPECTS OF OUR SOLUTIONS MESH PERFECTLY, DOWN TO THE SMALLEST DETAIL. THIS REQUIRES THE GREATEST POSSIBLE PRECISION. WE OFFER COMPREHENSIVE SERVICES AND CONSULTING, WHICH WE PRESENT IN DETAIL IN THIS ANNUAL REPORT. IN ANY CASE, WE ALWAYS KEEP THE BIG PICTURE IN MIND: OUR CUSTOMERS' LONG-TERM SUCCESS. WE ARE SUPPORTED IN THIS BY OUR PROXIMITY, LITERALLY SPEAKING, TO PRINT SHOPS AROUND THE GLOBE.



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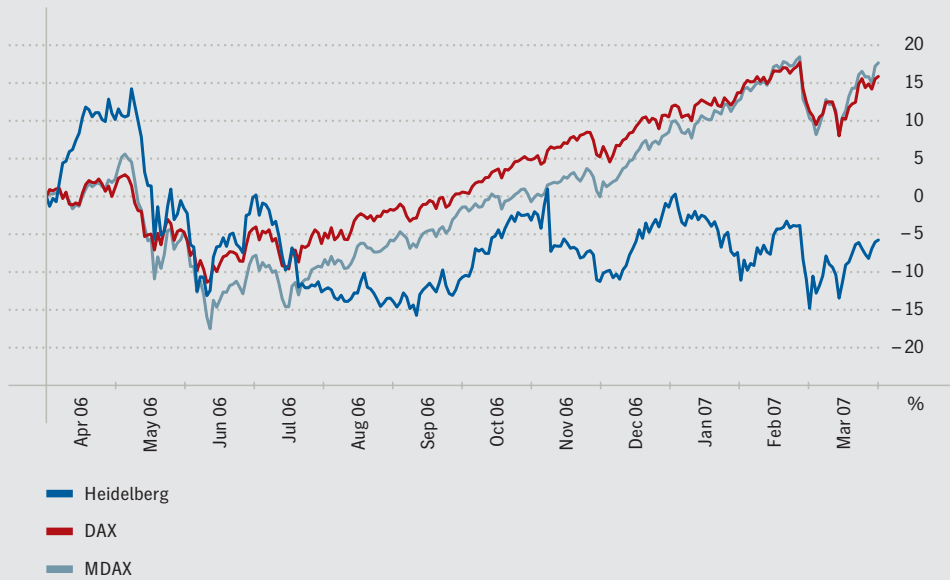
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PERFORMANCE OF THE HEIDELBERG SHARE

compared with the DAX/MDAX (Index: April 1, 2006 = 0 percent)

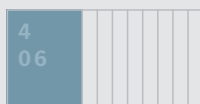


The Financial Year in Review

2006

Q1

Q2



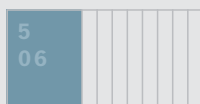
APRIL

IPEX Trade Show in Birmingham

The IPEX trade show is held in Birmingham, UK, during April 4 – 11. Especially in demand by Heidelberg customers are long perfecting presses such as the Speedmaster SM 102, CD 102, and XL 105 models.

Changes on the Supervisory Board

Two changes are made among the staff representatives on the Supervisory Board. Jörg Hofmann and Beate Schmitt replace Johanna Klein and Berthold Huber.



MAY

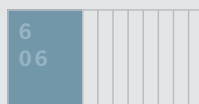


Groundbreaking Ceremony for New Assembly Hall

Heidelberg holds the official groundbreaking ceremony marking the beginning of construction of the new assembly hall 11 at the Wiesloch-Walldorf site. The new larger-format printing presses will be assembled here.

Small Format with Potential: A3 Inforum

How can smaller commercial print shops better position themselves in today's market environment? Heidelberg highlights opportunities within the framework of the A3 Inforum. Over 700 customers attend the presentations.



JUNE

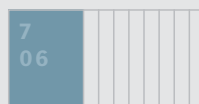
ExpoPrint Trade Show in São Paulo

The first ExpoPrint Latin America attracts 35,000 visitors. Heidelberg exhibits comprehensive solutions in the areas of Prepress, Press, and Postpress. In particular, the service offerings are well received by customers.



New CFO

Heidelberg's Supervisory Board appoints Dirk Kaliebe as CFO effective October 1, 2006. He replaces Dr. Herbert Meyer, who, having reached the age of 60, will retire from the Management Board. Dr. Meyer has been the Company's CFO for twelve years.



JULY



Widespread Agreement at Annual General Meeting

Approximately 1,200 shareholders, representing around 60 percent of the share capital, participate in the Annual General Meeting on July 26. Participants express agreement with all agenda items.

Completion of Share Buyback Program

Heidelberg concludes the share buyback program that was launched in November 2005. Overall, Heidelberg repurchased 5 percent of outstanding share capital.



AUGUST

Awards for Annual Report

Once again, 'manager magazin' awards Heidelberg's Annual Report first place among MDAX firms. Dr. Herbert Meyer accepts the award. In July, the previous year's Annual Report won two awards at the LACP Vision Awards 2005 and was placed first among the 100 best reports.



SEPTEMBER



Official Plant Opening in Shanghai

Heidelberg officially dedicates its new assembly plant in Qingpu, China. This plant has already been in operation since the spring of 2006.

Innovation Prize Awarded by the German Printing Industry

Awards are bestowed on Heidelberg: In the Printing category, the Prinect Inpress Control inline color measuring system is awarded first place and the Anicolor short inking unit technology second place. Heidelberg's Prinect Integration System is awarded second place in the Prepress area.

2007

Q3

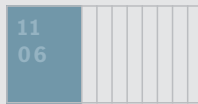
Q4



OCTOBER

Heidelberg at Graph Expo

At Chicago's Graph Expo trade show, held during October 15 – 18 under the slogan 'Connect for Success', Heidelberg introduces the latest technologies and solutions for the print media industry as well as new service concepts. Nearly simultaneously, the Aberdeen Group, a leading market research institute in the US, awards Heidelberg's systemservice unit the 'Business Evolution Award'.



NOVEMBER

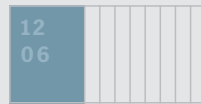
Inforum at Ludwigsburg

In the finishing area, over 800 customers from more than 30 countries express interest in the latest trends and developments that are presented at the Postpress Inforum in Ludwigsburg.



Heidelberg Launches an Additional Share Buyback Program

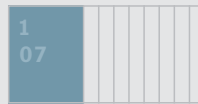
Heidelberg intends to buy back more of its own shares totaling up to 5 percent of the share capital between November 2006 and January 2008. The shares will be retired or utilized in employee share participation programs.



DECEMBER

Sustainable: Environmental Information Center and 'Speedmaster Star' Concept

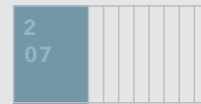
Heidelberg reorganizes the Environmental Information Center in Heidelberg. Among other things, the 'Speedmaster Star' concept, which received an 'Emission Checked' certificate from the Berufsgenossenschaft Druck und Papierverarbeitung e.V. (German institution for statutory accident insurance and prevention in the printing and paper processing industry), will be introduced here. With its 'Speedmaster Star' 3,000 series, Heidelberg launches in the market a new generation of peripheral equipment that assists print shops to achieve greater production speeds, shorter set-up times, and reduced paper waste.



JANUARY

Double Celebration at Postpress

The Postpress Division celebrates the installation of the thousandth folding machine – a Stahlfolder KH 82 is delivered to a customer in England. Moreover, the two-hundredth Stitchmaster ST400 is produced for a customer in Austria. Both the folder and the stitcher-gatherer have received the highly-regarded PIA/GATF InterTech Award for technical innovations.



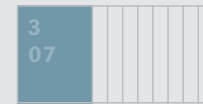
FEBRUARY

Thousandth Supra-setter Leaves the Assembly Hall

The thousandth Supra-setter is produced – an E105 model that is being delivered to a Brazilian customer specialized in package printing.

Order of Merit for Josef Pitz

Minister-President Günther Oettinger presents Josef Pitz, the long-standing Chairman of the Works Council and Member of the Supervisory Board, the Order of Merit of the Federal Republic of Germany (Bundesverdienstkreuz) for his long-standing professional work and charitable activity.



MARCH

'Wiesloch-Walldorf'

In its 50th anniversary year, Heidelberg's biggest plant is renamed to 'Wiesloch-Walldorf Plant' because of its considerable expansion towards Walldorf over the past 15 years.

A New Print Media Academy (PMA) in Brussels

Heidelberg opens a PMA in Brussels in cooperation with the local sales and service representative Plantin. Worldwide, Heidelberg now provides extensive specialized training opportunities for the printing industry at a total of 15 locations.

< The financial year in review

> HEIDELBERG – VISION AND VALUES

We intend to remain the preferred partner for the print media industry worldwide and on a long-term basis. Our innovative and high-quality technical solutions support our customers in the optimization of their processes and printed products. We thereby create sustainable value for our customers and shareholders and ensure that we remain a popular employer.

Our primary focus of attention is on the customers. Their satisfaction secures the success of our Company as well as jobs on a long-term basis.

We want to be an attractive employer for highly qualified and service-conscious employees throughout the world, for they are the prerequisite for our corporate success. We support them, respect their values and cultures, and do not tolerate discrimination in any form.

By increasing corporate value on a long-term basis, we intend to pay an adequate return on capital employed, which has been supplied by our shareholders.

We strive for easy-to-use, safe, low-cost, and environmentally sound solutions for our products and their manufacture.

We design our relationships with our suppliers, lenders, and all other business partners on a long-term basis founded on mutual trust.

We abide by applicable legal provisions and adhere to internationally acknowledged guidelines of good corporate management.

We communicate with all stakeholders in an open and appropriate manner.

> PRECISION AND CUSTOMER ORIENTATION

SERVICE – OPTIMAL CUSTOMER SUPPORT
DOWN TO THE SMALLEST DETAIL

Consulting Technical Services Consumables Financial Services

> MANAGEMENT REPORT

HEIDELBERG GROUP

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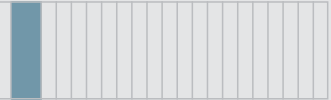
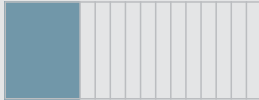
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> **PRECISION AND CUSTOMER ORIENTATION**

SERVICE – OPTIMAL CUSTOMER SUPPORT
DOWN TO THE SMALLEST DETAIL

The Management Board of Heidelberger Druckmaschinen Aktiengesellschaft



DR. JÜRGEN RAUTERT

BERNHARD SCHREIER

DIRK KALIEBE

> **Bernhard Schreier**

CHAIRMAN OF THE MANAGEMENT BOARD, SALES AND HUMAN RESOURCES

Born in 1954, married, three children. Engineering graduate (Diplom-Ingenieur, BA). Following completion of his BA degree in Engineering, active at Heidelberg in various management positions, including five years spent abroad. Member of the Management Board since 1995. Chairman of the Management Board since 1999.

> **Dirk Kaliebe**

FINANCE

Born in 1966, single. Degree in Business Administration (Diplom-Kaufmann) in 1992, passed exam as Tax Consultant (Steuerberater) in 1997 and exam as Certified Public Accountant (Wirtschaftsprüfer) in 1999. After initially working for the auditing firm BDO, active at Heidelberg in Accounting and Taxes as well as Investor Relations. Member of the Management Board since October 1, 2006.

> **Dr. Jürgen Rautert**

PRODUCTS, ENGINEERING AND MANUFACTURING

Born in 1958, married. Graduate degree in Mechanical Engineering, since 1990 active in product development at Heidelberg. Beginning in 2004, Head of Research and Development and Operations. Since July 1, 2004 Member of the Management Board.

The Management Board

BERNHARD SCHREIER This year has been a good one for our customers, and consequently for Heidelberg as well. Capacity utilization of print shops in the industrialized countries has grown further. Fortunately, the upward trend also continued in the US and particularly in Germany – markets that have been extremely difficult in recent years. The need for printed material in the emerging markets continues to increase rapidly. Our order volume grew on a comparable basis continually for more than three financial years in a row.

Nevertheless, other important tasks need attending to. Print shops are still struggling with excess capacities in the market. As a result, they are unable to realize adequate prices for print services. What does this mean for us? Since we have taken on the task of offering our customers comprehensive and sustainable solutions, our response is by necessity complex:

- > We are vigorously developing innovative technologies that set new standards of efficiency; the best example of this during the financial year was the Anicolor zoneless inking unit.
- > Moreover, we interlink all the components of our solutions, thereby ensuring optimal processes for all print shops – ranging from the smallest operation all the way to an industrial packaging printer.
- > And moving increasingly to the center of our focus: our offers of personalized and comprehensive service going well beyond maintenance and repair.

We are convinced that customers today need more than ‘just’ good products from a supplier. In the future, quality alone will hardly remain the only criterion for purchasing decisions. Rather, customers will be looking for partners who are also able to support them with services and advice in order to meet the challenges of the market. Therefore, upon request we offer our customers optimal support in all phases of our business relationship – over the entire life cycle of products and processes and beyond – thereby helping them not only to systematically adapt to changes, but to redefine themselves on a farsighted basis in order to convert such changes into market opportunities.

Even if I say, ‘Quality is not the only crucial factor in today’s purchasing decisions’, quality nevertheless continues to be a prerequisite today more than ever. In recent years – more accurately, decades – together with our employees, we have laid the groundwork for ensuring that the uppermost level of quality is standard procedure at Heidelberg. We will celebrate the 50th anniversary of our Wiesloch-Walldorf plant this year – the world’s biggest printing press manufacturing site. What is more important, however, is that this facility is also the most modern printing press manufacturing plant worldwide. In the future, we will do much to ensure that procedures and structures become even more efficient. Our new Heidelberg Production System will make a decisive contribution to reducing the cost of manufacturing in production and assembly.

In previous years, we informed you in detail about our extensive measures to reduce Heidelberg's structural costs. We will continue these measures in the future. We launched a new program: Heidelberg Excellence. This program is designed to expand our market position in the continuing harsh competitive environment and to enable us to further increase our corporate value on a long-term basis.



During the current financial year, we will be working under full steam to prepare for drupa, the printing industry's biggest trade show, which is being held again in May 2008 – four years following the previous show. Early on – at the end of 2005 – we informed the public for the first time that, among other things, we will introduce a new generation of printing presses with an even larger format at the trade show. Why have we aired this 'secret' so soon? Because it allowed us to immensely enhance the reliability of our customers' planning – as well as our own, as numerous customers have already signaled a strong interest in our new formats.

Over the next few years, our new products as well as the high investment requirements of print shops in the emerging markets will contribute to our future sales growth. Demand for our services will also show strong growth.

DIRK KALIEBE We achieved a great deal during the financial year. The operating return on sales of 9.5 percent is nearly in the double digit area again – the result of higher sales and efficient cost management. In addition, with active asset management we succeeded in reducing our capital commitment and also generating additional earnings. We divested Linotype GmbH and we sold and then leased back our Research and Development Center in Heidelberg in a sale and leaseback transaction, thereby generating a total of approximately net € 60 million through such positive one-time effects. What I see as a particular success was our attaining our medium-term goal of a 6 percent value contribution – even after adjusting for special items!

The sustained increase in Heidelberg's corporate value continues to be one of our most important goals. We have quite a few plans in this area. With our new Heidelberg Excellence program, we intend to achieve a value contribution of 8 percent in the medium term.

Heidelberg Excellence is based on three pillars, which can be basically described as follows:

- > We will generate an additional profitable growth in sales through our new products and solutions as well as through the expansion of our business with regard to services, spare parts, and supplies.
- > We have bundled efficiency-boosting and cost reduction measures under the catchword Operational Excellence.
- > We will optimize the commitment of capital. We intend to steadily further reduce tied assets by means of systematic asset management.

Specifically, this means that we intend to further improve our results as early as during the current year. The main contribution to improvement will be from an accelerated growth in sales. We will also further increase the efficiency of all processes in both the administration and sales areas. In production and assembly, the Heidelberg Production System will make a decisive contribution to reducing the cost of manufacturing. Moreover, we have set ourselves the goal of reducing operating assets and also of reducing working capital compared with sales to 30 percent, thereby freeing up to € 200 million in tied capital in the medium term. Our tax rate will fall sustainably, among other things due to internal optimizations. We will reduce burdens and risks to the greatest possible extent – here I am referring in particular to the current foreign currency situation.

With a targeted value contribution of 8 percent, an intended net profit of 5 percent compared with sales, and an appropriate dividend policy, Heidelberg will continue to be an attractive company for all stakeholders – and an attractive long-term investment for our shareholders as well.



DR. JÜRGEN RAUTERT Following the last drupa in 2004, we asked ourselves what we must do concretely in order to further expand our market share. The answer was: We must further enhance the benefit of our services to our customers. Since then, we have been working on this issue on a top priority basis.



‘Upward pressure on costs’, ‘consolidation’, and ‘highly competitive pricing’ have continued to be major keywords for the printing industry, following the crisis years of 2001 to 2004. In this situation, our solutions clearly prove their worth to print shops. For good reason, our new Anicolor zoneless inking unit has been celebrated in the industry as a sensation. This inking unit makes offset printing more inexpensive than digital printing in even the smallest of print runs – not least because it reduces spoilage by up to 90 percent! Furthermore, the industry is becoming increasingly aware of the enormous optimization potential of our Prinect workflow software.

Each week, I spend at least one day with customers. Overall, they have become more responsive to change in recent years. They are aware that modern technology with the best possible maintenance alone cannot ensure long-term business results. That is why our service offerings are so well received by customers. For example, our remote services considerably enhance the reliability of our solutions because problem areas can thereby be recognized early on and remedied before they cause problems. When we sell such consumables as inks and blankets, we guarantee not only their quality; we also test their applications in batteries of experiments and pass on the results to our customers. Applications for the surface coating of printed products are especially exciting for smaller print shops, as with a small outlay they can provide their final customers with something exceptional.

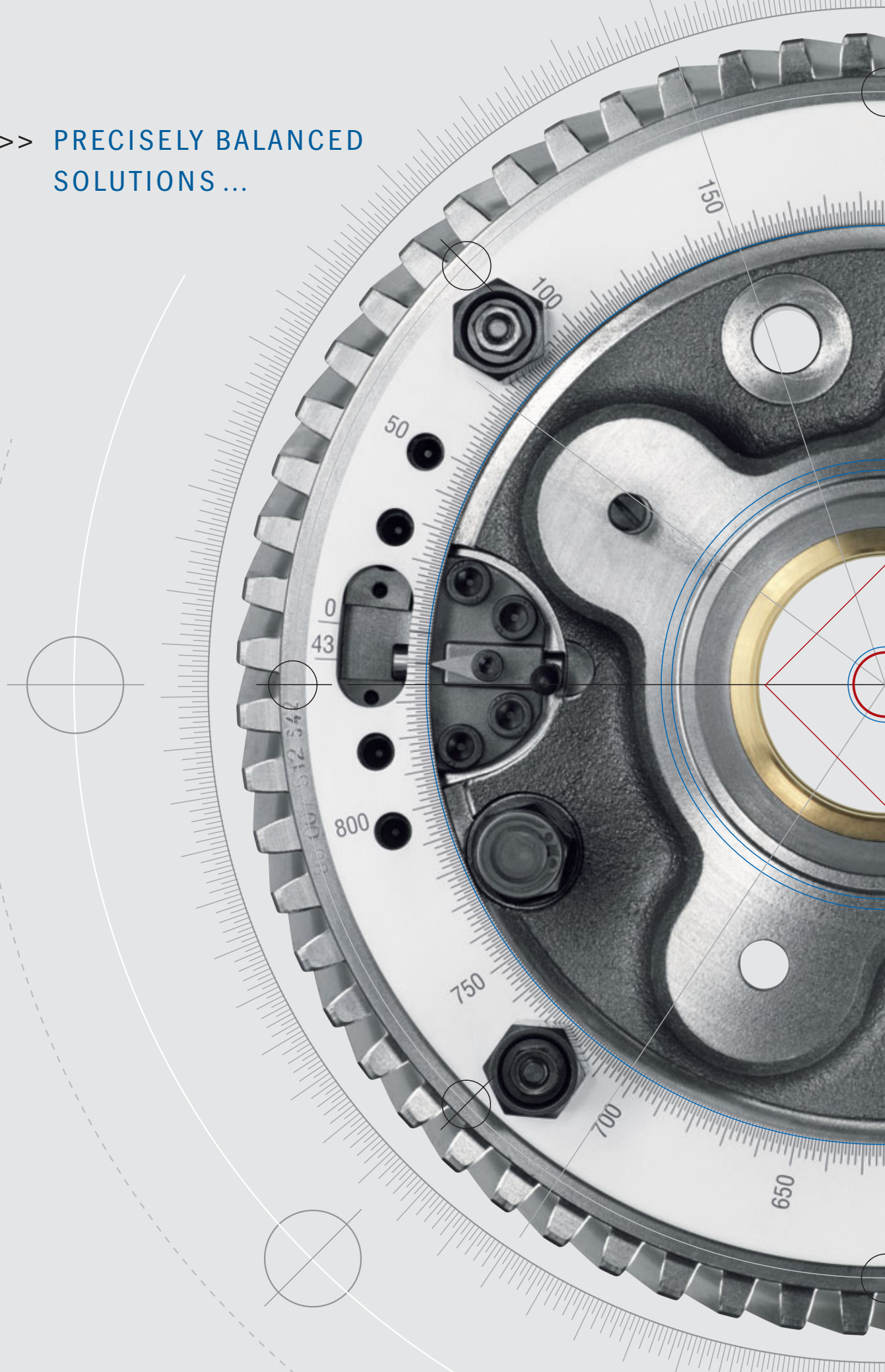
But, of course, we continue to realize opportunities for differentiation, productivity increases, and greater efficiency in processes primarily through intensive research and development activity directed at our technologies and our workflow software. One aspect of our Heidelberg Excellence program is to focus on increasing our sales through new products. We have already unveiled our biggest projects, such as our new format category and the Speedmaster XL 105 with a perfecting device, and we have already launched the Anicolor inking unit onto the market. But we still have a few aces up our sleeves for the upcoming drupa!

SERVICE – OPTIMAL CUSTOMER SUPPORT DOWN TO THE SMALLEST DETAIL



In order to improve our customers' prospects, we not only carefully consider their situation, but we also closely examine our printing presses. For example, we have tested our gripper assemblies in a wind tunnel in order to minimize wind turbulence in sheet transport. Our workflow software Prinect ensures trouble-free and optimized procedures throughout all stages of the printing process. Moreover, we systematically support our customers' success by means of extensive service and consulting, which we have organized under the Heidelberg system**service** concept. This service has proven to be profitable for our customers – not least because we rely on state-of-the-art technology and innovative methods in the service segment as well: not only in our consulting services and training programs, but also in spare parts logistics and our Internet-based Remote Services.

>> PRECISELY BALANCED
SOLUTIONS ...





Outstanding print products are only possible if all the components of a printing press are precisely coordinated. The Speedmaster CD74, shown on the next page, bottom right, has up to 20 rollers, each of which we precisely adjust with a deviation of no more than 0.1mm, thereby enabling our customers to achieve perfect results.



Our employees are prepared to help at all times to resolve problems in order to ensure that our customers can continue operating productively. Day in and day out, they provide detailed information concerning all the details of our products, ranging from optimal settings, secure operation, production that minimizes use of resources, etc.

FOUNDATION FOR PROGRESS:
A PRECISE ANALYSIS OF THE INITIAL SITUATION

... FOR OUR CUSTOMERS' LONG-TERM SUCCESS



We are determined to provide precise and sustainable answers to all the challenges faced by our customers – by means of on-the-spot training programs, seminars that we offer through our worldwide Print Media Academy network, and, of course, through the joint optimization of business models. To find the best possible solution for our customers, the members of our staff first acquire extensive information on all factors of influence, asking about the print shop's typical order, the employees, and the exact plans for the future. They examine everything that is important if the production process is to operate smoothly. Indispensable help in strategic planning is provided, amongst others, by our BizModel simulation software. This program, which covers the latest market analyses and data, makes it possible for us to take into account not only a customer's particular work shift model, but also the specific printing presses and order structure. This makes it possible to reliably uncover and precisely analyze problem areas and potential for improvement.

The quick and flexible Speedmaster CD 74 is well suited not only for commercial printing, but for the printing of labels and high-quality folding boxes as well – and thereby for various business models. With our consulting services, we make it possible for customers to take advantage of the full potential of their printing press.



Financial Services

Consumables

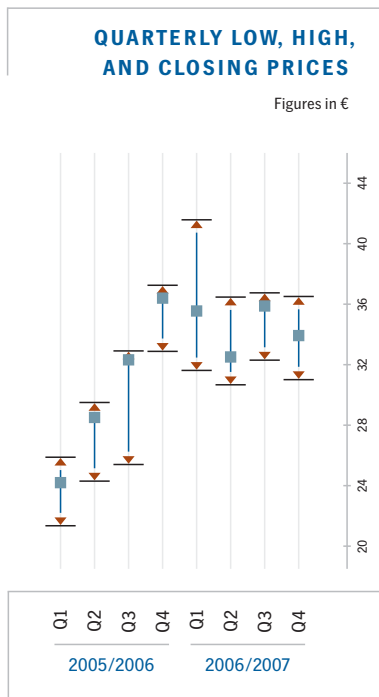
Technical Services

Consulting

Heidelberg Service

The Heidelberg Share – Still with Unused Potential

- > **Proposal: € 0.95 Dividend, Compared with € 0.65 the Previous Year**
- > **Share Trading Volume Rises Further**
- > **Intensive Investor Relations Work**



Following its 48 percent price increase the previous year, the development of the Heidelberg share was disappointing during the financial year. On March 30, 2007 our share closed at a price of € 34.30 – approximately 6 percent below the previous year's figure. The high for the year of € 41.58 was reached on May 11, 2006 and the low point of € 30.67 on September 11, 2006. Over the past two years, the Heidelberg share rose in value by nearly 40 percent.

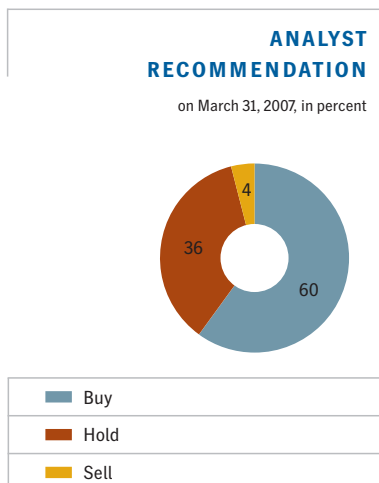
The development of the price of the Heidelberg share and of the DAX and MDAX indices are shown on the inside cover flap of this Annual Report. Both indices reflected a stable upswing for longer periods during the financial year, increasing in this period, respectively, by 16 percent and 18 percent.

Share for the Most Part Favorably Assessed during the Financial Year

Nearly 30 banks continue to report regularly on the Heidelberg share. The investment recommendations of analysts were largely favorable, as can be seen in the table on the left. At the end of March 2007, only 4 percent of analysts recommended selling the share, whereas 36 percent advised holding the share and 60 percent buying.

Management Board and Supervisory Board Propose Higher Dividend

We were successful in considerably boosting the net profit this year. During the third quarter, due to a change in the corporate income tax code we recognized a claim for payment of our corporate income tax balance totaling € 73 million. Since existing tax credits were hereby being carried for the first time, this will not affect the amount of the dividend. The Management Board and the Supervisory Board will propose to the Annual General Meeting the payment of a dividend of € 0.95 per share for the financial year, compared with € 0.65 the previous year. The payout ratio adjusted for the special items in the operating result and of the income tax credit therefore amounts to approximately 50 percent.



KEY PERFORMANCE DATA OF THE HEIDELBERG SHARE

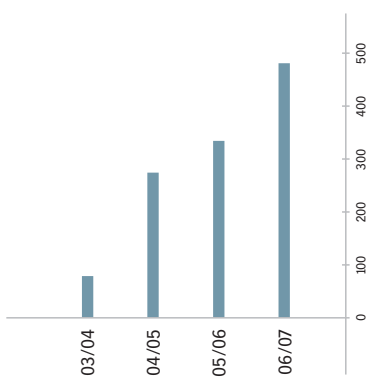
Figures in €

	2005/2006	2006/2007
Earnings per share ¹⁾	1.58	2.34
Price-earnings ratio ²⁾	23.04	14.66
Cash flow per share	4.04	4.89
Dividend per share ³⁾	0.65	0.95
Dividend yield in percent ²⁾	1.79	2.77
Payout ratio in percent ¹⁾	40.06	40.48
Share price – high	37.25	41.58
Share price – low	21.59	30.67
Share price – beginning of financial year	25.00	35.92
Share price – financial year-end	36.40	34.30
Market capitalization – financial year-end – in € millions	3,023	2,735
Index weighting of the MDAX in percent	2.48	1.89
Number of shares in thousands ⁴⁾	85,367	81,393

- ¹⁾ In financial year 2006/2007, adjusted for the special item from the corporate income tax credit, additionally adjusted for one-time effects in the operating result, the payout ratio totals appr. 50 percent
- ²⁾ In terms of the financial year-end price in Xetra trading; source of prices: Bloomberg
- ³⁾ In financial year 2006/2007, proposal by Management Board and Supervisory Board
- ⁴⁾ Weighted number of outstanding shares

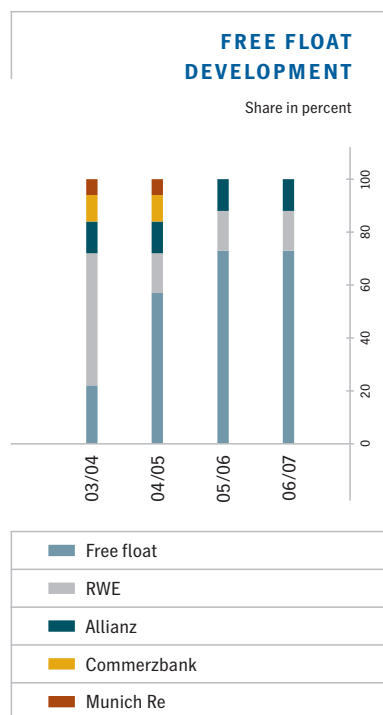
AVERAGE DAILY SALES VOLUME OF THE HEIDELBERG SHARE

Figures in thousands of shares



Heidelberg Share's Trading Volume Up Further

As the graph on the left shows, the average daily trading volume of the Heidelberg share rose in recent years – proof of the high liquidity level and the share's resulting attractiveness. The volume will presumably continue to grow in the future because of a further expected increase in free float due to the maturity in June 2007 of an exchangeable bond issued by RWE Aktiengesellschaft with reference to the 15 percent of the Heidelberg shareholding still being held by RWE. The free float is expected to thereby grow to 88 percent during the current financial year. The graph on the next page shows the changes in free float over the past four years.



As of the March 31, 2007 reporting date, free float was 73 percent – the same as on the reporting date the previous year. A further 12 percent of the Heidelberg shares are being held by Allianz SE. Based on the free float, as of the reporting date overall market capitalization was approximately € 1.9 billion. Among the 50 companies listed in the MDAX, Heidelberg thereby achieved 24th place in the index ranking of Deutsche Börse in terms of ‘market capitalization of free float’. In terms of ‘market volume’ Heidelberg held 13th place.

Also thanks to numerous investor relations activities, the regional allocation of free float is balanced internationally, with investment fund companies in the UK, the US, and Germany each holding nearly 25 percent of identified free float as of the reporting date. The remaining 25 percent of capital is being held mainly by investors in Canada, France, Scandinavia, and the Benelux countries.

New Head of Investor Relations; Annual Report Awarded Again

Andreas Trösch assumed management of the investor relations unit during the financial year, providing support for investors and undertaking discussions with potential investors with the same intensity as his predecessor Dirk Kaliebe. Heidelberg held presentations at approximately 40 road shows in 19 financial marketplaces and at 14 conferences. As in the past, interested parties took part in plant visits and tours. In addition, approximately 40 investors came to Heidelberg for individual meetings. The Factbook, which contains considerable useful information about Heidelberg in English, was revised again. It is available at www.heidelberg.com under the link Investor Relations; it can also be ordered either online or directly from our investor relations unit.

During the financial year Heidelberg was again awarded by the periodical manager magazin, winning first place in the competition for the best annual report in the MDAX category and second place in the overall ranking. Our annual reports also received international recognition, with Heidelberg receiving first place in the ‘Vision Award 2005’ granted by the League of American Communication Professionals in July 2006.

First Share Buyback Program Concluded and Second One Launched

A major component in continuously improving our capital structure is the repurchase of our own shares. Following completion of our first share buy-back program, the Annual General Meeting on July 20, 2006 again authorized the repurchase of the Company's own shares, with this second share buy-back program launched on November 7, 2006. Details on both programs can be found in the section Net Assets on page 48. We also provide continually updated information on our Website.

The Investor Relations Team looks forward to receiving your questions and suggestions!

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> THE GROUP AND ITS MANAGEMENT

Heidelberg – Global Market Presence



With a worldwide market share of more than 40 percent in sheetfed offset printing, Heidelberg is the leading equipment supplier to the print media industry. Although most of our production is sourced from Germany, we are a thoroughly global corporate group, generating approximately 85 percent of our sales internationally and some 55 percent outside the European Union.

Print shops worldwide benefit from our integrated and closely coordinated solutions and our customer orientation and proximity. Our extensive service and sales network spans the globe and is unique in our industry. We employ approximately 8,000 sales and service employees worldwide. Our services cover the entire added-value process chain, ranging from prepress and the actual printing process all the way to finishing. Heidelberg's services also encompass the entire product life cycle, including advising, installing, financing, insuring, maintenance, repairs, and finally, arranging for the resale of used printing presses to third parties.

> MANAGEMENT REPORT

HEIDELBERG GROUP

The Group and
its Management

Development
of the Group

Developments in
the Business Areas

The
Future

The Heidelberg Group

- > **Competitive Structure: New Developments Strengthen Heidelberg's Position as the Leading Supplier to the Print Media Industry**
- > **Solutions Provider Strategy: Additional Customer Benefit**
- > **Comprehensive Production System Improves Effectiveness**

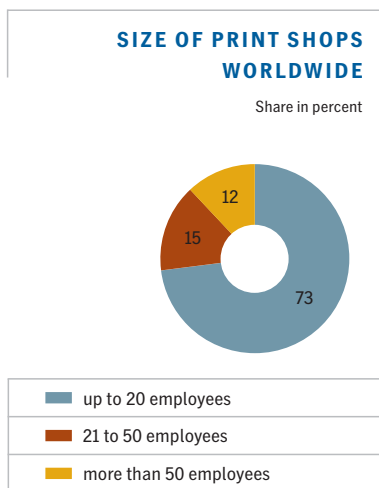
What is the basic situation of our customers in the various regions of the world? How do we react? What is special about the solutions we offer? In this section, we provide an introduction to these issues and information concerning our locations and Heidelberg's approach to environmental protection. We present our strategy in the following section, with details on the strategies of the individual divisions explained on pages 59 to 63. Additional information on research and development and our employees will be found, respectively, on pages 72 to 75 and 69 to 71.

The Situation for Customers: Highly Varying Needs from Region to Region

The basic conditions faced by our customers in the industrialized countries further improved during the financial year. Nevertheless, the competitive situation is difficult following the deep crisis that print shops suffered during the period 2001 – 2004. Prices for printed products have not yet recovered completely. In addition, paper and energy costs have risen further. Many print shops are therefore investing in new installations in order to enhance their competitiveness on a long-term basis as well.

In the emerging markets – for example, in China and parts of Eastern Europe and South America – demand for printed media continues to grow rapidly. As a consequence, numerous new print shops are being established every year. Their principal difficulty often lies in providing capital goods financing, as many emerging markets lack sufficient financing possibilities for medium-sized firms.

Throughout the world, the printing industry is primarily characterized by small and medium-sized firms, with nearly three-fourths of all print shops worldwide with less than 20 employees. Print shops of this order of magnitude also represent the greatest part of our target group, comprising approximately 240,000 print shops worldwide.



Our Offer: Networked Solutions and Comprehensive Service

We improve our customers' competitive strength by offering each print shop just the right solution, regardless of its size and location in the world. For we are determined to meet the requirements of all our customers from a single source, ranging from future-oriented, state-of-the-art technologies for pre-press, sheetfed offset, flexo printing, and finishing, all the way to the software with which individual components can be interconnected in an integrated workflow.

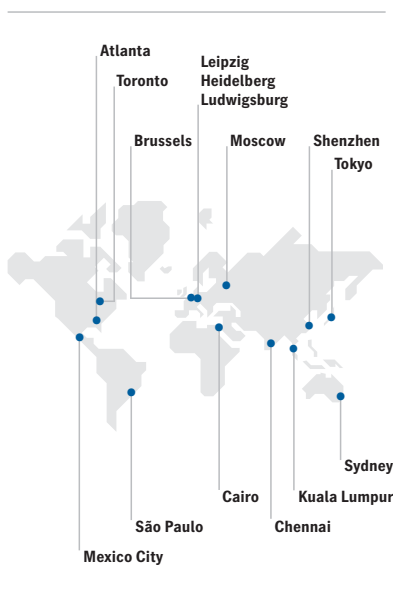
We also attach major importance to our comprehensive service offerings, which for good reason are highlighted in this report. These include advising customers concerning their business models, providing them with spare parts and supplies as well as personalized financing concepts to help them. Our solutions also include the training offerings of the Print Media Academy, which operates units in 13 countries, and the sale of used printing presses.

Strategic Competitive Advantages: Large Installed Base, Technological Lead Position, Global Service Network, Networked Workflow

We are the only supplier in our industry to provide comprehensive solutions for sheetfed offset printing. Moreover, none of our competitors are able to offer proprietary software that integrates all the components and aspects of the printing process – from management to production, from prepress to finishing. We maintain our leading technological position by means of a large number of R&D projects with a high degree of innovation, thereby continuing to represent our customers' supplier of choice.

Our competitive advantage is not limited to our products alone. We have built up our relationship with numerous customers over a period of decades. With approximately 8,000 sales and service employees worldwide, our extensive service and sales network spans the globe.

For a number of years, we have very successfully cooperated with internationally active financial service providers to ensure customer financing. Our customers also benefit from our worldwide Print Media Academy network. With its meanwhile 15 locations, which are shown in the map on the left, we offer printers a specialized further training program that is unique in our industry.



Locations of the Print Media Academy network

Heidelberg: World Market Leader in Sheetfed Offset Printing Technology

We are the world market leader in sheetfed offset printing technology. In addition to our two principal competitors, König & Bauer and MAN Roland, who are also based in Germany, several Japanese competitors – Komori, Ryobi and Mitsubishi – as well as a few local Chinese manufacturers are active in this segment. By contrast, the finishing market is characterized by numerous small and three larger suppliers – including Heidelberg – each of which with a market share of over ten percent. Our principal competitors for finishing – Bobst and Müller Martini – are based in Switzerland.

Production System Launched in the Manufacturing Network

Most of our production occurs in Germany – a high wage country, but one that possesses all the prerequisites for outstanding manufacturing quality. In particular, due to the difficulties that exchange rate developments are causing for exports to non-euro countries, we intend to further reduce our manufacturing and unit labor costs in order to ensure our international competitiveness on a long-term basis as well. With this goal in mind, every year we intend to continually boost productivity, thereby further improving the quality and the reliability of our solutions – which are crucial components of customer loyalty.

During the financial year, we therefore launched our comprehensive Heidelberg Production System (HPS) at our Wiesloch-Walldorf plant. We will also gradually introduce this system at all other plants in our manufacturing network. HPS entails the bundling and intensification of measures to boost manufacturing productivity. Realized improvements are being stabilized and exemplary solutions implemented on a widespread basis. For example, already in the current financial year we intend to noticeably reduce our inventory for manufacturing and assembling. This, in turn, contributes to a reduction in the working capital of the Heidelberg Group.



Production sites and R&D facilities

Development and Production at 15 Plants Worldwide

The Heidelberg Group is currently developing and manufacturing products at a total of 15 plants. We manufacture sheetfed offset printing presses in a production network at specialized German plants. A full ten years ago, we organized production along the lines of partial families. Precisely-adapted large castings come from Amstetten; our Brandenburg plant delivers lathed and molded parts; pilot components, electronic parts, and experimental components are produced at our plant in Wiesloch-Walldorf, where up to now we have also assembled almost all the sheetfed offset printing presses.

We inaugurated the construction of Hall 11 at our Wiesloch-Walldorf plant for our new sheetfed offset generation of printing presses of an even larger format, which are currently under development. Our new plant at Qingpu, near Shanghai, assembles printing presses especially adapted to the needs of the Chinese market – for example, KHC folders as well as simple, standardized sheetfed offset printing presses. We can supply Chinese customers directly from Qingpu. We can also take advantage of the favorable buying conditions in China and consolidate our strong position in that market.

The Swiss-based Gallus Group delivers label printing presses. In November 2006, Gallus acquired 100 percent of BHS Druck- und Veredelungstechnik GmbH, a firm that manufactures at its plant in Weiden. The individual Post-press plants – including those in Germany, the US, and Slovakia – operate relatively autonomously.

Whether Heidelberg's Own Production or Third-Party Procurement: Maximum Precision for All Parts

The modern printing press comprises 50,000 to 100,000 parts as well as high-performance software for managing up to 500 individual driving axles and as many as 300 pneumatic parts. In value terms, electronics in large part account for what goes into today's high-efficiency printing press.

Further integrating our suppliers makes it possible to reduce the share of the Company's own products in the production process. On the other hand, the share of assembly activities is increasing. Our plants' vertical integration is a result of make-or-buy analyses. At present, the sheetfed offset area covers nearly 60 percent of its parts requirements from external suppliers, who are largely from the euro region. Nevertheless, the share of parts from East European and Asian suppliers is growing according to plan. We ensure that delivered parts satisfy our demanding quality and logistics requirements by means of extensive supplier development programs. We secure the delivery of supplied parts via close cooperation agreements and fine-tuned risk management.

Sustainability: Environment, Economy, and Social Responsibility

Sustainability covers not only the environment, but the economy and social responsibility as well. Economic efficiency and environmental protection have long been key aspects in the development of our products. Our Speed-master Star approach, which received the Emission Checked certificate from the Berufsgenossenschaft Druck und Papierverarbeitung e.V. (German insti-

KEY ECOLOGY DATA¹⁾

	2005	2006
Production sites and R&D facilities with a certified environmental management system	9	9
CO ₂ emissions in thousand tons ²⁾	199	203
Salvage quota in percent ³⁾	92	94

¹⁾ Figures for the calendar year

²⁾ Parameters in accordance with Kyoto Protocol

³⁾ Share of processed waste to total waste

tution for statutory accident insurance and prevention in the printing and paper processing industry), is the best demonstration of this. During the financial year, we launched our Speedmaster Star 3000 series – a new generation of peripheral equipment. This equipment helps print shops boost their production speed as well as to reduce set-up times and spoilage. End users can thereby save hard cash in particular with high-quality orders and specialized applications – with simultaneous greater user-friendliness and environmentally friendlier production. Moreover, due to the favorable emission values German buyers receive government subsidies.

Printers can learn everything they need to know concerning environmentally sound and low-cost operations first-hand from Heidelberg – among others, from our service, sales, and marketing specialists, at seminars, and from our brochures. We reorganized our Environmental Information Center at Heidelberg during the financial year.

All aspects of resource protection are systematically integrated in the flow charts utilized in production and product development. We apply environmental management in accordance with ISO 14001 at more than half of our manufacturing plants and R&D facilities, and preparatory work is underway to introduce this at our other locations. In 2006, for the first time, in addition to environmentally oriented goals concerning locations and products, the Company's environmental officers also developed goals, which were approved by the Management Board, that are to be achieved by the entire Corporation by 2010.

Heidelberg is implementing or supporting a wide range of social projects throughout the Group, ranging from local and time-limited projects of individual subsidiaries all the way to long-term commitments and sponsoring projects of Heidelberger Druckmaschinen Aktiengesellschaft. Special importance is attached to supporting educational facilities – for example, the renowned Hochschule für Medien (College of Media) in Stuttgart received a comprehensive printing installation this financial year. We also work with numerous institutions internationally. We are helping the print media industry meet the challenges of the future to the best of its ability by expanding and arranging for the transfer of knowledge.

Each year, our Sustainability Report provides information and facts concerning employee development at Heidelberg, environmental protection, our locations, and our social commitment. The Sustainability Report can be ordered or downloaded at www.heidelberg.com.

Strategy – Expanding Potential for Growth

- > **Expanding Virtually Non-Cyclical Business Areas**
- > **Systematic Focus on Servicing High-Growth Markets**

Our strategy of offering integrated solutions is being increasingly well-received by the market because this approach grants our customers considerable advantages. We continue to be the only supplier in the industry to offer comprehensive solutions. None of our competitors is capable of completely integrating all the components and aspects of the printing process completely within its own software solution.

We systematically pursue our goal of further expanding our market position and enhancing corporate value on a sustainable basis in a continuing harsh competitive environment by means of our Heidelberg Excellence Program – which is based on three pillars. First, we will generate additional sales by offering new products and expanding our business in services, spare parts, and supplies. Second, we will maintain and intensify our efficiency-boosting and cost-reducing measures; in addition to the optimization of administration and sales processes, we are focusing primarily on boosting efficiency and streamlining production and assembly operations – our Heidelberg Production System, among others, will make an important contribution to this. And third, through asset management, we will further reduce tied assets and decrease working capital in terms of sales to 30 percent.

Developing Comprehensive Package Printing Offers

We intend to benefit more than in the past from the high growth opportunities in the package printing area – a segment that is furthermore relatively independent of cyclical developments. Since its first-time presentation at the 2004 drupa trade show, our Speedmaster XL 105, which is outstandingly applicable to package printing, has proven to be a complete success. We intend to even better purposefully service the important package printing customer segment in the future. We intend to launch an entirely new generation of printing presses in a larger format category – the Speedmaster XL 142 and Speedmaster XL 162 – at the next drupa in 2008.

We are also the only supplier in the package printing segment to provide integrated and entirely networked solutions. Furthermore, we are currently working on processes for prepress as well as finishing solutions that are specifically tailored for large formats. Additionally, we are increasingly making our application expertise available to our customers.

Global Focus: Service, Spare Parts, Supplies

Print shops can obtain from us everything they need for success from a single source. Our finely tuned offerings include the rapid delivery of spare parts – during the reporting year, our third spare parts distribution center began operations, and an additional one will open its doors during the current financial year – as well as comprehensive and top-quality services and supplies. We intend to systematically increase sales in this segment, which are also relatively anti-cyclical, based on our so-called 3-S Concept (Service, Supplies, Spare Parts), by expanding our innovative and personalized service approach, our consulting services, and our business in supplies.

Benefiting from Our Strong Presence in the Emerging Markets

Although growing rapidly, the per-capita consumption of printed products is still extremely low in the emerging markets. We will profit considerably from the rapid growth of the local printing industry in these countries by means of our extensive service and sales network, which we further expanded during the financial year, as well as by precisely satisfying the requirements of print shops, regardless of their size. Often, standard printing presses that have a low level of automation but which can nevertheless turn out top quality printed products are especially attractive for our customers in emerging markets. We are also active in the used printing press business, which frequently represents the cornerstone for long-term customer relationships with young, up-and-coming print shops.

In China, we are the first European printing press manufacturer to establish a local plant in order to supply Chinese customers locally with reasonably priced printing presses.

In the medium term, we intend to substantially increase the share of the volume procured locally for our Chinese printing presses and thereby further reduce our costs. We are also determining which supplied parts might also be of interest for our production and assembly at our Wiesloch-Walldorf plant. In the Postpress area, we have been producing individual parts and modules at a plant in Slovakia for a number of years.

Organization – Focusing on Added-Value Processes

- > **Shift in Responsibilities of Management Board Members**
- > **Dirk Kaliebe Takes Over Management Board Unit ‘Finance’**

As of July 1, 2006, we accordingly reoriented our organization to focus increasingly on added-value processes as well as the allocation of the areas of responsibility of the Management Board.

ORGANIZATIONAL STRUCTURE



As in the past, the members of the Management Board are directly involved in operating activities. This makes it possible for the Company to react quickly to market changes. The Chairman of the Management Board is directly responsible for customers and sales. At Heidelberg, customers and their requirements are the primary focus of all processes – organizationally as well. Bundling responsibility for our products and their life cycles in the Management Board unit ‘Products, Engineering and Manufacturing’ allows us to fully optimize potential. For example, material procurement, component production, assembly, and logistics are more closely interlinked than in the past. Moreover, a new factor, now, is the development and marketing of new technologies from a single source.

On October 1, 2006, Dirk Kaliebe, who had previously been responsible for Accounting, Taxes, and Investor Relations, assumed responsibility of the Management Board unit ‘Finance’ from Dr. Herbert Meyer.

Management, Control, and Value Management – Corporate Goals Determine Processes

- > **Management through Goal-Setting**
- > **Goals for All Key Factors for Success**
- > **Risk and Opportunity Management of Key Importance**

As a company listed on the stock exchange, we have obligations to our shareholders. We believe that appropriate corporate governance is proper and important. By means of our management and control system, we ensure that we can maintain an overview over, and systematically strengthen, all the factors that are critical to our success. We regularly monitor our control system and align our organization and the development of our employees with strategic changes.

Key Indicators for Corporate Management

Since our primary goal is a sustained and long-term increase in corporate value, we judge our performance by the extent to which the corporate value of the Heidelberg Group develops. The target indicators for corporate management, therefore, are the return on capital employed (ROCE), the value contribution, and free cash flow. In order to determine the return on capital employed, we relate earnings before interest and taxes (EBIT) to average operating assets. We calculate the cost of capital on the basis of a weighted average cost of capital. Please turn to page 116 for details on this. The free cash flow – i.e., the balance of net cash from operating activities and investments – shows whether investments can be financed out of the operational inflow of funds and whether, in addition to this, financial means remain for dividend payments, share buybacks, or debt servicing.

In addition to target figures that we calculate for the entire Group, we provide the individual divisions with such operational management control indicators as the operating result and the calculated product result.

All the Factors for Development of the Company's Value at a Glance

In order to sustainably increase Heidelberg's corporate value, it is indispensable to identify and strengthen critical key factors for success. Many of these factors are part of our non-capitalized intangible assets, which are not directly measurable financially.

For example, Heidelberg's reputation with customers is crucial for our success. 'Heidelberg' is a strong, internationally recognized and highly regarded **brand name**. The high quality and productivity of products that carry this name are greatly valued worldwide. We are the most important point of contact for the print media industry. To ensure that this continues into the future, by making use of our so-called Technological Roadmap we ensure that the customer's benefit is the top priority in product development and product range expansion. Moreover, each product must pass the required Zero Error Test before it is shipped. We secure the quality of our service and consulting services, among others by means of extensive specialized training programs for our sales team. Our diverse commitments also contribute to Heidelberg's high prestige. For example, our Print Media Academy network offers seminars and symposia that are in high demand worldwide. We also sponsor various institutes and associations in our industry.

Our employees are a crucial factor for our **innovative power**, which has a material influence on our future competitiveness. For example, we registered 153 new patents during the financial year. The employees' professional **qualifications** and **experience** are indispensable in precision engineering. In order to maintain the staff's high level of knowledge – and to achieve a high degree of job satisfaction – we assign top priority to the systematic development of our employees. During the financial year, we further developed the **management quality** of supervisory personnel by means of a large number of lectures, seminars, and longer-range development measures. A primary focus of our attention is on supporting members of senior management in enhancing their ability to make use of processes of change in the strengthening of Heidelberg's position.

We possess extensive **process expertise** along the entire added-value chain in production, logistics, and sales. This is most evident, among others, in our good relationships with suppliers. Our expansion of systems suppliers as well as working together closely with our suppliers and including them in planning processes at an early stage, have made it possible for us to provide excellent delivery reliability. Furthermore, we make available by far the best coverage of spare parts for customers in the industry. Our comprehensive Heidelberg Production System, which we are gradually introducing, ensures that production efficiency is systematically further enhanced.

We systematically monitor parameters and indicators that make it possible to draw conclusions concerning the development of the above-mentioned key factors for success. Among others, we regularly scrutinize data concerning the quality of management in all regions and segments. We monitor the so-

called Service-Fill for spare parts of all spare parts warehouses, and produce meaningful error statistics through the appraisal of service protocols. Based on this data, we are able to pinpoint an area that has a need to take action and to establish specific goals. We also view the information received directly from the continual close contacts with our customers as especially important.

Systematic Planning and Control

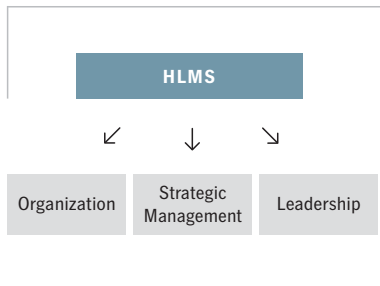
Strategy development and monitoring as well as our planning process are closely linked to operating activities. The Balanced Score Cards (BSCs) are an important part of this process. The Management Board lays out major goals in advance in the strategy meeting, as a result of which the Board, together with members of senior management, derive divisional strategies for product areas, regions, and functional units. The operational planning process begins following approval of the divisional strategies by the Management Board, according to which the individual plans of the corporate units are fixed and developed in detailed plans that lay out specific goals and measures. Utilizing the Balanced Score Card ensures that the planning process is comprehensive and that all significant factors are taken into consideration. The annual and medium-term planning process is jointly approved by the Management Board and the Supervisory Board, thereby determining the benchmark for the coming year.

By means of the monthly reporting system, we monitor whether the targets that have been set by the planning process are met. This system also forms the basis for our quarterly rolling forecasts. In periodic discussions – Business Reviews – the Management Board and senior management determine whether the units have met the established targets.

Incentive Systems at All Levels

The inclusion in the Balanced Score Cards of all the key factors for success as well as the strategic goals and projects that have been established and prioritized provides us with a solid basis for target/performance comparisons throughout the Group. Furthermore, we have established various incentive systems to ensure that agreed-upon targets are pursued vigorously. Our employees participate in our success, and we are increasingly applying variable remuneration systems. We established a new long-term incentive program for the Management Board and executive management during the financial year – the so-called Long-Term Incentive Plan. Participants participate in corporate success following a personal investment. Of crucial importance here is the development of the success indicators operating return on

sales and free cash flow ratio. Further details can be found in the section The Figures on pages 74 to 76. The remuneration system of the Management Board members, which we present in detail in the Compensation Report beginning on page 103, is also based on the incentive principle.



Heidelberg Launches the Heidelberg Leadership & Management System (HLMS) Worldwide

The extent to which we successfully realize our targets and overcome challenges depends decisively on the Group's management. We launched the Heidelberg Leadership & Management System worldwide in order to measure and improve the quality of this management. The program's leitmotif is 'Performance, Transparency, and Confidence'. The system, which is based on our approach of managing through targets, presents all processes, responsibilities, and cooperation guidelines in the organization on a transparent basis, thereby laying the groundwork for trust. The Management Board regularly informs itself regarding implementation of the processes and the behavior of responsible management personnel. The Chairman of the Management Board has personally assumed responsibility for implementation of the system.

Moreover, HLMS makes it possible for us to systematically determine whether an intensive dialog is occurring among the various areas. Functional organizational structures have as a matter of principle the advantage that procedures can be designed very efficiently. However, this entails the danger that individual areas may focus too much on achieving their own goals. To counter this, the HLMS stipulates a periodic meeting of various divisional and cross-functional units that assist the Management Boards in an advisory capacity.

Ongoing Identification of Risks and Opportunities: A Proven System

Our management philosophy includes the recognition and realistic assessment of risks at the earliest point in time. This approach makes it possible for us to purposefully cope with risks or undertake appropriate cautionary measures. Furthermore, opportunities should be recognized early on and be systematically utilized.

We ensure that this happens by making both our risk and opportunity management systems integrated components of our control system. Risks and opportunities are dealt with in a uniform manner throughout the Group. To ensure adherence to our requirements, we have published an organizational directive. We have also documented the procedure in a corporate guideline, which is updated regularly and available to each employee.

Requirements, guidelines, and established processes aim for the open and proactive handling of risks and opportunities at all management levels. Risks and opportunities are dealt with directly at the operating level and discussed regularly at various cross-divisional management bodies. A crucial advantage of this is that these management bodies are able to quickly make appropriate decisions and decide on far-reaching measures.

Our risk and our opportunity management are integral components of the annual controlling and reporting processes as well as our five-year planning process – both of which ensure greater planning reliability.

Opportunities are systematically recorded and assessed. We regularly monitor the potential for exceeding current plans. In addition to permanently coping with risks at all management levels, a formal process helps both pinpoint individual risks and general risks that threaten the Group. All operational units and divisions are solidly integrated within this process. Risks are recorded locally, with both the risk-relevant observation units as well as risk survey methods determined by the guidelines. Recognized risks are quantified and later summarized in accordance with the key parameters ‘probability of occurrence’, ‘amount of the loss at occurrence’, and ‘expected risk development during the planning period’.


Responsibility for making an appropriate assessment and properly dealing with risks lies with each unit’s top management. The potential effect on the result of operating activities of the individual units serves as the basis for ranking in risk categories. Reporting thresholds are predetermined uniformly. Since the divisions operate under a profit center orientation, risk management is closely linked with the process of operational controlling.

The ascertained risks are reported to the Group. Risk controlling that covers the top 30 risks is summarized at the Group level each quarter and reported to the Management Board as well as the Audit Committee of the Supervisory Board. Immediate reporting is required, of course, should more serious risks arise unexpectedly. The Management Board determines whether there is need to take action going beyond the decisions made by the management bodies.

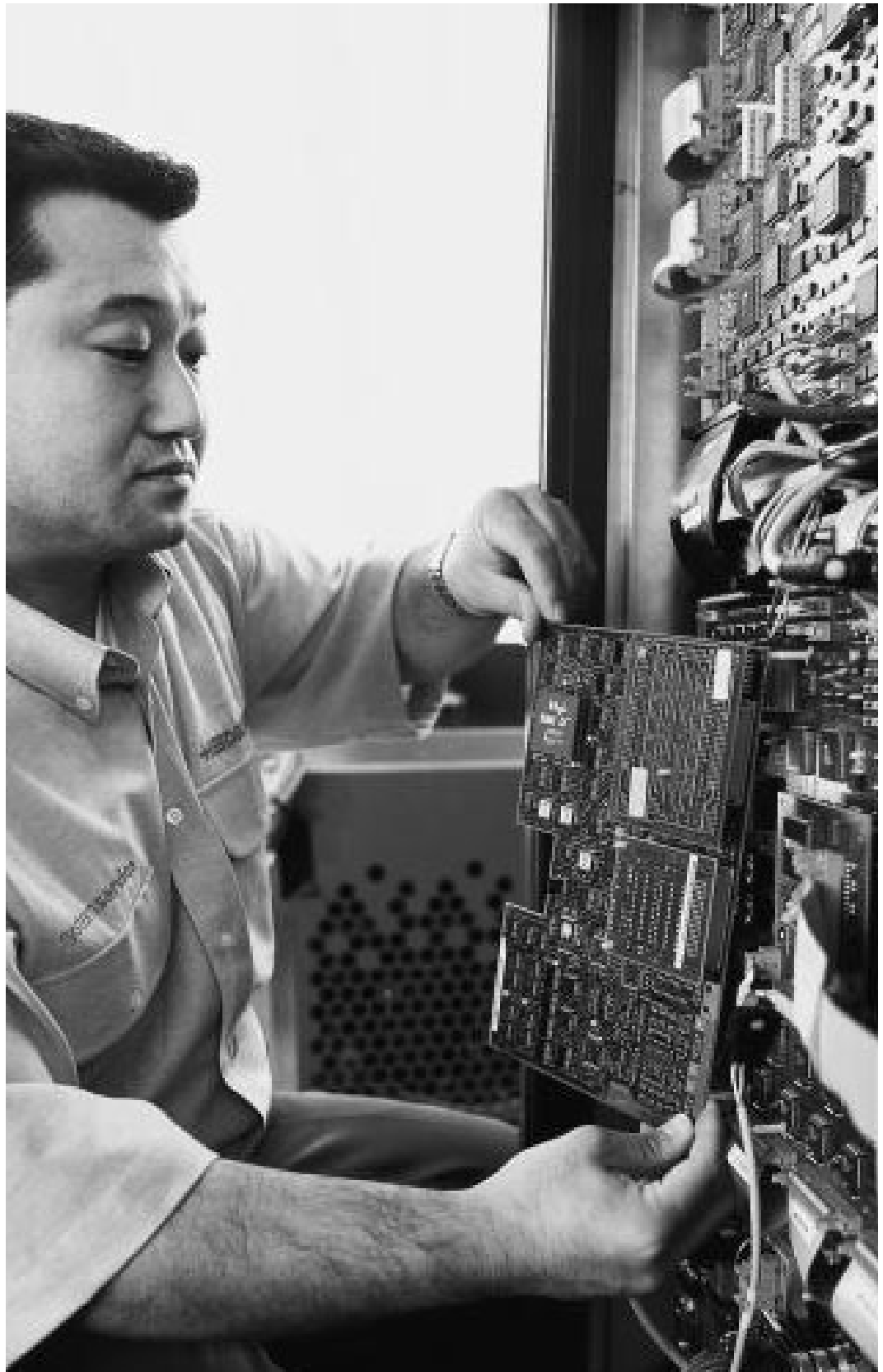
The effectiveness of our risk management process is regularly examined by our internal auditors. Our risk management system satisfies the legal requirements of the Corporate Sector Supervision and Transparency Act (KonTraG).



>> OPERATIONAL:



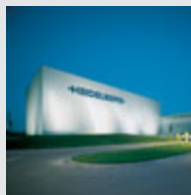
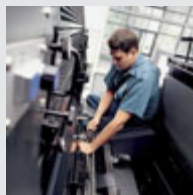
We manufacture our blanket cylinders out of especially high-quality steel in order to ensure that they operate reliably throughout their entire life cycle. A chrome layer protects their surfaces from corrosion.



Our service technicians undergo continual further training – in part, via e-learning – to ensure that they can always provide what our customers expect, and to exchange experience and knowledge via our global network of experts. As a consequence, they are always technically up to date, even with products that we have only just launched in the market.

PRODUCTION RELIABILITY THROUGH SHORT REACTION TIMES

THROUGHOUT THE GLOBE, AND AROUND-THE-CLOCK



A machine breakdown can be very costly for our customers. We are therefore conscientious in the maintenance of printing presses. Our help is only a phone call away for customers, day in and day out. If they need a spare part, it can generally be delivered and installed in 24 hours – regardless of the location of a print shop in the world. How do we guarantee this? We have established three logistics centers – in the US, Europe, and Asia – which always warehouse 130,000 various categories of components. But we offer more than just the best spare parts services in the industry. We are also proud of our prizewinning Remote Services Technology, an Internet-based service platform. Remote Services make it possible to identify and remedy potential trouble long before problems arise. And even if difficulties do occur, help is available immediately, at all times. Experienced technicians go online to search for defects and suggest corrective measures. This type of ‘distance repair’ naturally saves a considerable amount of money – both for customers as well as for Heidelberg.

Time is money ... Our Speedmaster SM 52 with the Anicolor inking unit is quickly ‘color-capable’, ensuring the shortest possible set-up times and very low spoilage. As in the case of all remote-capable printing presses, the customer can inspect this equipment online, at the touch of a button, without interrupting the production process. Even color settings can be changed as required during the printing process.



Financial Services

Consumables

Technical Services

Consulting

Heidelberg Service

> OVERALL VIEW OF THE MANAGEMENT BOARD ON BUSINESS DEVELOPMENTS

Our planning process for the reporting year was based on the assumption that the world economic situation would continue to be favorable. Emerging markets grew as expected. In the end, the economic vigor of the industrialized countries was stronger than expected. This applied especially to Germany, and thereby to one of our principal markets. Worldwide, the print media industry benefited from the favorable business environment. Nevertheless, print shops in China put off needed investments because the import customs exemption for printing presses was largely rescinded. We had pointed out this customs issue in the previous year's Risk Report.

In the Risk Report, we had also mentioned the danger that the exchange rate structures could move to our disadvantage. However, our planning had not assumed that the Japanese yen would dramatically fall vis-à-vis the euro even further – a development that gave perceptible competitive advantages to our Japanese competitors.

Nevertheless, even under these difficult underlying conditions we met the targets that we had set for ourselves in the previous year. As the table on the following page illustrates, this also applies to our principal targets.

Although we surpassed the projected growth in sales, the composition of sales was other than had been expected. Since the Chinese import customs exemption for printing presses was partially rescinded, orders in this key market for us fell sharply. Nevertheless, this was more than compensated for by the vigor of other emerging markets and the heavy demand for our innovative products in the industrialized countries. As expected, primarily due to new products, our sales in the Postpress Division grew at an above-average pace of 10 percent.

With a 9.5 percent operating return on sales, we nearly met our target of approximately 10 percent. Positive one-time effects totaling approximately net € 60 million made it possible for us to compensate for dampening factors. According to plan, we completed considerable preparatory work for the development of the new XL 142 and XL 162 format cate-

> MANAGEMENT REPORT

HEIDELBERG GROUP

The Group and its Management	Development of the Group	Developments in the Business Areas	The Future
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**TARGET/PERFORMANCE
COMPARISON
HEIDELBERG GROUP**

Key items	Target ¹⁾	Performance
Result of operating activities	about 10 percent of sales	9.5 percent
Free cash flow	over 4 percent of sales, in excess of € 150 million	6.0 percent € 229 million
Value contribution	more than 6 percent	5.8 percent ²⁾

¹⁾ From financial year 2005/2006

²⁾ Adjusted for positive one-time effects

gories during the financial year. On the other hand, the impact of exchange rate effects was considerably more negative than had been projected. Moreover, although in our forecast of personnel costs we had taken into consideration the increase under the collective bargaining agreement and the higher level of profit sharing, it was nevertheless necessary to hire more employees than had been planned in order to cope with the higher volume of sales. Adjusted for foreign currency changes, sales were up by nearly 9 percent over the previous year's figure – well above our forecasts.

We continued the optimization of the tied assets. Our current assets rose during the financial year primarily because we recognized a non-current income tax reimbursement claim due to a change in legislation. We had not been able to take this credit into consideration in the planning process. On the other hand, our tangible assets developed according to plan. We compensated for the increase due to our investments with asset disposals.

With regard to free cash flow, we succeeded in substantially surpassing the set targets of earning 4 percent of sales, or over € 150 million. Not least due to the one-time effects as a result of our asset management, we generated free cash flow of € 229 million, or 6.0 percent of sales. We used this principally for our share buyback programs and the dividend payment.

We had budgeted a medium term rise in ROCE and value contribution, respectively, of over 16 percent and more than 6 percent. Due to the favorable development of the Group's earnings and assets, we nearly reached this medium-term goal already during the financial year. Adjusted for positive one-time effects, ROCE and the value contribution, respectively, were 15.7 percent and 5.8 percent.

Underlying Conditions for the Overall Economy and Our Industry

- > **Global Economy Still on the Rise**
- > **Good Year for the Entire Industry**
- > **Problematic Exchange Rate Situation**

GROSS DOMESTIC PRODUCT¹⁾			
Change from the previous year in percent			
	2004	2005	2006
World	5.3	4.9	5.4
USA	3.9	3.2	3.3
EU	2.6	1.9	3.2
Germany	1.2	0.9	2.7
Eastern Europe	6.6	5.5	6.0
Russia	7.2	6.4	6.7
Asia ²⁾	8.8	9.2	9.4
China	10.1	10.4	10.7
India	7.8	9.2	9.2
Japan	2.7	1.9	2.2
Latin America	6.0	4.6	5.5
Brazil	5.7	2.9	3.7

¹⁾ Source: IMF, April 2007

²⁾ Excluding Japan

What are the parameters influencing the business development of equipment suppliers to the printing industry? The most important of these include the current and expected outlays for print ads as well as general consumer behavior. How these figures develop largely depends on economic growth. It follows that the gross domestic product (GDP) in our principal markets plays a crucial role for us. Strong economic growth also often generally results in a high propensity to invest domestically by our customers.

Unfavorable exchange rate structures, customs restrictions, political and legal uncertainties, pessimistic future assessments for the printing industry, and inadequate or very costly financing for medium-sized firms could all have a braking effect on the sales volumes in individual markets.

Highly Favorable Business Developments in our Principal Markets

We generate approximately 85 percent of our sales outside Germany. The graphic on the left shows how the economy in our regions and in the markets that are important for us developed in calendar year 2006. In recent years, the United States, together with the emerging markets, served as the engine of world economic growth. The pace of growth of Europe's industrialized countries picked up in 2006 as well. Overall, the global economy thereby posted growth of 5.4 percent despite high energy prices.

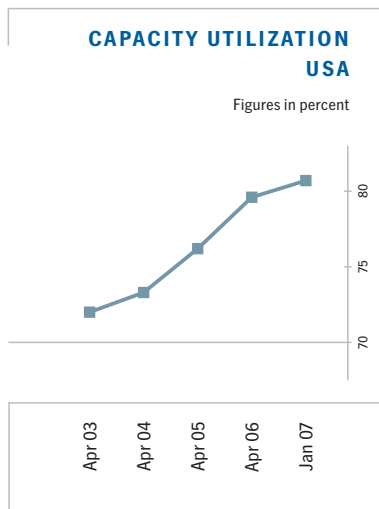
In the **US**, GDP increased slightly from the previous year despite high energy prices, dampened consumer spending, declining investments, and the tightening of monetary policy.

Europe's economies grew at a more rapid pace and more vigorously than had been expected, with industrial output, and especially consumer spending, increasing substantially. The leading economic research institutes upgraded their forecasts several times during the year primarily for **Germany** – a country which over a number of years had always lagged behind in European economic development. The IMF had originally projected an increase in GDP of only 1.3 percent. Domestic demand finally came to life and the labor market situation improved slightly.

In **Japan**, increasing consumer confidence reflected a modest but nevertheless ongoing favorable development.

The emerging markets continued developing at similarly high rates as in the past. The economy of **China** lost nothing of its vitality. India as well generated an increase in GDP of over 9 percent. By contrast, **Russia** grew largely due to its wealth in raw materials. In Latin America, the smaller markets in particular attained high growth rates. The economic situation of **Brazil** nevertheless also demonstrated considerably more vigor than in the previous year.

More detail concerning regional developments and the particular features of individual markets is available on pages 64 to 68.



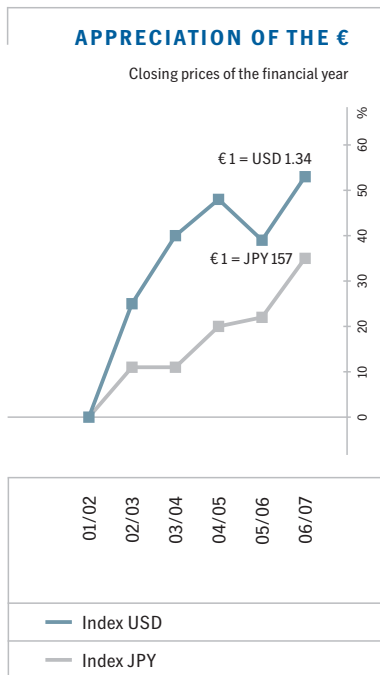
Print Shops on the Upswing; One Drop of Bitterness: Rising Paper and Energy Prices

The print media industry benefited from gratifying underlying conditions. Many print shops continued to be newly established in the emerging markets. Capacity utilization and production activity rose considerably in the industrialized countries. We are especially pleased with the fact that as the graphic on the left shows, this development especially applies to the US and Germany – i.e., the two countries where print shops had previously gone through a particularly deep crisis. Figures again reached approximately the high level from the time prior to the beginning of the 2001 crisis. Nevertheless, a major process of consolidation has meanwhile taken place, which has not yet been completed. The printing industry's business climate indices are also giving out clear signals, having reached favorable levels in both the US and Germany.

Increasing costs that could not be passed on to final customers presented a problem for print shops during the financial year: The prices of paper and energy – precisely those items that contribute a big share to total print shop costs – went up.

Exchange Rates Handicap European Suppliers in the Industry

We describe the competitive structure of our industry on page 21 in the section 'The Heidelberg Group' and focus on the locations of our principal competitors. Following a number of lean years, print shops' high propensity to invest again resulted in full capacity utilization by equipment suppliers to the print media industry. As in past years, suppliers with their value-added operations positioned outside the European region were favored by exchange rate developments. The graph on the left shows clearly that over the past five years, the euro appreciated in value against the dollar by over 50 percent and against the Japanese yen by 35 percent! This considerably intensified the competition, with our Japanese competitors able to offer their products considerably more cheaply.



(Index basis: 2001/2002)

Chinese suppliers increasingly strove to force an entry into the European market during the financial year, however with little success. Market entry barriers in the sheetfed offset printing segment are generally quite high. Suppliers must have access to a functioning sales network. Furthermore, the quality demanded by customers can be achieved only through decades of experience in precision engineering and very high R&D advance services.

Heidelberg Gains Additional Market Shares

Despite the difficult exchange rate situation, we were successful in expanding our market position in all regions. With a worldwide market share in sheetfed offset printing of over 40 percent, we continue to be the internationally leading supplier to the print media industry. We have also further strengthened our position in the Postpress area. We are the clear market leader in cutters and folders and have acquired additional market shares with stitcher-gatherers and die-cutters for the packaging industry.

Our customers appreciate the fact that our solutions make it possible for them to respond profitably to current developments – for example, to increasing paper and staff costs as well as to ever shorter deadlines. Demand is increasing for integrated solutions in the emerging markets as well.

Due to the partial change in customs regulations in China concerning the importation of sheetfed offset printing presses, unlike in the past, we as well as our competitors were unable to share in the long-term economic vigor of the Chinese market. By contrast, in the finishing area we have further expanded our local market – not least due to our assembly of folders at our new Qingpu plant since the spring of 2006. We also began assembling sheetfed offset printing presses at this plant, where we are gradually expanding the production program.

Business Development – Reaching Growth Targets

- > **Highest Volume of Business in Five Years**
- > **New Products Very Well Received by the Market**
- > **Customs Issue in China Prevents More Rapid Growth**

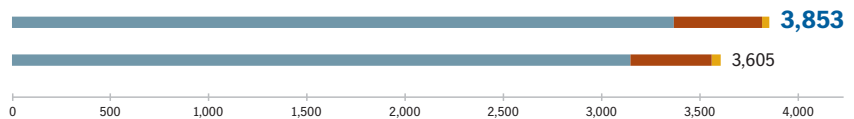
The favorable development of the print media industry continued during the financial year. The propensity of print shops to invest rose for the third year in a row. Our industry's increased confidence in the future was also perceptible at both of the biggest trade shows during the financial year: at IPEX in Birmingham, UK, in April 2006, and at Graph Expo in Chicago, Illinois, in October 2006. At many smaller trade shows and in various open house events, we were also successful in convincing our customers of the benefit of the extensive solutions we offer.

INCOMING ORDERS BY DIVISION

2006/2007

2005/2006

Figures in € millions



Press	3,367	+ 7 %
Postpress	449	+ 9 %
Financial Services	37	- 20 %
Heidelberg Group	3,853	+ 7 %

Incoming Orders: Customer Orders Again on the Increase

The financial year got off to a highly favorable start. Benefiting from orders obtained at the IPEX trade show, during the first quarter alone we generated **incoming orders** totaling € 1,076 million. The volume was then somewhat lower in subsequent quarters, although we booked orders exceeding € 900 million in each quarter. With overall incoming orders of € 3,853 million during the financial year, we surpassed the previous year's figure by 7 percent, thereby increasing customer orders for the third year in a row on a comparative basis. Adjusted for negative exchange rate effects, incoming orders are even € 86 million higher, corresponding to growth of around 9 percent.

The large format segment showed particular vigor. We generated an order volume of over € 400 million with our Speedmaster XL105 alone. This underscores how favorably our newly developed printing presses are being received by the market. In the Postpress Division, our strategy of offering innovative

products is also paying off. Over the past two years, we introduced new product generations for all of this division's models – a move that was principally responsible for the disproportionately rapid 9 percent growth of incoming orders.

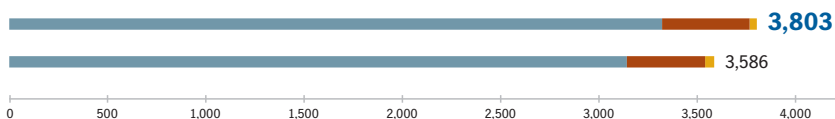
We were especially pleased with the growth rates in Germany and the US. In both markets, the past investment backlog dissolved to a degree. One drop of bitterness in developments during the financial year was the rescinding to a large degree by the Chinese government of the import customs exemption for printing presses. The propensity of print shops to invest in this, for us, very crucial market, was thereby curbed to such an extent that incoming orders in the Asia/Pacific region declined overall. The other emerging markets in Asia, Latin America, and Eastern Europe continued their expansionary course.

SALES BY DIVISION

2006/2007

2005/2006

Figures in € millions



Press	3,321	+ 6 %
Postpress	445	+ 12 %
Financial Services	37	- 20 %
Heidelberg Group	3,803	+ 6 %

Sales: Attaining Budgeted Growth

We had announced that **sales** were to increase by approximately 5 percent during the financial year. With an overall sales volume of € 3,803 million, we attained this goal. Sales rose by 6 percent – adjusted for negative exchange rate effects this figure even increased by nearly 9 percent. We surpassed the previous year's figure in every quarter. As expected, moreover, we were successful in boosting the sales volume from quarter to quarter. In fact, with sales of € 1.2 billion, the fourth quarter of the financial year posted the highest sales volume on a comparable basis of the last five years! The table on the following page shows that the financial year as a whole also recorded the highest volume of sales in this period.

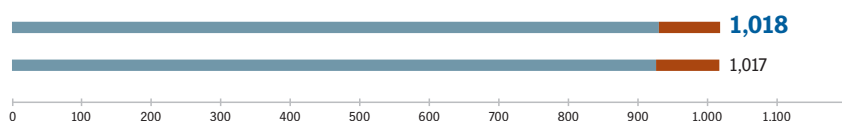
Sales of the Press Division increased by 6 percent – adjusted for foreign currency changes, by a full 8 percent. The large format segment was the engine for growth here as well. Business with flexo-printing presses, which are manufactured by the Gallus Group, was also highly successful. The Postpress Division also developed extremely favorably, posting a 12 percent increase in sales – a result primarily of business with stitcher-gatherers and folders as well as the new entry model in the die-cutting segment. Due to our success in outsourcing an increasing share of customer financing arrangements to financial partners, interest revenues – i.e., the 'sales' of the Financial Services Division – continued to shrink, according to plan, in line with the lower volume of financing.

As far as the regions are concerned, the greatest potential for growth for us continues to be in the emerging markets, primarily in China and, in the future, especially in India as well. The pace of growth in the print media industry of these countries continues unabated. Our sales grew many times over in India, albeit starting from a level that was still low. On the other hand, sales fell in China during the financial year due to the temporary suspension of the import customs exemption for printing presses. Adjusted for developments in China, however, we were successful in boosting the sales of the Asia/Pacific region by 10 percent. We also posted sales increases in all the other regions.

ORDER BACKLOG BY DIVISION**March 31, 2007**

March 31, 2006

Figures in € millions



	2007	2006
Press	930	926
Postpress	88	91
Financial Services	-	-
Heidelberg Group	1,018	1,017

Order Backlog: High Level of Capacity Utilization Assured for First Half-Year

As of March 31, 2007, our order backlog amounted to € 1,018 million, thereby attaining the previous year's level. After growing during the first quarter as a result of the high level of incoming orders, the order backlog subsequently declined again on a quarter-to-quarter basis. The continuing high order backlog reflects the ongoing vigorous market development. Thanks to the now higher volume of sales, the length of the order backlog amounted to 3.2 months as of March 31, 2007, compared with 3.4 months at the previous year's reporting date, thereby ensuring high capacity utilization for the first half of the current financial year.

FIVE-YEAR OVERVIEW – BUSINESS DEVELOPMENT

Figures in € millions

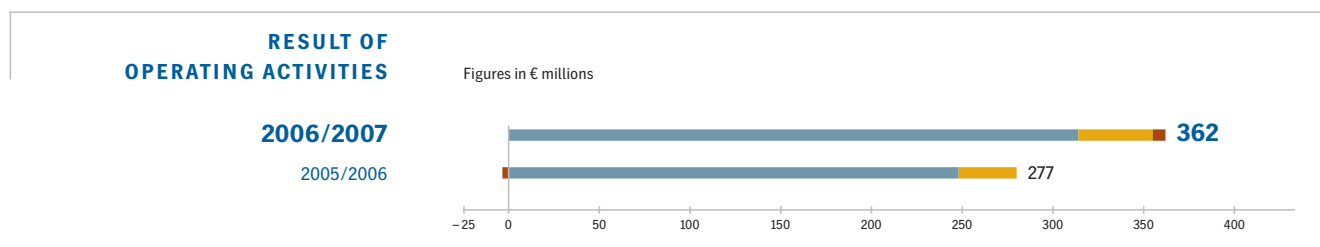
	2002/2003 ¹⁾	2003/2004 ¹⁾	2004/2005 ¹⁾	2005/2006	2006/2007
Incoming orders	3,464	3,247	3,508	3,605	3,853
Sales	3,603	3,114	3,207	3,586	3,803
Order backlog	794	749	1,046	1,017	1,018
Length of the order backlog ²⁾	2.6	2.9	3.9	3.4	3.2

¹⁾ Continuing operations²⁾ Order backlog divided by average monthly sales

Results of Operations – Further Boost in Profitability during the Reporting Year

- > **Operating Return on Sales at 9.5 Percent**
- > **Result Boosted by Positive One-Time Effects Totaling Net € 60 Million**
- > **Net Profit Improved**

Three years ago we set the goal of gradually returning to our old earnings power with the help, among others, of restructuring measures. As can be seen in the table below on page 46, we succeeded in this.



Press	314	248
Postpress	7	-3
Financial Services	41	32
Heidelberg Group	362	277

Income Statement: Operating Return on Sales Boosted from 7.7 to 9.5 Percent

The Heidelberg Group generated a result of operating activities of € 362 million during the financial year. The operating return on sales thus amounted to 9.5 percent, compared with 7.7 percent the previous year, thereby nearly attaining our expected return of approximately 10 percent.

Consistent asset management made it possible for us to realize positive one-time effects during the financial year totaling net approximately € 60 million. This resulted from the sale of Linotype GmbH as well as the sale and leaseback transaction for the Research and Development Center in Heidelberg. This made it possible for us to compensate for a higher volume of advance services for research and development in a new generation of printing presses for larger formats, unfavorable exchange rate structures, and the considerable decline in our business in China. The 31 percent rise in earnings over the previous year was also favored by the growth in sales of 6 percent. In addition, we further reduced the structural costs of the Group on a sustained basis through our streamlining program, which has already been in force for a number of years.

We were successful in generating a favorable result in each quarter. The fourth quarter contributed the highest result of € 160 million! The Press Division accounted for the biggest share of the result and of the rise in earnings,

although the Postpress Division also exceeded the break-even point for the first time during the financial year. The Financial Services Division again succeeded in increasing its result despite declining interest revenues – among others, because of a considerable improvement of the risk environment in our principal financing markets.

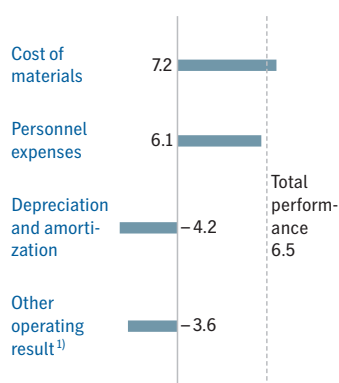
INCOME STATEMENT

Figures in € millions

	2005/2006	2006/2007
Net sales	3,586	3,803
Result of operating activities	277	362
– in percent of sales	7.7	9.5
Financial result	– 48	– 62
Income before taxes	229	300
Taxes on income	94	37
– tax rate in percent	41.0	12.3
Net profit	135	263
– in percent of sales	3.8	6.9

EXPENSE AND INCOME CATEGORIES

Change to previous year in percent



¹⁾ Balance of other operating income and other operating expenses

Income Statement: Net Profit Improved

A glance at the development of the Group's expense categories in the consolidated income statement shows how the various cost items developed compared with total operating performance. In particular the two biggest items – the cost of materials and personnel expenses – increased during the financial year.

The **cost of materials** rose – a reflection not only of continuously high raw material and energy prices, but of advance development services as well – for example, costly supplied parts for prototypes. This caused a slight increase in the ratio of the cost of materials to total operating performance from 43.5 to 43.7 percent.

We were successful in limiting the growth of **personnel expenses** through the agreement to safeguard the future, which we had introduced in the German plants two years previously in agreement with the Works Council. Whereas total operating performance was up by 6.5 percent, personnel expenses rose on balance by a mere 6.1 percent – this despite the new hirings that were required in order to cope with the higher volume of production, despite the wage and salary increases provided for under the collective bargaining agreement, and despite the higher level of profit sharing for our employees that is oriented towards the earned yield.

IMPACT OF SPECIAL ITEMS

Figures in € millions

	06/07 reported	06/07 adjusted ¹⁾
Result of operating activities	362	302
– in percent of sales	9.5	7.9
Net profit	263	144
– in percent of sales	6.9	3.8
Earnings per share in €	3.23	1.77

¹⁾ Adjusted for positive one-time effects and for tax income from corporate income tax credit

Our **depreciation and amortization** dropped slightly during the financial year. The previous year's figure had still included small impairment losses to goodwill.

The other operating result – the balance of **other operating expenses and other operating income** – declined considerably. This resulted primarily from the positive one-time effects during the financial year. The results of our forceful cost management are also apparent here.

The **financial result** declined by € 14 million to € – 62 million. During the previous year, this figure still contained result components from our specialized investment funds, which we excluded at the 2005/2006 financial year-end within the framework of a contractual trust arrangement. Due to increasing interest rates and higher annual financial liabilities, net interest declined by € 13 million to € – 56 million.

During the financial year, due to a change in the corporate income tax code we showed additional tax income of € 73 million – a result of the recognition of a claim on the disbursement of a corporate income tax credit. This special item, together with the largely tax exempt sale of Linotype GmbH, resulted in a **tax rate** of only 12 percent for the financial year – on an adjusted basis, on the other hand, it amounts to 41 percent.

We were successful in boosting our **net profit** from € 135 million the previous year to € 263 million. Adjusted for positive one-time effects as well as the tax effect, the net return on sales amounted to 3.8 percent for the financial year. Earnings per share on an unadjusted basis amount to € 3.23. The adjusted figure of € 1.77 reflects a 12 percent improvement over the previous year's figure of € 1.58.

FIVE-YEAR OVERVIEW – RESULTS OF OPERATIONS

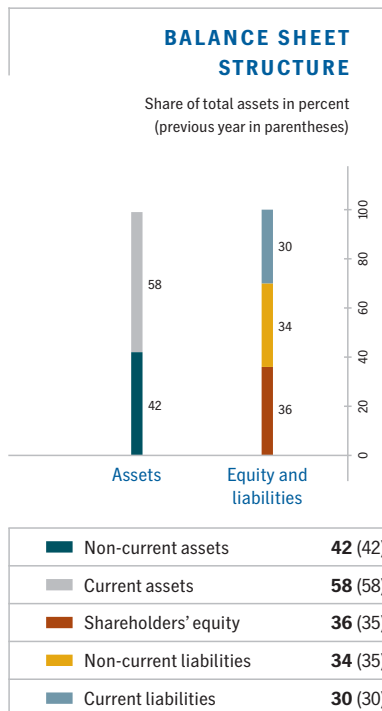
Figures in € millions

	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007
Result of operating activities ¹⁾	163	79	171	277	362
– in percent of sales	3.9	2.1	5.1	7.7	9.5
Net loss/profit	– 138	– 695	59	135	263
– in percent of sales	– 3.3	– 18.6	1.8	3.8	6.9
Earnings per share in €	– 1.67	– 8.16	0.69	1.58	3.23

¹⁾ Before restructuring expenses

Net Assets – Capital Structure Optimized

- > **Investments in New Production Hall for New Format Class**
- > **Acquisition of Own Shares through Share Buyback Programs**
- > **Program for Reducing Working Capital**



Part of our approach for the appreciation in value is to continually improve the utilization of tied assets. We therefore optimize business assets and sell assets that are not required in business operations.

Our balance sheet structure has hardly changed from the previous year – only the equity ratio increased slightly. As a manufacturing enterprise, Heidelberg has a relatively high share of non-current assets due to its need for means of production. As can be seen in the graphic presentation on the left, however, these assets are sufficiently refinanced by shareholders' equity and non-current liabilities. The ratio of equity to fixed assets bears this out. The Group's ratio rose from 1.3 the previous year to its current level of 1.4.

Assets: Modest Increase Due to Higher Income Tax Refund Claims

As of March 31, 2007, the total assets of the Heidelberg Group amounted to € 3,339 million, compared to € 3,281 million the previous year. Thanks to asset management, despite the further considerable increase in the business volume we succeeded in holding total assets at their previous level – irrespective of the higher **income tax refund claims**, which are the principal cause of the slight € 58 million increase in total assets.

Fixed assets declined slightly. In line with the higher volume of production, the **investments** of the Group grew by 6 percent over the previous year to € 178 million – an investment ratio in terms of sales of nearly 5 percent. We invested in the ongoing enhancement of our competitiveness and laid the foundation for the manufacture of new products. One major project, in which approximately € 15 million have been invested so far, is the new structure for Hall 11 at the Wiesloch-Walldorf plant. Following completion in the current financial year, this hall will be used primarily for assembling printing presses of our new format category. We will also set up a package printing demonstration center in this hall. Another main focus was replacement and investments in new capacity in the production area, which represent approximately 60 percent of the overall investment volume. Furthermore, we invested in the introduction of our Heidelberg production system.

ASSETS

Figures in € millions

	05/06	06/07
Tangible assets	868	857
Inventories	845	901
Trade receivables	678	705
Receivables from customer financing	496	431
Income tax assets	12	84
Other items	382	361
Current assets	2,413	2,482
Total assets	3,281	3,339

We continued to make use of leasing as a form of financing in cases where it contributes to limiting the commitment of capital – an especially important issue for real estate, the car fleet, and in the IT area. We also limit our commitment of capital through active asset management. For example, in March 2007 we sold the Research and Development Center in Heidelberg that we will still use under a sale and leaseback transaction. On the other hand, in August 2006 we successfully sold Linotype GmbH, a firm that no longer represented a strategic focus of our operations, to one of its competitors.

Despite the higher sales volume, overall current assets rose largely due to income tax refund claims. Due to a change in the corporate income tax code, we capitalized additional tax income during the financial year, which resulted from the recognition of a claim to disbursement of the existing corporation income tax credit. Both **inventories** and **trade receivables** increased over the previous year. Our goal is to limit the volume of working capital. To achieve this, we are stepping up a program within the scope of Heidelberg Excellence, which operates throughout the Group. Through this program, we intend to reduce the ratio of working capital to sales to 30 percent in the medium term. We were able to reduce **receivables from customer financing** by € 65 million to € 431 million during the financial year. This reflects our strategy in the Financial Services Division, according to which we mediate between our customers and our financing partners in Germany and abroad – preferably without even serving as a lender.

EQUITY AND LIABILITIES

Figures in € millions

	05/06	06/07
Shareholders' equity	1,138	1,202
Provisions	891	941
Financial liabilities	570	543
Trade payables	228	226
Other items	454	427
Total equity and liabilities	3,281	3,339

Equity and Liabilities: Share Buybacks Totaling 10 Percent of Equity Optimize Capital Structure

Primarily due to the high net profit, consolidated **equity** further increased, amounting to € 1,202 million at financial year-end. In terms of total assets, the equity ratio thereby rose from 34.7 percent the previous year to 36.0 percent. The increase in shareholders' equity was limited primarily by our measures for optimizing the capital structure. In July 2006, we concluded our first share buyback program, under which we repurchased 5 percent of the capital stock for approximately € 150 million. We launched an additional share buyback program in November 2006. We intend to acquire a further 5 percent of share capital through January 2008. The repurchased shares are either to be retired or used in employee share participation programs. We repurchased a total of 3,722,658 shares through the financial year-end, thereby reducing shareholders' equity by € 130 million. The dividend payment following the Annual General Meeting in July 2006 also had the effect of reducing shareholders' equity by € 53 million.

Provisions increased during the financial year – on the one hand because of a growth in the business volume and on the other hand because we increased tax provisions. We were successful in further reducing the pension provisions through additional funding.

Trade payables remained virtually unchanged. Although we had greater funding requirements due to the two share buyback programs, we succeeded in reducing **financial liabilities** to € 543 million. Our net **financial debt** – total financial debt (convertible bond, borrower's note loans, bank loans) plus pension provisions less securities as well as cash and cash equivalents – decreased further compared with the previous year. Despite the execution of the share buyback programs, we succeeded in reducing net financial debt to € 562 million – five years ago, this figure still totaled € 957 million.

FIVE-YEAR OVERVIEW – NET ASSETS¹⁾

Figures in € millions

	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007
Total assets	5,131	4,232	3,660	3,281	3,339
Shareholders' equity	1,950	1,230	1,166	1,138	1,202
– in percent of total equity and liabilities	38.0	29.1	31.9	34.7	36.0
Working capital	1,515	1,288	1,091	1,199	1,299
– in percent of sales	35.8	34.4	32.5	33.4	34.2
Net financial debt	957	861	731	672	562

¹⁾ Figures for the Heidelberg Group; through financial year 2004/2005 including the Digital and Web Systems divisions

Financial Position – Free Cash Flow Targets Surpassed Due to Asset Management

- > **Free Cash Flow at € 229 Million**
- > **Financial Liabilities Reduced Further**
- > **Extensive Risk Management**

The highest priority of our financial policy is to enhance Heidelberg's financial strength, ensure the continuation of the Group's current liquidity, and maintain the Group's financial independence. We attach major importance to our internal financing. We were able to reduce external financing through the further increase in free cash flow.

Cash Flow Statement: High Volume of Free Cash Flow

Heidelberg's internal financing power continued to be strong during the financial year. We succeeded in generating **free cash flow** of € 229 million, thereby considerably exceeding our target figure of more than € 150 million. Free cash flow amounts to 6 percent of sales. We made use of this financial resource primarily for the two share buyback programs as well as for the dividend payment and the reduction in financial liabilities.

Primarily due to the high net profit, the **cash flow** rose to € 398 million, thereby amounting to 10 percent of sales. Cash flow includes the special income booked from the recognition of the corporate income tax credit. This

CASH FLOW STATEMENT OF THE HEIDELBERG GROUP

Figures in € millions

	2005/2006	2006/2007
Cash flow	345	398
Other operating changes	61	- 73
– of which: inventories	- 58	- 60
– of which: trade receivables/payables	- 78	- 51
– of which: receivables from customer financing	68	47
– of which: income tax assets	-	- 74
Inflow of funds from operating activities	406	325
Outflow of funds from investment activity	- 257	- 96
– of which: funding pensions	- 124	- 50
– of which: income from asset disposals	45	143
Free cash flow	149	229

positive special item was compensated for by **other operating changes**, where we recorded an outflow of funds of € -73 million. Liabilities, trade receivables, and inventories all rose due to the increase in business activity; these items accounted for a total outflow of funds of € -111 million. On the other hand, we were once again able to reduce the commitment of funds in the area of receivables from customer financing during the financial year.

The **outflow of funds from investment activity** of € -96 million was considerably lower than in the previous year, when a charge of € 124 million for implementation of the CTA was included. During the financial year, we additionally funded pension obligations in the amount of € 50 million. However, this was more than compensated for by the inflow of funds, which included above all the sale of Linotype GmbH as well as the sale and leaseback transaction.

Central Financial Management: Liquidity Secured, Risks Minimized

The centralized Corporate Treasury unit controls the Group's financing and secures its liquidity. We launched an in-house banking system during the financial year, under which we have direct access to the accounts of our subsidiaries. This system makes it possible for the Group Head Office to cover the funding needs of the individual companies. This puts us in the position of optimizing the Group's global liquidity management and of limiting the need to borrow funds externally.

We systematically minimize liquidity risks throughout the Group. We operate a monthly rolling liquidity planning system, with whose help we are able to pinpoint early on the potential funding needs of subsidiaries and liquidity risks. Corporate Treasury identifies risks arising from the change of interest or exchange rates, on the basis of which it establishes appropriate measures and strategies in order to minimize the risks. Some of these measures also include derivative financial instruments – specifically, forward exchange transactions, currency options, and interest-rate swaps. Details concerning these measures and the impact of hedging of foreign currency and interest rate transactions can be found beginning on page 61 in the section 'The Figures'.

The functional separation of trading, processing and risk controlling in the corporate treasury area is ensured, as is their physical separation. This area is regularly monitored by our internal auditors, so that potential problem areas can be recognized and remedied early on.

Financing Structure: Ample Capital Resources

Despite the share buyback programs, our shareholders' equity rose slightly. Our capital base is good, with the equity ratio at 36 percent at financial year-end, compared with 35 percent the previous year.

We have diversified our financial liabilities, which in addition to liabilities to banks also include the convertible bond that comes due in 2012 as well as three borrower's note loans. Additional information on this topic can be found on page 58 in the section 'The Figures'.

Our firmly committed bank credit lines secure us sufficient liquidity. We are also in a position to provide for our corporate units firm, long-term credit facilities. No liquidity bottlenecks are therefore anticipated. A contract signed last year for a € 550 million syndicated line of credit, which up to now has been largely unused, has a period of validity to financial year 2010/2011 with two options to renew for an additional year. In July 2006, we exercised the first prolongation option. Since we earned considerable free cash flow for a number of years, we enjoy a highly favorable credit standing among banks. We consequently do not believe that an external rating is required at present for the Group in order to maintain our credit standing.

We are utilizing key off-balance-sheet financing instruments for an administrative and manufacturing building, for the Print Media Academy in Heidelberg, and for the World Logistics Center at our Wiesloch-Walldorf location. In addition, during the financial year we sold the Research and Development Center at our Heidelberg operation within the framework of a sale and lease-back transaction. Details on the volumes of these operating lease relationships are presented on page 65 in the section 'The Figures'.

The success of our financial management is evident. The quick ratio for the Heidelberg Group remained at its previous year's level of 1.9 this financial year. This key figure reflects the extent to which current borrowed funds are covered by current assets.

Detailed information on our credit terms, foreign currency liabilities, our currency and interest rate hedging transactions, and the features of our financial management can be found in the section 'The Figures'.

FIVE-YEAR OVERVIEW – FINANCIAL POSITION¹⁾

Figures in € millions

	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007
Cash flow	51	- 121	232	345	398
Free cash flow	207	114	152	149	229
– in percent of sales	4.9	3.0	4.5	4.2	6.0

¹⁾ Figures for the Heidelberg Group; through financial year 2004/2005 including the Digital and Web Systems divisions

ROCE and Value Contribution – Increased Corporate Value

- > **Medium-Term Goal for Value Contribution of 6 Percent Reached in the Financial Year**
- > **Operating Assets Reduced Further**

Our principal goal is to increase corporate value on a long-term basis. In order to make the change in Heidelberg's corporate value visible and manageable, we measure ROCE ('return on capital employed') and value contribution as the highest priority in our control system. We have established the goal of improving in the medium term ROCE to over 16 percent, and accordingly value contribution to over 6 percent.

ROCE AND VALUE CONTRIBUTION		
Figures in € millions		
	2005/2006	2006/2007
Average operating assets	1,911	1,879
EBIT¹⁾	260	295 ²⁾
– ROCE in percent of operating assets	13.6	15.7
Cost of capital	176	185
– in percent of operating assets	9.2	9.9
Value contribution	84	110
– in percent of operating assets	4.4	5.8

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

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

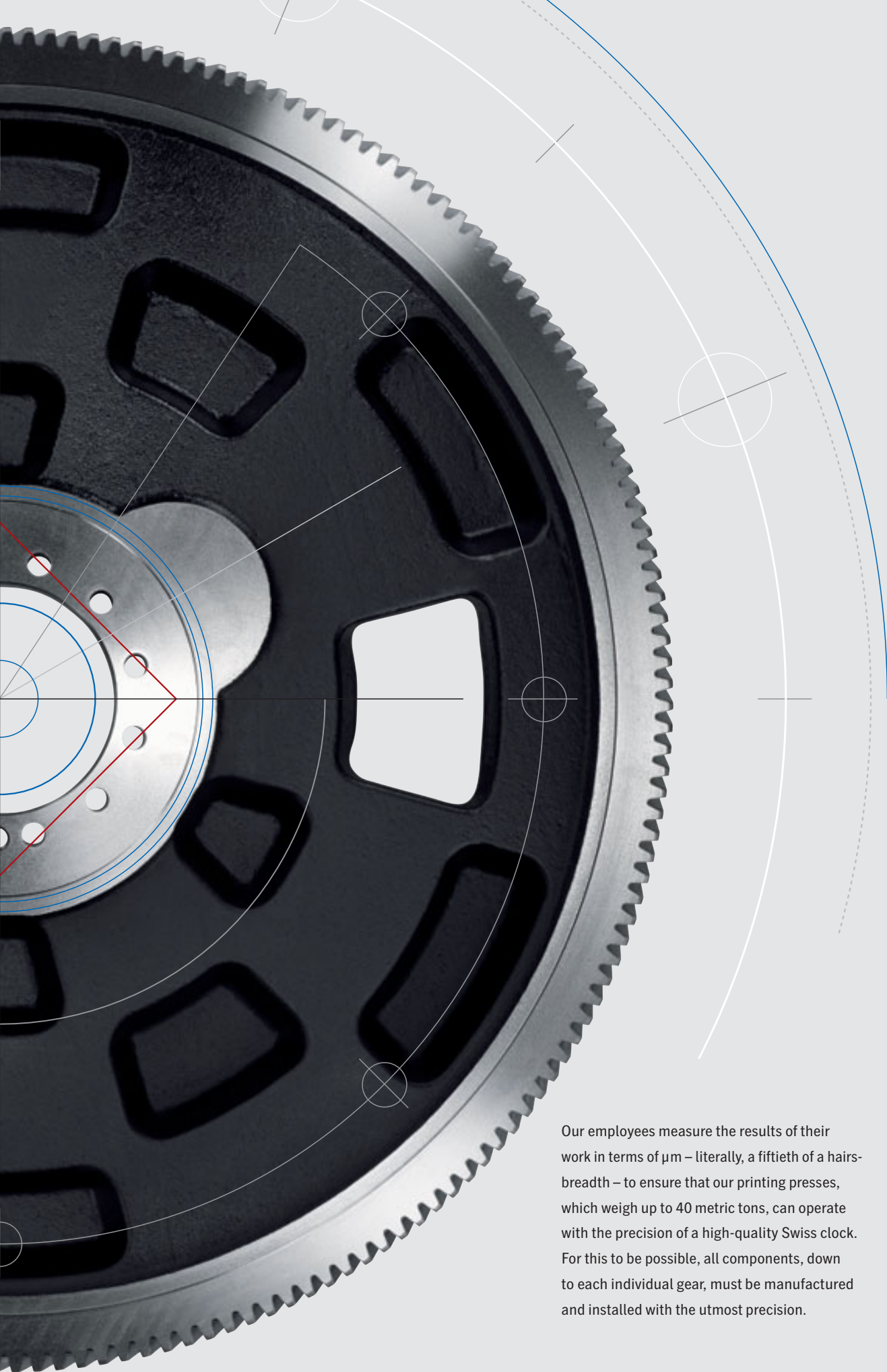
Cost of Capital Slightly Higher, Operating Assets Reduced

As the table above shows, we just achieved our medium-term target during the financial year – even without the inclusion of positive one-time effects. Our measures for reducing the commitment of funds succeeded in further reducing average operating assets despite the fact that the business volume rose. By contrast, our cost of capital rose by a modest € 9 million to € 185 million – caused principally by the higher equity ratio at financial year-end, which resulted in an increase to 9.9 percent in the weighted average cost of capital.

As a result, the adjusted value contribution of € 84 million the previous year increased by 6 percent to € 110 million at financial year-end. Explanations concerning the mathematical model that we continued using during the financial year as well as the derivation of the cost of capital can be found on page 116.



>> EXEMPLARY
QUALITY...



Our employees measure the results of their work in terms of μm – literally, a fiftieth of a hairs-breadth – to ensure that our printing presses, which weigh up to 40 metric tons, can operate with the precision of a high-quality Swiss clock. For this to be possible, all components, down to each individual gear, must be manufactured and installed with the utmost precision.



With our outstanding logistics, we ensure not only the timely delivery of service parts, but also the on-time, demand-oriented delivery of consumables – regardless of whether the order is placed in writing, by phone, or at our online shop.

CONSUMABLES WITH A QUALITY LABEL

... ENSURES OUTSTANDING RESULTS



Customers obtain from us almost everything they need for their production – and they can rely on everything they acquire from us – even printing plates, blankets, or inks. All the consumables we offer are thoroughly suitable for Heidelberg systems and adhere to environmentally friendly industrial quality standards. But that is by far not all that speaks in favor of these products. For example, we are experimenting with materials and are engaged in an extensive series of testing to determine the special applications that can be realized with these products. These uses are especially exciting and lucrative for our customers as far as the surface coating of printed products is concerned. In particular, smaller print shops can thereby rise above the competition and offer crucial value-added. We are therefore organizing an increasing number of demonstrations for matt-glossy effects, ultraviolet systems, and such specialty areas as cold foil coatings.

For good reason, the Speedmaster SM 102 is the standard for excellence and productivity for perfecting presses in the 70 × 100 format. In association with our perfect service and our consumables with extraordinary quality, this machine guarantees top-quality final printed products.



Financial Services

Consumables

Technical Services

Consulting

Heidelberg Service

> DEVELOPMENTS IN THE BUSINESS AREAS

Customer-Oriented Offerings

We are determined to offer our customers all they need for their printing operations from a single source. We are able to precisely tailor the products and services of our three divisions to our customers' requirements, including finely tuned service packages – whatever the size of the print shop or its location in the world.

The prerequisite for our ability to supply only the highest quality in every aspect of our solutions is the high level of our employees' professional qualifications. This is consequently a key issue in employee development.

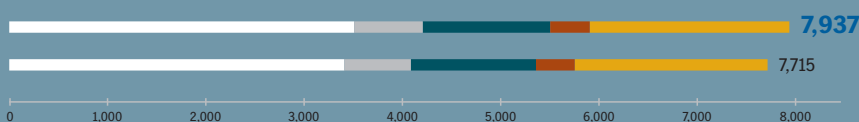
Our focus is especially on the specialized further training of our service, sales, and marketing specialists – an area in which our global print media academy network comes to good use. Like all our employees, those active in sales and service also have access to an online platform providing extensive e-learning modules. For example, service technicians have access to programs that arrange for customer-oriented communications and systematic problem-solving approaches.

SALES AND SERVICE EMPLOYEES BY REGION

March 31, 2007

March 31, 2006

Number of employees



Region	March 31, 2007	March 31, 2006
Europe, Middle East and Africa	3,510	3,409
Eastern Europe	697	677
North America	1,297	1,273
Latin America	402	394
Asia/Pacific	2,031	1,962
Heidelberg Group	7,937	7,715

In order to strengthen our service and be in a position to penetrate markets even better worldwide, we have increasingly reinforced our service and sales team, as can be seen in the graphic.

Not least the close contacts with our customers in all regions of the world enable us to develop the right solutions for the special requirements of individual markets.

> MANAGEMENT REPORT

HEIDELBERG GROUP

The Group and its Management

Development of the Group

Developments in the Business Areas

The Future

Divisions – Press, Postpress, and Financial Services

- > **Innovative Products Promote Growth of the Divisions**
- > **Speedmaster XL 105 Extremely Successful**
- > **Favorable Earnings from Postpress**

PRESS		
Figures in € millions		
	05/06	06/07
Incoming orders	3,146	3,367
Net sales	3,142	3,321
Order backlog	926	930
Research and development costs	192	213
Investments	156	170
Number of employees	16,425	17,100
Result of operating activities	248	314

The Press Division – our core business area – includes all our prepress products; sheetfed offset, package and flexo printing; and our Prinect workflow software. Web offset printing sales activities are also integrated within this division. The overall finishing area is positioned in the Postpress Division. Comprehensive services as well as offerings of consumables are divided among the Press Division and the Postpress Division. We have organized our customer financing services and operations within the Financial Services Division.

Future-oriented, state-of-the-art technologies for all the stages of the printing process are the foundation of all our offerings. We describe all our products in detail on our Web site www.heidelberg.com. An overview of our products is presented on the inside back cover of this Annual Report. Our products are interlinked within a finely tuned system based on Prinect, our proprietary software. Prinect makes it possible for our customers to fully realize their streamlining and optimization potential. The fact that, like the entire range of our solutions, Prinect is modular throughout, is a considerable advantage.

Press Business: Auspiciously High Level of Incoming Orders, Capacity Fully Utilized

For the third year in a row, the Press Division succeeded in considerably surpassing the previous year's volume of both orders and sales. **Incoming orders** totaled € 3,367 million – 7 percent over the previous year's figure. **Sales** rose by 6 percent to € 3,321 million.

Our projections were thereby fully met. We had announced the previous year that we would generate a growth in sales of 5 percent during the financial year. Nevertheless, the sources of growth were not as we had anticipated. In some industrialized countries, such as in Germany, the economic situation improved considerably more than had been anticipated by economic research institutes. Print shops benefited heavily from this growth and invested in state-of-the-art solutions – for example, our large-format Speedmaster XL 105



and our Speedmaster CD 74. In the prepress area, our innovative Suprasetter platesetter in particular generated additional sales. The Gallus Group, our flexo printing operation, was also successful in realizing an above-average growth in sales during the financial year.

By contrast, we suffered a substantial decline in China, where we had generated a 25 percent increase in sales the previous year. Although initially all signs had pointed to further growth in the same manner, a change in customs regulations affecting previously highly popular printing presses prevented the expected decline.

We make an appropriate offer for each customer, who can then select from highly innovative products or more inexpensive standard equipment. During the financial year, demand for innovative solutions that were specially tailored to customer requirements increased strongly. Thanks to our very flexible **production** process as well as the modular design of our range of products, we were in a position to react immediately to this shift in demand. Because of the expanded product mix, we hired new employees in the assembly area in order to ensure that customer orders are filled promptly. This division's **order backlog** of € 930 million remained at the previous year's level.

Our **research and development** area is, of course, encouraged by the market's excellent reception of the newly developed products. We have been working vigorously on the perfecting of the Speedmaster XL 105. Our new, very large format category – the Speedmaster XL 142 and XL 162 models – which we will introduce at drupa 2008 for the first time, has been undergoing trial print runs since December 2006. Over 100 customers have already gained experience with this printing press, and the first machines have already been installed for field testing. Our greater efforts in this project are the main cause for the increase in research and development costs over the previous year from € 192 million to € 213 million.

The new format category is also playing an important role in **investments**, which – compared to sales – rose at an above-average pace to € 170 million. During the financial year, approximately € 15 million were invested in the new building structure for Hall 11, which is to be used largely for the assembly of these printing presses. The total investment volume for this multipurpose building, which will be completed during the current financial year, is approximately € 42 million. We additionally strengthened the assembly areas of our new products. Our priority has been to phase out printing press generations based on mechanical manufacturing in order to produce on a process-oriented basis with enhanced productivity and flexibility. An outstanding example of the extent of the streamlining we have thereby realized: We replaced eight gear grinding machines with a single automated unit during the financial year,

reducing turnaround time by 70 percent! With our Heidelberg production system, in whose introduction we also invested during the financial year, we will be able to design numerous processes considerably more efficiently in the future.

During the financial year, the expanded volume of production led to larger human resource requirements. Additionally, we consolidated BHS Druck- und Veredelungstechnik GmbH with its 156 employees for the first time. Overall, the number of **employees** in the division thus rose by 675. We made certain that new employees rapidly gained a high level of productivity by means of systematic orientation programs.

We compensated for both increased investments in R&D as well as unfavorable exchange rates through positive one-time effects. The pact to safeguard the future limited the increase in personnel expenses that resulted from newly hired employees, from the increase provided for by the collective bargaining agreement, and from the greater profit sharing for our employees. We also continued to consistently implement our cost reduction measures in all areas. Not least the increased sales contributed to our growth in the **result of operating activities** by 27 percent to € 314 million.

Postpress: Increase in Incoming Orders, Sales, and Earnings

The strategy of the Postpress Division to gradually replace its entire product portfolio with new printing press generations has worked out well. The new folders introduced at drupa 2004, whose sales were up by over 10 percent, contributed to the success of the folder product line. Our stitcher-gatherers were even more successful. Following our market introduction of the Saddlestitcher ST 450 at IPEX in April 2006, which makes possible saddlestitching with increased productivity and flexibility and has a very broad range of applications, orders for stitcher-gatherers also grew considerably, making it possible for us to boost sales by nearly 15 percent over the previous year. In the autumn of 2006, we introduced the first prototype of our new highly-automated adhesive binder generation, the Eurobind 4000, which we developed to series production in Leipzig during the financial year. This model also fills a gap in our portfolio, as Heidelberg can now offer a broad range of products for all the key finishing processes required by commercial printers. During the financial year, we successfully launched a new die-cutter based on an OEM product, upgrading it to the international standards required for safety and functionality. We intend to introduce new products and approaches in package printing as well at drupa 2008. The principal focus of this division's **research and development** activities is currently on this segment of the finishing business, which will reinforce Heidelberg's strategy of expanding the package printing area.

POSTPRESS		
Figures in € millions		
	05/06	06/07
Incoming orders	413	449
Net sales	398	445
Order backlog	91	88
Research and development costs	22	24
Investments	13	9
Number of employees	1,925	1,988
Result of operating activities	-3	7



Our new products contributed to the 9 percent increase of **incoming orders** over the previous year to € 449 million, as a result of which we expanded our market share. On the other hand, we also strongly benefited from favorable underlying cyclical conditions. In Germany and the US in particular, the propensity to invest by print shops strengthened considerably. The **sales** of this division climbed by 12 percent to € 445 million. As of the March 31, 2007 reporting date, the order backlog amounted to € 88 million – only slightly below the previous year’s figure.

Because our plants underwent extensive restructuring in previous years and the assembly process was optimized, we were able to clearly reduce **investments** during the financial year.

We were successful in boosting the volume of production with only few newly hired employees. We hired additional sales and marketing specialists in order to further improve this division’s presentation of new products to our customers. The number of **employees** in the division increased by 63 to 1,988.

The restructuring measures of the past few years, which are now paying off, lastingly improved the cost structure of the division. Together with the considerable boost in sales, these measures contributed to our favorable **result of operating activities** of € 7 million. The package printing area still fell short of a break-even result.

FINANCIAL SERVICES

Figures in € millions

05/06 06/07

Net sales (interest revenue)	46	37
Cost of materials (interest expense)	9	4
Gross profit (net interest)	37	33
Result of operating activities	32	41
Receivables from customer financing	496	431
Provision for risks	133	97
Acquired counter-liabilities	271	190
Number of employees	86	83

Financial Services: Financial Consulting an Important Component of Our Services

We also offer our customers comprehensive financial assistance. We cooperate with external financing partners, operate a global network of Group-owned print finance companies in various currency zones, and cooperate with Euler Hermes Kreditversicherungs Aktiengesellschaft to cover export financing risks.

The focus of our attention is on assisting in particular smaller and medium-sized customers with our financing expertise, as well as mediating between them and our financing partners in Germany and abroad. We are therefore continuously expanding our cooperation with external service providers. If at all possible, we only make direct financing available if other financing is not feasible from external financing partners.



By further pursuing this business approach consistently, we were also able to reduce our **receivables from customer financing** during the financial year – especially in the industrialized countries. The relative share of customers in emerging markets that do not have well-developed capital markets thus further increased. We cut back receivables by € 65 million to € 431 million, and additionally reduced our **acquired counter-liabilities** by the considerable sum of € 190 million. This is particularly remarkable against the background of our simultaneous further expansion of this division's share in consolidated sales. **Interest revenue** and **net interest** declined, respectively, to € 37 million and € 33 million, due to the falloff in the average inventory of interest-bearing receivables. The **result of operating activities** nevertheless improved. The division benefited from the solid quality of its portfolio, which again considerably increased as a consequence of the sustained economic upswing, the accelerated repayment of value-adjusted receivables, and generally reduced losses from customer financing.

With 83 **employees**, this division's staff remained at the previous year's level.

Regions – Largely on a Growth Trend

- > **Printing Industry Growing in Numerous Countries**
- > **Highly Successful Trade Show Presence Worldwide**
- > **Suspension of Customs Exemption Temporarily Braking Growth in China**

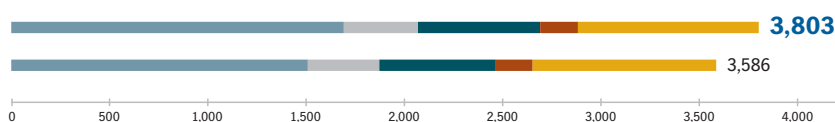
We were successful in maintaining or even expanding our market position in each of our five regions – although Japanese competitors took advantage of their considerable foreign currency advantages, especially in the US and the Asia/Pacific region. As is explained on the previous pages, the increase in sales resulted primarily from our new products. We have meanwhile launched our Speedmaster XL 105 worldwide, which was especially successful during the financial year.

NET SALES BY REGION

2006/2007

2005/2006

Figures in € millions



Europe, Middle East and Africa ¹⁾	1,692	+ 12 %
Eastern Europe ¹⁾	377	+ 4 %
North America	622	+ 5 %
Latin America	192	+ 3 %
Asia/Pacific	920	- 2 %
Heidelberg Group	3,803	+ 6 %

¹⁾ Previous year's figures adjusted

Range of Services Further Strengthened

We expanded the services we offer in all our regions. This is one of the reasons the images in this Annual Report focus on our services. We place particular importance on our proactive service concept.

Since a missing spare part could become a real ordeal for print shops, we are further expanding our global replacement service network. Our Japan Logistics Center (JLC) began operations during the reporting year in Tokyo, and during the current business year we will open another center in Hong Kong. In general, JLC delivers spare parts within a few hours directly to customers, in the same manner as our World Logistics Center in Wiesloch-Walldorf, Germany, as well as our Americas Logistics Center in Indianapolis, Indiana, in the US. The new Japanese service parts hub, which is located just a few kilometers from Haneda Airport in Tokyo, will successively link up neighboring markets as well. Eliminating the need to warehouse every spare part at all our local operations results in process optimization for Heidelberg –



Locations of the Logistics Centers

**EUROPE, MIDDLE EAST
AND AFRICA¹⁾**

Figures in € millions

	05/06	06/07
Incoming orders	1,553	1,726
Net sales	1,509	1,692
Employees	14,054	14,667

¹⁾ Previous year's figures adjusted

and simultaneously improves uninterrupted deliveries and thereby customer satisfaction! The three warehouses processed a total of approximately 380,000 shipments during the financial year. We are especially proud of the fact that following its inauguration, in just a few months our JLC together with the WLC were able to guarantee over 96 percent spare parts availability.

We expanded our range of products in consumables. In other countries, we also expanded our online shops for consumables, which have been very well received. The share of sales accounted for by services and consumables again amounted to nearly 19 percent during the financial year.

Europe, Middle East and Africa: High Expectations Surpassed

With just a few exceptions, the markets in the Europe, Middle East and Africa region developed favorably during the financial year. Following some difficult years, our business in Europe virtually blossomed.

Germany experienced an outright boom. The mood of the printing industry proved to be very favorable. Our industry has emerged strengthened from the crisis years. In recent years, print shops have improved their structures, reduced staff costs, and cut back unit costs.

Since the print shop business depends primarily on historically evolved local industry, business developments differed in Europe's individual countries. France, Spain, and Italy developed favorably across-the-board. In the UK, IPEX provided considerable impetus at the beginning of the financial year and also stimulated business in other commonwealth nations, as is usually the case. However, by its nature, business was rather sluggish afterwards, reviving only in the second half of the financial year.

We look back on a good year in Scandinavia and the Baltic countries. In the past, the latter countries had been part of our Eastern Europe region. We have very successfully merged our local subsidiaries of this region within the Nordic/Baltic management unit. The previous year's figures were accordingly adjusted.

Sales in Africa remained stable at a low level. Although business in the markets of the Middle East were shaped by political conflicts, we were nevertheless successful in some markets – for example, in Libya.

Eastern Europe: Stable Growth Trend

We streamlined structures during the financial year in the Eastern Europe region, thereby making our procedures more efficient. We have since been supporting some countries directly from Heidelberg.

EASTERN EUROPE¹⁾

Figures in € millions

	05/06	06/07
Incoming orders	360	414
Net sales	363	377
Employees	677	697

¹⁾ Previous year's figures adjusted

Many markets in this region are characterized by considerable vigor. The development of the printing industry – as well as our incoming orders and sales – was favorable, among others, in Poland and the Czech Republic. In Russia, which up to now has been our key market in the region, we were successful in considerably boosting incoming orders over the very weak previous year. In some of the smaller markets, we were even able to triple sales during the financial year.

Our exhibits at the numerous trade shows at which we participated were heavily frequented – for example, Grafima in Belgrade. Our open house events were also very well received. We also conscientiously presented the advantages of our solutions in such countries as Kazakhstan and the Ukraine, whose share in Heidelberg's sales is still small but which offer promising prospects.

The quality of printed products and the degree of automation of the printing process is growing noticeably in this region. It is no accident that interest in Prinect has been growing markedly. Used printing presses currently account for a major share of our sales in the region. We are able to cover customers' requirements with virtually new printing presses from Western Europe. We are also realizing considerable success in the region with our sales of Goss web printing presses. The market for printing presses with numerous printing units and in-line surface coating is also growing. Our Speedmaster XL 105, which we gradually introduced in most of the markets of the region, also generated strong interest.

NORTH AMERICA

Figures in € millions

	05/06	06/07
Incoming orders	553	620
Net sales	593	622
Employees	1,349	1,374

North America: Market Position Strengthened; Orders Up 12 Percent

Following a period of only limited success by US print shops in benefiting from the strong economic growth of the US in the past, demand for print products again picked up solidly during the financial year. As a consequence of the sustained market adjustment, the profit situation of many print shops showed improvement. The survivors of the period of consolidation generated significantly greater returns on sales than just a few years ago. Following a phase characterized by sluggish investments, our incoming orders from the US rose by 16 percent and sales by 4 percent! We were therefore able to again considerably strengthen our market position despite the foreign currency advantages enjoyed by Japanese suppliers. Not least our highly successful participation in the Graph Expo trade show in Chicago in October contributed to this development. Strong interest was shown in our Speedmaster 52 with the Anicolor inking unit and our Speedmaster XL 105. But our workflow solutions also awakened increasing enthusiasm. For example, we have meanwhile installed over 500 Prinect Printready workflow systems.

In neighboring Canada, demand for printed products increased only slightly during the financial year. Canada is one of the few markets whose print shops focus largely on exports. Due to the strong Canadian dollar, their final customers shifted to other suppliers, as a result of which our incoming orders in Canada were down slightly.

In November 2006, we were successful in booking the biggest single order so far in the Postpress Division. Through the end of the financial year, at the Ontario-based PLM Group, we installed a Speedmaster XL 105-UV with eight printing units, two coating units, six fully automated Stahlfolder TH 82 folders, nine Speedbänder pack delivery units, and eight mailing stations for gluing and perforating.

Latin America: Orders from Brazil Up 63 Percent

The long-standing intensive work and investments in the sales network in this region are paying off. In Latin America, Heidelberg has become not only the most important supplier, but is looked upon as the only true supplier of comprehensive solutions, regardless of the size of the print shops. It is not without reason that we enjoy extraordinarily high market shares in our various format categories here. Our business developed favorably in most markets.

The Expoprint 2006 trade show in São Paulo, Brazil, was a complete success. During the financial year, we established a center for refurbishing used printing presses in this city, where one of our subsidiaries as well as a Print Media Academy are already located. The new center is to be used, among other things, for training programs. We carried out over 450 training programs and nearly 500 presentations for nearly 4,500 participants since the opening of the PMA in 2000.

Brazil is our most important market in the region. It is all the more gratifying that we were able to increase incoming orders by a full 63 percent over the previous year here! The basic conditions for investments in imported goods were extremely favorable, thanks to the strength of the Brazilian real. Although demand was especially strong for small and medium-sized format printing presses, sales in the finishing area were significantly higher than expected.

In Mexico, the close presidential election resulted in uncertainty among companies – and for a temporary decline in our incoming orders. However, the situation has meanwhile restabilized and we were successful in maintaining our high market share in Mexico.

LATIN AMERICA

Figures in € millions

05/06 06/07

	05/06	06/07
Incoming orders	169	213
Net sales	186	192
Employees	394	402

ASIA/PACIFIC		
Figures in € millions		
	05/06	06/07
Incoming orders	970	880
Net sales	935	920
Employees	1,962	2,031

Asia/Pacific: Temporary Suspension of Customs Exemption for Printing Presses in China Results in Decline in Orders

At the beginning of 2006, the Chinese government began successively suspending the exemption of import customs on printing presses. This meant that our customers were required to pay taxes and customs duties amounting to over 25 percent of the value of imported printing presses. This resulted in an approximately 30 percent decline in orders from China and incoming orders and sales in the Asia/Pacific region overall. Since March 2007, some of our customers have again been able to apply for customs exemptions for our A1 large-format printing presses.

Adjusted for business in China, incoming orders of this region grew by 2 percent and sales by 10 percent! This occurred despite the fact that the weak Japanese yen has caused us difficulties in Japan. More information on this topic is presented on page 40. The countries in this region are generally characterized by above-average growth rates. Our sales in Korea, Malaysia, and Indonesia posted gratifying growth.

A noteworthy high point for us during the financial year was the official opening of our manufacturing plant at Qingpu, near Shanghai, China, in September of the reporting year. Additional highlights were the IPEX trade show in April, where many orders were acquired from the customers in the region, and PAMEX, India, in December. The latter trade show made abundantly clear the growing influence of that country and our growth potential in the emerging markets. We considerably expanded our market share and sales in India.

Employees – Systematic Development

- > **Higher Volume of Production Made Possible by New Hirings**
- > **High Degree of Flexibility Retained**

Following the falling or stagnating numbers of employees that characterized previous years, for the first time in a couple of years we again increased the number of our employees during the reporting year – partly through temporary hirings – in order to cope with the expanded product mix. We increasingly managed production peaks by means of temps assigned primarily to direct assembly jobs, thereby permitting us to maintain our high level of flexibility in case of capacity fluctuations. The pact for safeguarding the future, which we signed the previous year, has proven its worth. In connection with the increasing volume of orders, we were able to make full use of the agreements concerning working time prolongation by approximately 5 percent without an increase in wages. The new potential for enhancing flexibility through our time offset accounts also contributed to improved capacity utilization.

Systematic Employee Development Worldwide

Our employee development system is applicable to all the Group's operations worldwide. It includes various basic principles and guidelines with regard to dealings with employees. Job performance reviews and other measures that make clear whether there is a need for specialized training are required in order to best pursue corporate goals. Moreover, the system of performance reviews helps those holding responsibility to organize target-oriented development measures with the employees in view of market challenges.

We have been cooperating with schools and developing special programs for quite some time now, with a view to enhancing the professional capability and proficiency level of students in order to thereby ensure that we will have capable applicants in the future as well. The heavy demand for trainee positions at Heidelberg with long-term prospects continues unabated. We received some 1,700 applications for the beginning of training in September 2006, from which we selected 187 trainees and vocational college students. The training quota of Heidelberger Druckmaschinen Aktiengesellschaft at the beginning of the training period was thereby approximately 6 percent.

Specialized training, whose volume grew by a total of 35 percent over the last two years, is becoming increasingly important. Over 2,000 employees took part in our measures for enhancing professional qualifications, which we implemented in view of the major importance of projects to improve processes and quality.



New Hirings Focus on Production

The Heidelberg Group had a total of 19,171 employees as of March 31. Most of the increase over the previous year is a direct result of the higher volumes of production, especially at our Wiesloch-Walldorf plant. We additionally strengthened our sales team. We consolidated the firm BHS Druck- und Veredelungstechnik GmbH (BHS) during the financial year for the first time, which contributed an additional 156 employees. A total of 69 percent of employees were active in Germany during the financial year.

Implementation of ERA this Year

During the current financial year in Germany, we will be introducing the master collective bargaining agreement, abbreviated ERA, based on the German term 'Entgeltrahmen-Tarifvertrag'. This agreement substitutes a uniform and modern compensation system in place of obsolete wage and salary structures. The new agreement no longer distinguishes between blue-collar and white-collar employees, and provides a fairer and performance-based remuneration. The processes that require implementation in order to prepare for this measure are far-reaching – final introduction had originally been planned for the beginning of this year.

¹⁾ Of which 156 employees during the financial year from the initial consolidation of BHS

In the Forefront of the Competition for Talent

With the goal of remaining an attractive employer, we maintained our tried and true measures during the financial year. Our development programs for qualified employees and members of senior management have been given high priority – for example, the Graduate Development Program, the Management Development Program, and the Project Management Development Program. The Finance Manager Development Program, a new addition, is being launched during the current financial year. Our measures to promote the compatibility of family and one's profession are also showing success. The share of employees working part-time – excluding our partially-retired German employees – rose to nearly 4 percent, with the number of the employees working alternately on a telecommuting basis growing by 25 percent. Moreover, trying out a new approach, we received an excellent response to our childcare program during the school summer vacation period.

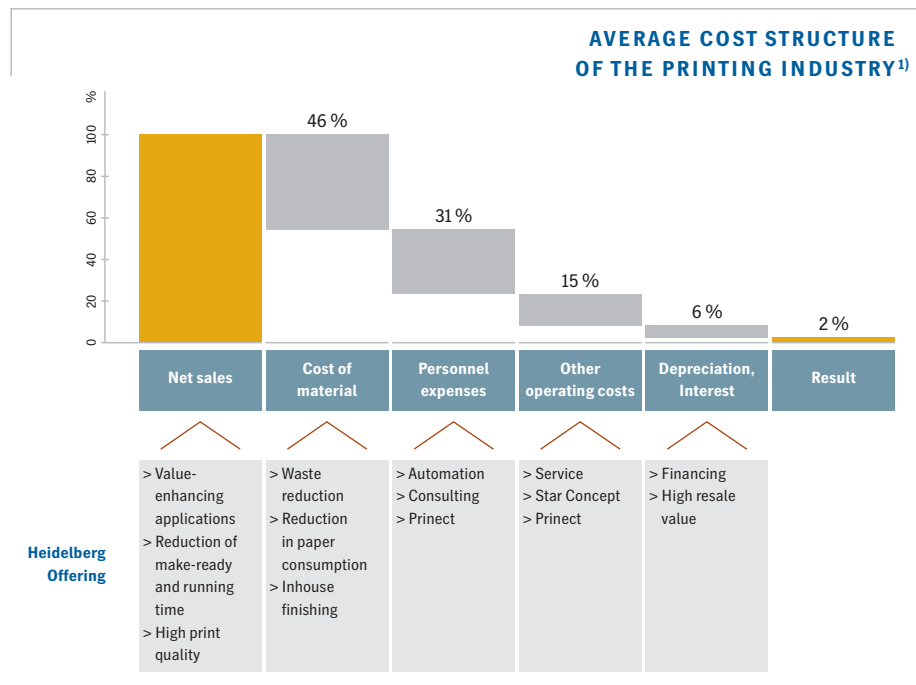
Detailed information on our human resources policy, key performance data, as well as individual programs and projects can be found in the Sustainability Report, which can either be ordered in a print version or downloaded from our Web site.

Research and Development – Investments with a Future

- > **Customer Requirements Determine Priorities**
- > **Development of a New Format Category through drupa 2008**
- > **Prinect Workflow Software Expanded**

The cost structure of print shops, which we show below, represents an important strategic focus of our R&D work. The table makes quite clear that each reduction of material or staff expense represents hard cash for our customers. Potential reductions in make-ready times and in paper waste that result from the application of our solutions are consequently outstanding selling points for Heidelberg.

Furthermore, we are focusing to an even greater extent on our successful approach of developing not only individual printing presses, but optimally networked, comprehensive solutions – in order to thereby offer our customers further value added.



¹⁾ Source of the cost structure: Bundesverband Druck und Medien, 2006

Specially Tailored Solutions for Customers Worldwide

Since we develop scalable and modular products in all formats, we are in a position to react flexibly to market demands and satisfy customer requirements, ranging all the way from entry-level operations to the peak-performance segment.

Our development activity takes into consideration regionally varied customer requirements – for the purpose, among others, of putting ourselves in a position to further expand our strong presence in the world's growth markets.

The challenges faced by our customers define the focus of our work. Trends indicate that the average print run will continue to shrink, with a simultaneous rise in the number of orders. Our customers must cut their costs and be able to offer new possibilities for differentiation if they are to achieve long-term success and generate adequate earnings.

To ensure that our developments will also be well received by customers, we make use of our so-called Technology Roadmap to ensure that the primary focus of product development and expansion is on the benefit to the customer.

The Focus: Rapid Inking-Up, Short Make-Ready Times, High Productivity

Prinect, our workflow software, makes it possible for us to secure broad economic benefits for our customers. The newly developed Prinect Inpress Control measuring instrument creates a closed color-feedback control system that makes possible the shortest possible order set-up time available in the market. Even the smallest color inaccuracies are quickly recognized and immediately eliminated during the production run, thereby avoiding potentially considerable paper waste and high postprocessing costs.

As a further highlight, during the financial year we introduced the Anicolor zoneless inking unit, which allows offset print shops to produce even the shortest of runs with considerably higher profit margins. Anicolor reduces startup paper waste by up to 90 percent; in the low print run segment, capacity can be boosted by up to 50 percent due to extremely short set-up times.

The reliable increase in speed of our printing presses for medium-sized and long print runs expands the potential economic deployment of sheetfed offset printing presses for a range of orders that were previously only served by web offset printing. When in use, our maximum performance class Speedmaster XL 105 demonstrates that it can ensure performance that is 30 percent higher than comparable models, and in individual cases even much more! Our new model for ultraviolet printing inks is able to turn out 18,000 sheets per hour – an absolute innovation in the market. Sophisticated drying systems that we are developing in conjunction with systems partners will help us obtain this competitive advantage.

More information concerning new products, their potential, and sales trends are presented in the reports of the Divisions on pages 59 to 63.

Additional Focus of Attention: Further Penetration of Package Printing Market

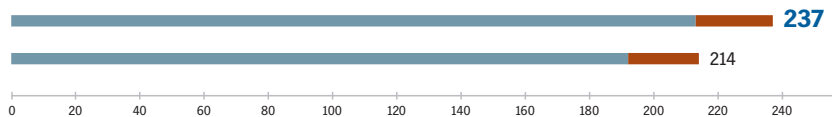
We will introduce the Speedmaster XL 142 and XL 162 models, a new generation of printing presses, at drupa 2008. We are so far in line with our ambitious timetable. We are also developing a platesetter for this larger format, allowing us to penetrate the package printing market to a greater extent. Our products will offer a number of innovative solutions to place us in a position to especially well serve this rapidly growing offset printing segment.

RESEARCH AND DEVELOPMENT COSTS

2006/2007

2005/2006

Figures in € millions



Press	213	192
Postpress	24	22
Heidelberg Group	237	214

Innovative Products Cause Increase in Research and Development Costs

During the financial year, we invested € 237 million in research and development for our complex mechatronical systems, for software development, and for the series servicing of our product portfolio – € 23 million more than in the previous year. Our R&D rate, which increased slightly to 6.2 percent, reflects our strategy of expanding our market leadership through new technologies.

Speed Counts: An Efficient Organization and Highly Qualified Employees

We work closely together with our customers. In order to avoid undesirable developments, feedback from customers is a component of our projects from the very beginning. This subject is discussed in more depth in the Risk Report.

We ensure rapid market introduction by structuring our research and development within a matrix organization based on format categories, consolidating only those functions that are relevant for all models, such as control, design and product safety. We are already benefiting from our new CAD system, which we will have fully introduced by year-end 2007. In developing the new format categories, we will make use of CAD data throughout, all the way to series production. Purposefully integrating our systems partners also serves to boost our pace of innovation.

The number of employees active in R&D rose slightly over the previous year to a total of 1,577, as in the previous year accounting for approximately 8 percent of the overall staff. The work of these employees focused on mechanical and electrical engineering, the software area, and supporting activities. Our stand-alone product Prinect is of outstanding significance. Overall, we have approximately 400 employees involved in the software area alone!

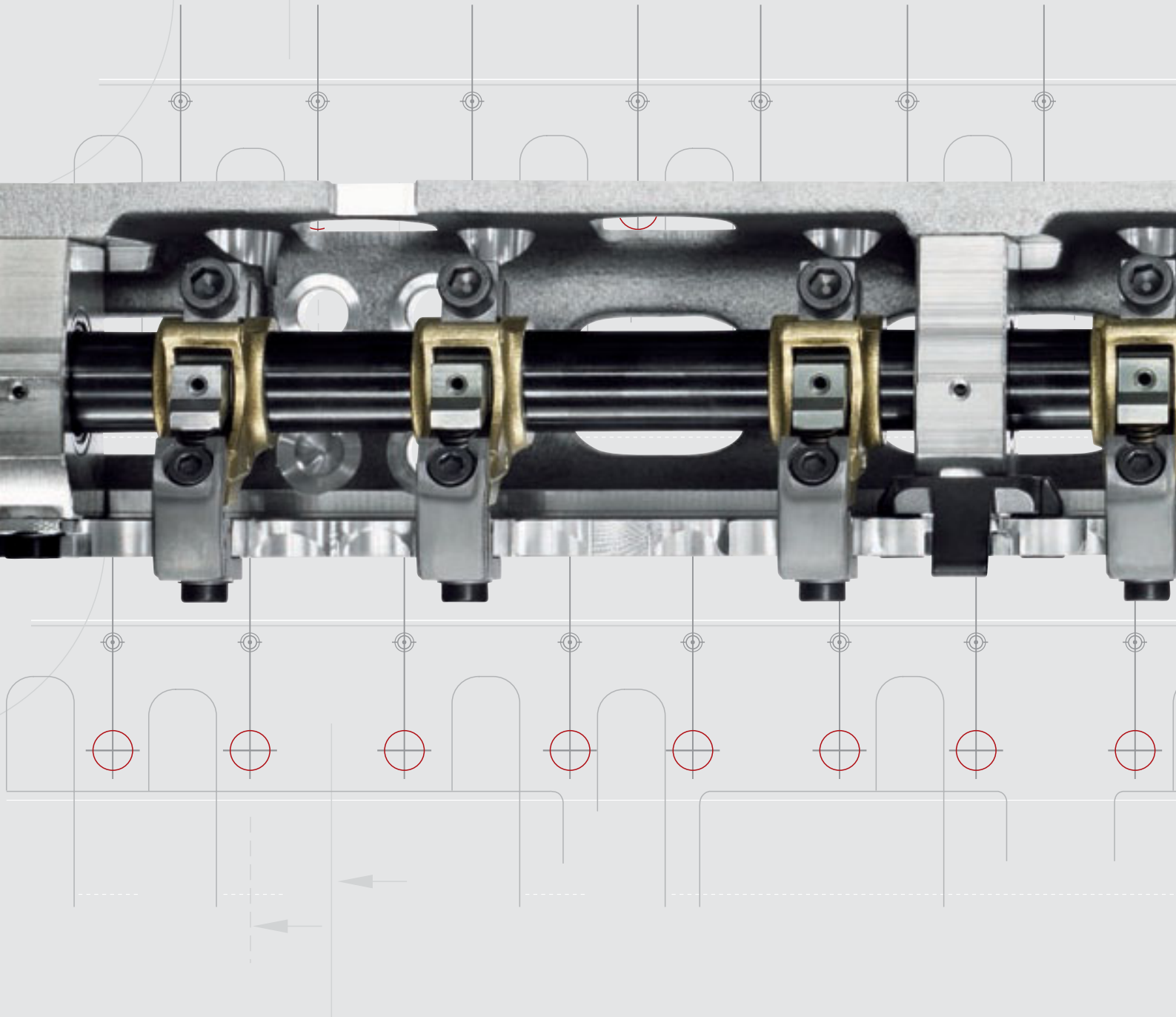
In Germany, the quality of our work depends heavily on the qualifications of our R&D employees; thus, over half of them have a college degree. Our registration of 153 new inventions during the financial year is clear evidence of our employees' high performance level. As of March 31, 2007, Heidelberg had a total of over 5,200 patents that had been registered and granted throughout the world.

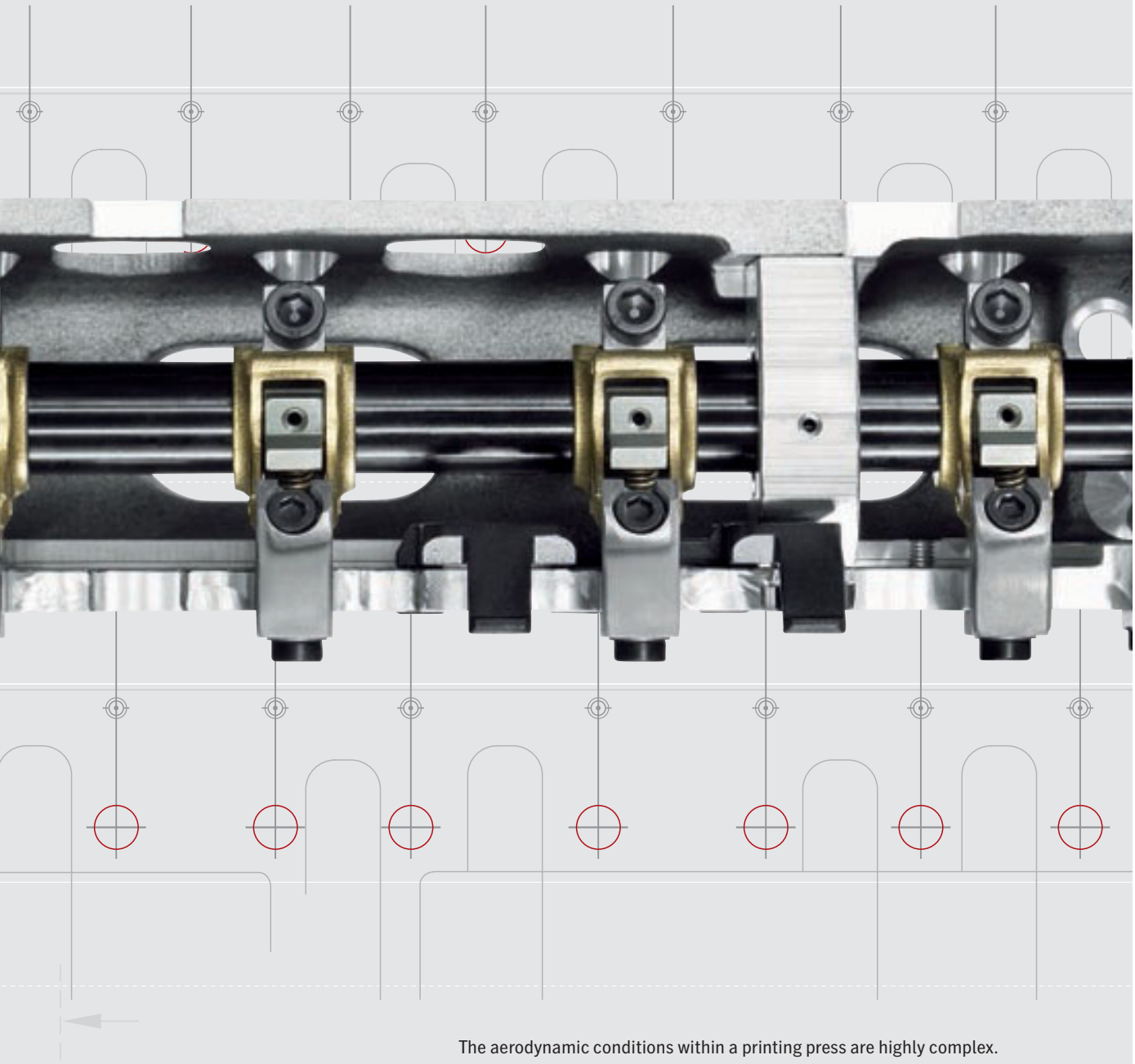
Partnerships Further Expanded and Standards Developed

As is mentioned above, we cooperate very closely on a long-term basis with our principal suppliers, in the research and development area as well. Unless our own areas of core expertise are involved, economic viability analyses have sometimes resulted in our acquisition of expertise from outside suppliers or our entering into a participation in attractive companies or into partnerships. Partnerships with universities and institutes augment our internal basic research, in which we invest approximately 5 percent of our R&D expenses. For competitive reasons, we protect our partners and generally do not disclose information concerning joint projects.

Since we intend to provide ultraviolet and hybrid printers more safety and predictability with regard to consumables, we are developing, together with Koenig & Bauer Aktiengesellschaft and with the participation of MAN Roland Aktiengesellschaft a common approach for the standardization of ultraviolet and hybrid applications.

>> SOPHISTICATED APPROACHES ...





The aerodynamic conditions within a printing press are highly complex. Paper is an extremely 'delicate' medium. Knowledge gained from the wind tunnel has contributed to the ability of the gripper assembly to transport five DIN A1 sheets per second so accurately that they pass through each individual printing unit with a precision of one hundredth of a millimeter.



Heidelberg's Financial Services Team is aware of the considerable challenges and needs facing the print and media industry. They support customers in an advisory and supportive capacity in financing questions.

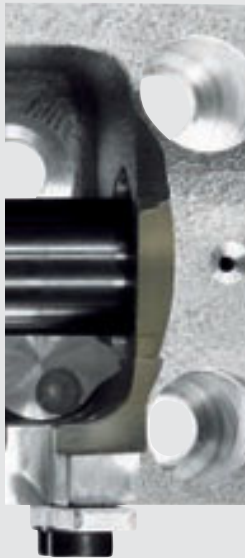
ADVANCED FINANCING MIX PROVIDES CUSTOMIZED FINANCING

... FOR MORE INVESTMENT SECURITY

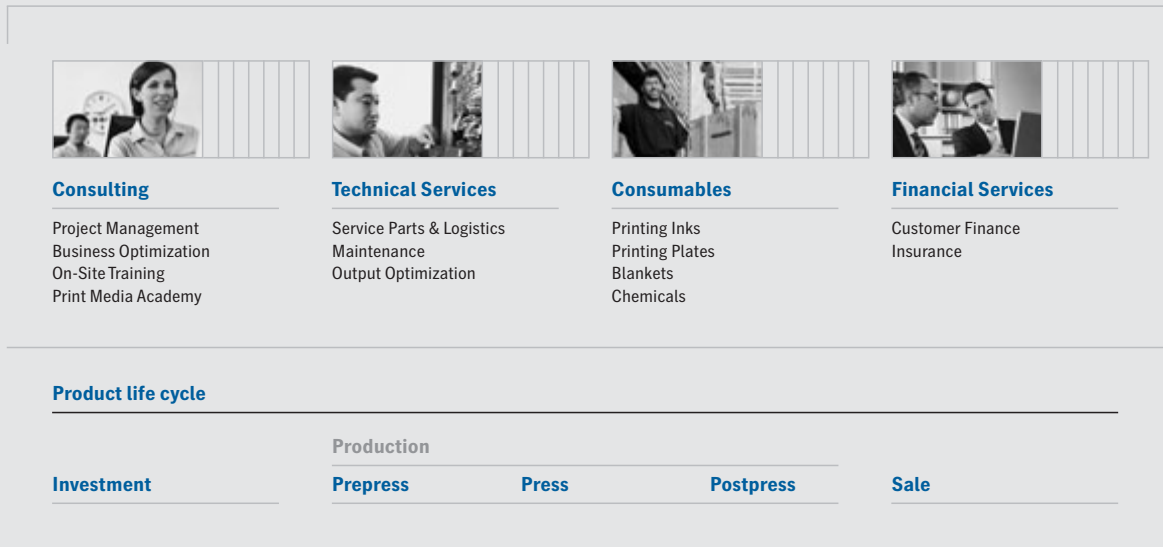


Our solutions represent a long-term investment – and the business success of a print shop often depends on the realization of such an investment. We do not make our customers fend for themselves in matters of financing. Rather, we help them put their long-term planning on a solid foundation – by means of financial arrangements that are finely tuned to customers' requirements. We mediate between customers and our partners worldwide, cooperating internationally with both banks and leasing companies. We also make use of the export promotional instruments of the German Federal government to achieve the best conditions for our customers. Under certain circumstances, we also make available our own financing solutions by means of Group-owned print finance companies in various currency zones.

Why are our cooperative agreements with financing partners so successful? We have clearly explained to our financing partners the distinctive features of print shops and highlighted the earnings potential for our customers that are possible with new solutions. For example, with the Speedmaster XL 105 our customers can increase their productivity on average by up to 30 percent and thereby generate higher earnings.

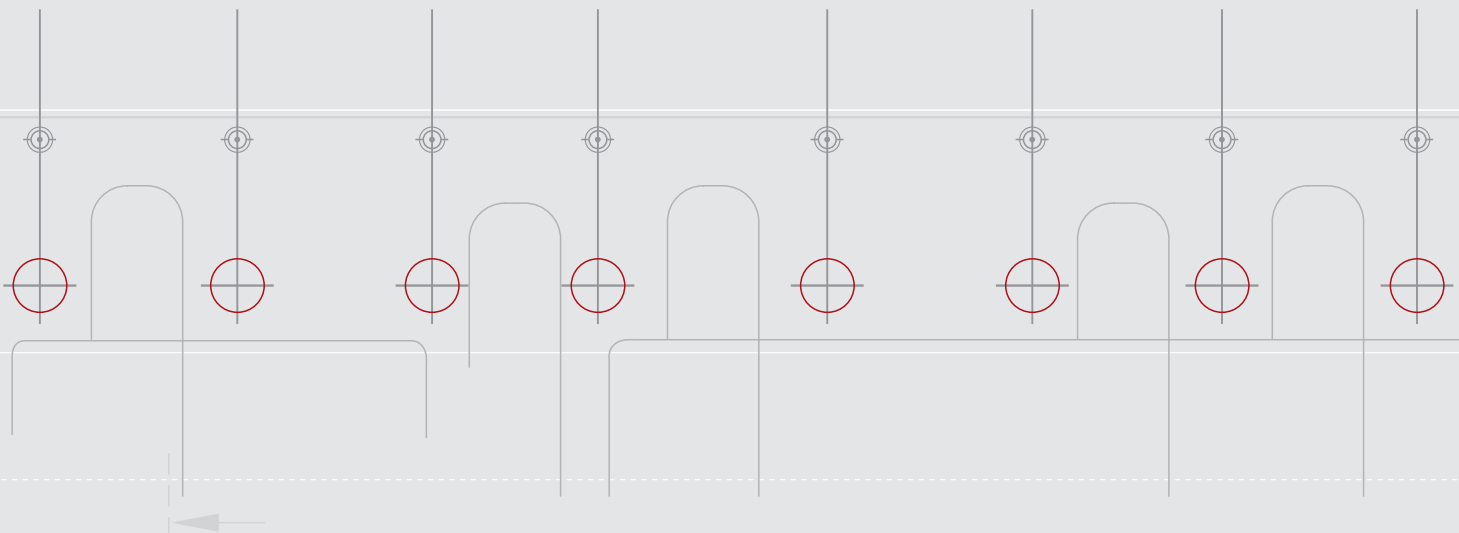


PRODUCTION AND INVESTMENT SECURITY THROUGH SERVICES



As a solutions provider, we satisfy our customers' requirements throughout the entire production process. We precisely customize our offerings for customers – from Prepress to Finishing – regardless of the print shop's size or location in the world.

Our service offerings are highly comprehensive and flexible. Because we know that the more precisely we portray each individual customer's production process, the better we can secure the operational readiness of that particular print shop's equipment and optimize printing processes, quality, and productivity, thereby increasing the customer's profitability. That is why with our Heidelberg system **service**, we encompass on the one hand the entire production process and on the other hand the product life cycle of the investment, all the way to the re-marketing of the used printing press.



> OVERALL VIEW: FUTURE PROSPECTS, OPPORTUNITIES, AND RISKS

With a view to additionally increasing corporate value, we expanded our already ambitious goals. For the medium term, we aim at an ROCE of 18 percent and an 8 percent value contribution.

Our planning is based on the assumption that the world economic situation will further stimulate our customers' business. The volume of printed products will increase moderately, with an above-average pace of growth expected in the emerging markets. We expect the euro to remain quite strong against the Japanese yen and the US dollar, which will put our Japanese competitors at a considerable advantage. This will nevertheless not jeopardize our market position in either sheetfed offset printing or finishing.

We assume that we will be successful in boosting our sales by 10 to 15 percent over the next three years. We anticipate modest growth this year in advance of drupa 2008. The result of operating activities benefited from positive one-time effects during the reporting year. During the current financial year, we intend to increase the result of operating activities by 10 to 15 percent – compared with the adjusted value for the reporting year of € 302 million. Overall, favored among others by the positive impact of the tax reform as well as internal optimization efforts in view of the tax rate, we thereby intend to boost net profit to approximately 5 percent of sales. We will again strive for free cash flow amounting to 4 percent of sales during the current financial year.

We may not be able to realize at least a part of our planned goals if certain risks occurred. These are in particular risks that could result from the further handling of import customs exemptions in China as well as risks in connection with the impending implementation of ERA. Moreover, risks could arise from exchange rate developments that are unfavorable for us as well as from business developments that fall short of our projections. Of course, there is always a possibility that the overall economy will grow at a faster pace than expected – and that in particular the exchange rate situation, and thereby competitive conditions, will again shift more in our favor.

> MANAGEMENT REPORT

HEIDELBERG GROUP

The Group and
its Management

Development
of the Group

Developments in
the Business Areas

The
Future

Risk Report – Focus on All Issues

- > **Ongoing Risks from the Customs Problem in China**
- > **Collective Bargaining Agreement and Implementation of ERA Entails Risks**
- > **Risks from Further Exchange Rate Developments**

DEVELOPMENT OF RISK GROUPS	
Status: 31-Mar-2007 Change from previous year	
Economic situation and markets	↗
Industry and competition	→
Products	→
Performance	↗
Finance	↘
Other risks	→
Overall risk	→

↗	Risk increased
→	Risk unchanged
↘	Risk reduced

We describe our risk management system as well as our actions to minimize strategic risks in the chapter Management, Control, and Value Management on pages 30 and 31. We explain in that section how we recognize and deal with risks as well as how we develop appropriate measures to ensure that suitable precautions are taken.

In the chapter Financial Position on page 51, we report on our risk management in view of financial instruments. Details on how we handle interest rate, foreign currency, and liquidity risks can also be found on page 51. Our most important individual risks are summarized in six groups in the Risk Report. The graphic on the left shows the development of the risk groups from year to year.

Overall Risk Situation Slightly Improved over the Previous Year

There is no recognizable risk that could threaten the existence of the Heidelberg Group – either currently or for the foreseeable future. This applies to both the results of the business activities that we have completed as well as for operations that we are planning or have already initiated.

How do we determine this overall risk? Since we believe that it would not be appropriate to simply add up the biggest risks, we focus on individual risks that substantively belong together. We do not balance out potential opportunities. In our view, the Heidelberg Group's overall risk situation has rather improved compared with the previous year. The focus of risk has merely shifted in individual risk groups.

We currently view the existing uncertainty surrounding customs provisions for the import of printing presses in China as one of our greatest risks. Moreover, we perceive a general risk from increasingly weak market prices due to strong competitive pressures. This situation could intensify if the exchange rate structures – in particular, against the dollar and yen – further develop to our disadvantage. Risks could also arise in connection with the impending implementation of ERA.

At least once a year, we examine the need to make adjustments to our overall strategy as well as the strategy of the individual divisions. Our strategic risks are manageable. We benefit from comparatively reliable forecasts in our core business, sheetfed offset printing. In the Postpress Division, risks are greater, among others because we have less of a dominant market position in this segment. Furthermore, market entry barriers are lower in the finishing area. We minimize risks arising from customer financing by means of a well-balanced risk management system. We limit the financial arrangements that are taken on by Heidelberg to the greatest possible extent. Moreover, we only assume financial arrangements following a comprehensive examination that includes both the customer's business model and credit standing.

Risks Arising from the Economic Situation and from Market Developments: Country Risk in China Remains

Risks arising from the economic situation and market developments comprise all the risks that to our knowledge could arise due to overall cyclical, political, or social influences.

As in the past, the development of the global economy has an enormous impact on our course of business, because printing industry sales are dependent on the economic situation. Economic forecasts for the coming years are favorable. Especially the emerging markets, where we have very high market shares, are expected to continue growing rapidly. The economies of Europe are also currently on a strong growth trend. Our planning process assumes that the economic situation of the global economy will remain favorable over the next few years. Nevertheless, the outlook of key markets could deteriorate – for example, there is a danger that the pace of growth in the US could weaken. A petering out of the economic upswing in the growth regions would jeopardize our projected business development.

Our goal is to severely limit the impact of future economic periods of weakness on the result of the Heidelberg Group. We are reducing our fixed costs and continue to favor a high level of regional diversification. Furthermore, we are vigorously further expanding our relatively non-cyclical business units. We are systematically increasing the sales of the package printing segment, of services, of the supply of service parts, and of consumables.

We minimize country risks, especially risks that arise from economic or political instability, by closely monitoring ongoing local developments. In the last Annual Report, we explained that especially for the financial year, a risk existed that customs changes or more restrictive import provisions in China

could negatively impact our business development. As we have several times described in this report, this risk actually occurred. The Chinese government has meanwhile released printing presses with a high level of productivity from import customs requirements. However, this exemption could be rescinded again at any time or the authorization processes for our customers delayed. The existing uncertainty could curb local customers' propensity to invest. The customs issue in China is the principal cause for the increase in the item Risks arising from the economic situation and from market developments. Our own manufacturing facility in China will make it possible for us to alleviate this risk in the medium term. As in the past, additional country risks in China remain – for example, the danger of the economy overheating as well as political and social uncertainties. There is also a potential danger in other markets that government intervention could jeopardize our business development.

Industry and Competitive Risks:

Exchange Rate Structures Could Worsen Price Risks

Industry and competitive risks remain from the previous year. As was described in the section Overall Risk, the price level of machinery required by print shops could suffer from the more aggressive behavior of our competitors. This risk is reinforced by the unfavorable exchange rate structures of the dollar and yen for us, which to an even greater extent could provide considerable advantages for our Japanese competitors in the future. We counteract this risk by making the advantages of our integrated solutions more accessible to potential customers throughout the world, and by maintaining our superior technological position vis-à-vis competitors.

The market structure of equipment suppliers to the print media industry is relatively hard and fast. A change in this structure – for example, because competitors fall by the wayside or merge, or change their strategy – could result not only in opportunities, but also risks for us.

Moreover, in the Postpress segment, especially in the packaging area, an aggressive market defense strategy by our principal competitors could cause the sales of individual products to fail to expand to the extent that was projected or to a worsening in the price situation.

Product Risks at Previous Year's Level

Risks arising from the development and market introduction of new products continue at around the previous year's level. To avoid undesirable developments, by necessity all R&D projects focus first and foremost on customer benefits. We work closely together with concept customers at every phase of product development. A panel of experts from R&D, Product Management, Controlling, Manufacturing, and Services determines the direction beforehand for advanced product development. Among other things, participants make decisions based on market analyses, economic viability considerations, and our Technology Roadmap – the latter outlining our required long-term development goals if we are to meet future customer needs. We strive to secure the results of our development activity largely with our own proprietary rights.

Higher Economic Performance Risks

We also systematically minimize risks from corporate functional areas. Currently, this risk comprises potentially higher start-up costs for the **production** of our new generation of printing presses than had been originally planned. The recognized quality of our products and the high degree of uninterrupted deliveries are important prerequisites for our business success. Relying on our comprehensive production system, we intend to further optimize our production and additionally reduce manufacturing costs. The risk that we could exceed our planned costs in production is included primarily in risks arising from the **human resources area**. We perceive a danger that strikes could occur in the course of the implementation of ERA. We minimize further human resource risks by making Heidelberg even more attractive as an employer and ensuring a modern human resources approach. More on this topic is presented on pages 69 to 71.

Since risk management is an integral component of our supply management, we protect ourselves at the outset against numerous risks arising from **procurement**. A further shortage, and thereby rise in the price of raw materials, especially steel and crude oil, as well as higher energy prices could burden our production costs. We systematically minimize risks in the procurement area through supplier monitoring based on key data parameters, through consistent and systematic observation of all significant markets, and through

our application of a material planning system with a rolling twelve-month forecast. We also make our suppliers a part of this process – the extent of their integration increases with the complexity of the components delivered by them. We thereby counteract the risk of the loss of a supplier or the delayed delivery of components due to heavy demand.

We avoid the risk of making bad investments by including all planned **investments** as part of our worldwide uniform planning system, which forms the basis for our focused financial management. We continuously pursue and monitor planned investments – primarily to ensure that they purposefully advance Heidelberg's strategic goals. We implement a make-or-buy analysis before each capital goods investment. Furthermore, all such decisions are examined by a team comprised of engineers and financial specialists.

Financial Risks Declined

Financial risks declined from the previous year. There is still a risk that the exchange rates of our principal foreign currencies may decline in the long-term. This would have a negative impact on our revenues.

The risks arising from customer financing continue to decline because of the favorable development of the economic situation in recent years, which resulted in a fall-off in our overall risk position. We regularly monitor our commitments in customer financing. In doing so, we take into account not only the development of the economic environment as well as the financial performance of the borrower, but the preservation of the value of the collateral as well. Our policy on risk provision is generally conservative, and we form an appropriate provision to cover recognizable risks. We systematically monitor monetary and payment risks.

We also include tax risks in this risk group. In addition to the tax risks that already existed in the previous year, there is now an additional possibility that the tax reform will not be applied in its published version – or that because of our staggered financial year, we will only benefit from the new regulations on a delayed basis. Both results would have a direct impact on our expected net profit.

Other Risks: No Significant Danger

We also continuously monitor additional risks and undertake countermeasures against them to the greatest possible extent.

Due to effective IT management and the latest technology, we do not envisage any significant risks in the **IT area**. We are prepared for a potential breakdown of our systems by means of suitable security measures. Through comprehensive preventive measures, we have considerably reduced the danger of virus attacks.

We minimize **environmental risks** through an efficient environmental management system – both in product design as well as in the manufacturing process.

We reduce **legal risks** arising from individual contracts by relying on standardized master contracts wherever possible. We systematically protect our interests in the area of patents and licenses.

With regard to the risk that employees might unintentionally transmit essential **information**, we take this risk seriously, and where necessary, undertake countermeasures.

Supplementary Report

No significant events occurred following the financial year-end.

Outlook – Future Underlying Conditions

- > **Global Economy: Ongoing Vigorous Growth Anticipated**
- > **Emerging Markets Continue Growing at Above-Average Pace**
- > **Strong Requirement by Print Shops for Greater Efficiency**

GROSS DOMESTIC PRODUCT¹⁾			
Change from previous year in percent			
	2005	2006	2007
World	4.9	5.4	4.9
US	3.2	3.3	2.2
EU	1.9	3.2	2.8
Germany	0.9	2.7	2.4
Eastern Europe	5.5	6.0	5.5
Russia	6.4	6.7	6.4
Asia ²⁾	9.2	9.4	8.8
China	10.4	10.7	10.0
India	9.2	9.2	8.4
Japan	1.9	2.2	2.3
Latin America	4.6	5.5	4.9
Brazil	2.9	3.7	4.4

¹⁾ Source: IMF, April 2007; spring expert opinion by the German economic research institutes

²⁾ Excluding Japan

On page 40, we describe how sales in the print media industry depend directly on our customers' propensity to invest. The propensity to invest, in turn, depends mainly on current and expected economic growth.

Vigorous Economic Conditions in Key Markets

Economic research institutes and the IMF are currently projecting that the world economic situation will still develop favorably. Growth of approximately 5 percent is expected in 2007. Developments will be especially dynamic in the emerging markets, and both China and India will continue to be the top performers by international comparisons.

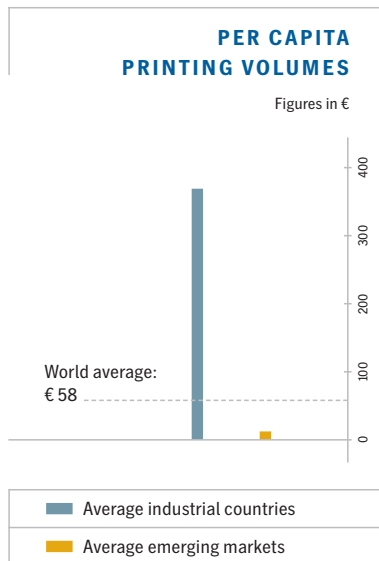
Against the background of a current weakening in domestic demand in the US and a crisis that may be looming in the real estate sector, that country's economic development is uncertain this year. Current growth forecasts are between 2.0 and 2.5 percent.

The extremely strong euro, which would impede exports to other currency zones, is the main cause of the potential modest easing off of growth in the European Union. In their spring expert opinion, Germany's leading economic research institutes project a 2.4 percent increase in GDP for the country.

In Latin America, GDP will increase primarily in Argentina and Brazil – largely caused by high raw material prices. Eastern Europe's economies will benefit from growing consumer spending and infrastructure investments.

Printing Industry: Stabilization in the Industrialized Countries, Strong Growth in the Emerging Markets

The considerable economic vigor will further stimulate our customers' business. We are assuming that the growth phase of the global economy will continue in the medium term and that the volumes of printed media will also continue to grow moderately.



Source: Industry statistics, PIRA;
Jaakkoo Pöyry, Primir (GAMIS), FAO; as at 2005

The volume of printed media will grow at an above-average annual pace in the emerging markets – among others, because market saturation in printed products is still very low in these rapidly growing economies. The graphic on the left illustrates this situation. In particular, the Chinese and Indian printing industries with their growth rates of over 8 percent will noticeably expand their share of global production. Print shops in these markets will need to expand their capacities. As a consequence, over the next few years many more new print shops will be established, in particular in the Asian region.

Streamlining requirements in the industrialized countries – which will be intensified due to higher prices for paper and energy as well as higher staff costs – will result in replacement investments by print shops. Primarily in Germany and in the US, the print media industry will secure its competitive position via investments. The propensity to invest will be reinforced by the stabilization of capacity utilization in the industry at a high level.

Competitors from the Non-Euro Region: Exchange Rate Advantages

Over the past five years, the euro has increased in value compared with the US dollar by over 50 percent and compared with the Japanese yen by 35 percent. A reversal of this trend is not expected in calendar year 2007. The exchange rate structures give our Japanese competitors considerable advantages and thereby further strengthen the competitive pressures within the industry, which also has an impact on the price level. However, our market position thereby is not seriously endangered either in sheetfed offset printing or in finishing – the same applies to the attempt by Chinese manufacturers to penetrate new markets.

Sheetfed Offset Printing Still the Favored Printing Technology

The spread of new media – especially the Internet – has so far not resulted in a decline in print-based information. We therefore do not see any fundamental changes coming in the next few years. The printing industry is actually benefiting from the trend to on-line shopping, which will probably grow still more. For example, the number of printed catalogs is increasing rapidly. The package printing area will also continue to expand at an above-average pace and largely in a non-cyclical manner.

We assume that sheetfed offset printing will remain the prevalent printing process in the future – especially since in terms of cost, technology can meanwhile keep up with both web offset printing and digital printing. Not least our innovations such as the Anicolor inking unit and our new developments of printing presses in even larger format categories are contributing to this development.

Future Prospects – Further Growth in Value

- > **The Focus: Medium-Term Increase in Value Contribution to 8 Percent**
- > **Projected Sales Increase: 10 to 15 Percent in Three Years**
- > **Current Financial Year's Net Profit to be Improved to Around 5 Percent of Sales**
- > **Free Cash Flow at 4 Percent of Sales**

INCREASING CORPORATE VALUE			
Figures in percent			
	05/06	06/07 ¹⁾	Medium-term
ROCE	13.6	15.7	18
Cost of capital	9.2	9.9	appr. 10
Value contribution	4.4	5.8	8

¹⁾ Adjusted for positive one-time effects

We increased our projections for the further increase in corporate value by two percentage points. As the table on the left shows, we intend to generate ROCE of 18 percent in the medium term. We will thereby surpass the figure – adjusted for positive one-time effects – that we reached during the financial year. With a cost of capital of approximately 10 percent, we thereby strive for a value contribution of 8 percent. We are pursuing this goal systematically with our new Heidelberg Excellence program. We intend to generate additional sales by offering new products and also by expanding our business in services, spare parts, and supplies. We will maintain and further intensify our measures to boost efficiency and reduce costs. Through asset management, we will further reduce tied assets and lower working capital in terms of sales down to a level of 30 percent.

Important Product Innovations at drupa 2008

The world's largest trade show for the print media industry, drupa, will be held in May 2008. At that time, we will introduce several product innovations, among others a new generation of larger-format printing presses that we are developing especially for package printing. Despite these innovative products, during the current financial year our costs for research and development will fall slightly from the reporting year.

Our **investments** totaling around 5 percent of sales will lay the foundation for manufacturing new products. For example, we will complete the approximately 35,000-square-meter Hall 11, which we began building during the reporting year. We will be assembling new printing presses in that structure beginning in the second half of the current financial year. We will also introduce our customers to solutions from the package printing area in this hall. A portion of the investments will flow into additional production streamlining. We will also invest in the further expansion of the plant in China.

We intend to reinforce our service and sales team. Moreover, we will hire additional temporary **employees** for the production area in order to satisfy the increased demand. The overall number of employees will thus rise by up to 400 employees this financial year.

Sales Set to Grow by 10 to 15 Percent over Three Years

We expect to increase our sales by 10 to 15 percent over the next three years. We anticipate a moderate rise in sales this financial year, a so-called pre-drupa year.

The emerging markets will again make an above-average contribution to the growth in sales this financial year. Due to these markets' rapid economic growth and their low market saturation in printed products, we are projecting annual sales increases of over 5 percent in these countries. The print sectors in China, India, and Eastern Europe, which are generating annual growth rates of 8 to 10 percent, will play a particularly important role for us.

Reinforced by our new technologies, our new generation of printing presses, and the increase in service, spare parts, and supplies, sales of the Press Division will grow in the coming years. We see a potential for further strengthening our business by means of cooperative agreements in the area of printing plates and inks. In the Postpress Division, we will grow primarily by expanding our finishing offerings for packaging. As in the past, mediating between lenders and customers continues to represent the principal focus in the Financial Services Division, as a result of which the business volumes will continue to decline further according to plan.

Further Improvement Planned for Operating Result and Net Profit in the Current Financial Year

The result of operating activities for the reporting year comprises positive one-time effects as well as the net profit and the attained value contribution. The table on the left shows the adjusted values for these key financial figures.

During the current financial year, we intend to improve the pure operating result by 10 to 15 percent compared with the adjusted value for the financial year of € 302 million.

On the one hand, the moderately higher sales volume will have a positive impact. On the other hand, we will purposefully continue our efficiency-boosting and cost-reducing measures in all areas – in production, in administration, and in sales. Moreover, we are benefiting from declining costs for research and development. In particular the more unfavorable exchange rate structures will have a negative influence. Furthermore, the wage agreement, which surpassed our expectations, has imposed a higher financial strain on personnel expenses than planned. In addition, due to increased costs in the raw material and energy sectors, the overall cost of materials could rise. We believe, however, that it will be possible to alleviate this potential higher cost level through savings in other areas.

FINANCIAL FIGURES FINANCIAL YEAR 2006/2007

Segment	reported	adjusted
Result of operating activities	€ 362 million	€ 302 million
Net profit	€ 263 million 6.9 percent of sales	€ 144 million 3.8 percent of sales

TARGETS OF THE HEIDELBERG GROUP

Segment	Target
Result of operating activities	operationally improved by 10 to 15 percent
Net profit	approximately 5 percent of sales
Free cash flow	4 percent of sales

The Press Division in particular will make a decisive contribution to the improved result. The development of the result will continue to be favorable in the Postpress Division. The result of the Financial Services Division could be up to 25 percent below the level of the reporting year, during which we benefited from the considerable improvement in the risk environment.

In addition to the higher result of operating activities, we will achieve a financial result that is slightly above the reporting year. Furthermore, we assume that our tax rate for the current financial year will fall due to the German tax reform. Internal optimization measures will additionally reduce the tax rate in the long-term.

Overall, therefore, we expect to be successful in enhancing net profit – excluding one-time effects – from approximately 4 percent of sales during the reporting year to approximately 5 percent during the current financial year.

Against the background of the drupa trade show, which will be held in May 2008, and taking into consideration the assumptions presented on the next page, we expect a favorable development of earnings in the next financial year 2008/2009.

Considerable Financial Strength in the Future As Well

The free cash flow should amount to 4 percent of sales in the current financial year – despite the investments for the new plant in China and despite the advance services for research and development and the manufacture of our new products. The improvement in the net profit as well as our continuous asset management and the reduction in working capital will all contribute to this. We will also further provide for our shareholders' participation in our corporate success by means of an attractive dividend.

As we describe in the section Financial Position on pages 50 to 52, the Heidelberg Group's liquidity is secured on a long-term basis. Our credit facilities are by far less than fully used.

If attractive opportunities present themselves, we will further complement our offerings of products and solutions by means of acquisitions or participations.

Corporate Legal Structure

The free float of the Heidelberg share is expected to increase to 88 percent during the current financial year due to the fact that an exchangeable bond, issued by RWE Aktiengesellschaft, will come due in June 2007. This bond issue is in connection with the 15 percent of Heidelberg shares that are currently still being held by RWE. By January 2008, we intend to complete the second share buyback program and thereby further optimize our capital structure. More information on this is presented on pages 48 to 49.

No basic change is foreseen for our corporate structure in the medium-term.

**AVERAGE EXCHANGE RATES
FOR THE YEAR**

Financial year

	05/06 € 1 =	06/07 € 1 =	07/08 ¹⁾ € 1 =
USD	1.21	1.29	1.28
JPY	137.76	150.79	148.00
GBP	0.68	0.68	0.69
HKD	9.41	10.04	9.96
CHF	1.55	1.59	1.56

¹⁾ Estimate

USD = US Dollar
 JPY = Japanese Yen
 GBP = Great Britain Pound
 HKD = Hong Kong Dollar
 CHF = Swiss Francs

Assumptions of the Planning Process: Both Supporting and Dampening Effects

In our planning process for the current financial year and the next few years, we assume that the global economy and the printing industry will develop as described in the previous section of this Annual Report. As far as exchange rate structures are concerned, we expect the US dollar/euro exchange rate to be USD 1.28 and the Japanese yen/euro rate to be JPY 148 in the current financial year. As we describe in the Risk Report on page 82, a further shift in the exchange rate structures in our disfavor continues to represent a risk for us. As can be seen in the table on the left, during the current financial year we expect the exchange rate structures to be similar to that of the reporting year, thereby resulting in a similar competitive problem. However, during the reporting year the hedging rates for our foreign currency transactions were more favorable. Furthermore, in our planning process we assume that Chinese print shops will increasingly invest during the current financial year because of a reintroduction of the import customs exemption for printing presses. Nevertheless, there is a risk of a renewed setback or additional delays in the authorization process. In terms of procurement markets, we anticipate raw material prices to remain relatively stable at a high level. A further crucial assumption of our planning process is that the tax reform in Germany will be approved in its currently published version and that no changes will be made in the measures for counter financing. We also assume that as called for by the proposed tax reform, we will already benefit from the tax rate reduction during the current financial year. If this does not occur, it will have a direct impact on our net profit for the current financial year.

Opportunities: Greater Economic Vigor; More Favorable Exchange Rates

In addition to risks that we take into account in our planning process, depending on the expected probability of their occurrence, opportunities exist that projections could be surpassed. We nevertheless do not include these opportunities in our forecasts.

We would benefit strongly from a world economic situation that is considerably stronger than the projections of economic research institutes and the IMF. A development of exchange rates in favor of suppliers from the European region would also have a favorable impact on our business development. Furthermore, raw material and energy prices could fall again, thereby also reducing prices in our procurement markets.

The many years of experience of employees in precision engineering is of great benefit – and linked with considerable opportunities in the form of suggestions for improvement. We systematically take advantage of these opportunities as part of our so-called Idea Management. During the financial year, more than 4,500 proposals were submitted, which helped us realize overall savings of nearly € 1.5 million. For example, we redesigned two separate parts, which are used in temperature control for the inking system, as one single component, thereby also realizing, in addition to the reduction in cost resulting from shorter assembly times, an improvement in quality.

The market structure for equipment suppliers to the print media industry is relatively firm. If the structure should change, for example because certain competitors leave the market, merge, or change their strategy, this could result in opportunities for us. This applies to the sheetfed offset area and to a significant degree to the finishing business as well.

Important Note

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

Dr. Mark Wössner
Chairman of the
Supervisory Board



Report of the Supervisory Board

Dear Shareholders,

The financial year was a good one for Heidelberg – despite some difficulties that occurred –, perhaps even an excellent one. Heidelberg was able to further boost incoming orders and sales. Even if the general economic upswing and the underlying conditions of the print media industry contributed to this development, this success was made possible basically by convincing products as well as proven and valuable services for Heidelberg's customers. The established target of an operating return on sales of approximately 10 percent was achieved, helped by positive one-time effects.

Thanks to such new products as the Speedmaster XL model series, to new technical achievements such as the printing presses with the Anicolor inking unit, to the expansion of the Prinect workflow, and not least to the decision to penetrate the very large format segment, Heidelberg has laid a solid foundation for further expanding its already strong market position and strengthening its customer orientation and market presence.

We supported the Management Board in its successful work during the financial year, thereby also addressing issues that are now, and will continue to be presenting us with considerable challenges. The competition between Heidelberg and its competitors has become even tougher in the improved overall economic environment.

During the reporting year, we fulfilled all the responsibilities that are incumbent upon us under legal provisions and the Articles of Incorporation, comprehensively advising and monitoring the Management Board in the Company's management. The close cooperation between the Management Board and the Supervisory Board was not limited to the four ordinary meetings of the Supervisory Board, at which the Management Board informed us in detail about the development of the Company. We were informed by the Management Board promptly and in the requisite detail concerning business developments and the Company's financial position. I maintained close contacts with the Management Board, especially

with its Chairman, in order to remain informed early on about significant corporate developments and impending decisions. We always played an integral role in decisions of material importance. We also made decisions in writing for projects that entailed urgent action. Furthermore, the Human Resources Committee met twice, the Management Committee held one meeting, and the Audit Committee met four times. There was no need to convene the Mediation Committee in accordance with Article 27 Paragraph 3 of the Codetermination Act.

Focus of Discussion in the Supervisory Board

The important topics of our discussions in the Supervisory Board were the core business of the Company, including the development of the new generation of very large format printing presses, and not least possibilities for additionally boosting efficiency. The development of Heidelberg's sales and earnings as well as the Company's financial position was a recurring topic of discussion. At the beginning of the financial year, on a rotating basis we devoted time to the planning process for the coming years from all significant points of view. Besides strategic aspects, this also includes the measures for cost reduction, which continued to be consistently implemented. This resulted in a sustained enhancement of the Heidelberg Group's financial situation. Furthermore, the Supervisory Board plenum discussed intensively with the Management Board Heidelberg's corporate strategy as well as the Company's position compared with its competitors. In this context, we discussed among other things the difficulties and past progress in the package printing market segment – a segment in which Heidelberg needs to considerably expand its market position in the coming years. We closely followed the development of the Chinese market throughout the financial year. In addition to the import customs issue, our interest also focused on the accelerated expansion of the new manufacturing facility at Qingpu, near Shanghai. We were also concerned with the sale of the subsidiary Linotype GmbH, Bad Homburg, Germany, which was no longer part of our core business, and the sale of the Research and Development Center within the framework of a sale and leaseback model – for which we passed the appropriate resolutions.

And finally, we dealt with the Company's second share buyback program and at the meeting of the Supervisory Board on March 30, 2007 approved the retirement of a total of 3,322,658 shares.

Corporate Governance

We focused attention on the Company's corporate governance during the reporting period on numerous occasions. The biggest changes involved the Company's Articles of Incorporation, which we modernized and updated. Shareholders approved the changes at the 2006 Annual General Meeting. Where necessary, we adapted our Rules of Procedure to the new requirements of the Corporate Governance Code during the reporting year. The Corporate Governance Report, which provides information concerning the Company's corporate governance, can be found on pages 99 to 114.

Work in the Committees

The main task of the committees of the Supervisory Board is to prepare topics of discussion and decisions for the meetings of the Supervisory Board. In part, the committees also hold decision-making authority granted by the Supervisory Board. The respective chairmen of the committees reported extensively on the work of the committees at meetings of the Supervisory Board. The current composition of the various committees is shown on page 86 in the section 'The Figures'.

At its meeting during the reporting period, the Management Committee dealt in particular with the organizational reorientation of the Management Board and the Company's first management level. The Audit Committee, together with the auditor, intensively focused on the non-consolidated and consolidated financial statements as well as on the accounting and valuation principles that are applied. The quarterly results were also discussed. Discussions additionally concentrated on the share buyback program as well as risk management, participation controlling, and customer finance.

The Human Resources Committee discussed issues concerning the members of the Management Board and passed the necessary resolutions. Mr. Dirk Kaliebe was named the new CFO during the financial year. Furthermore, the Human Resources Committee discussed the extension of the contract for a member of the Management Board and prepared the selection of Mr. Bernhard Schreier as the Director of Human Resources.

Audit of the Non-Consolidated and Consolidated Financial Statements

The Annual General Meeting held on July 20, 2006 selected PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, as the external auditor. This firm examined and approved without qualification the overall Annual Financial Statements for financial year 2006/2007, the Management Report of Heidelberger Druckmaschinen Aktiengesellschaft, and the Consolidated Financial Statements and Group Management Report of the Heidelberg Group, which were drawn up by the Management Board. We awarded the contract for auditing the financial statements at the Supervisory Board meeting held on July 20, 2006. The overall Financial Statements, the Consolidated Financial Statements, the Management Report of Heidelberger Druckmaschinen Aktiengesellschaft, and the Management Report of the Heidelberg Group were circulated together with the Auditor's Reports to all the members of the Supervisory Board in time for the meeting to discuss the Annual Financial Statements on June 4, 2007. The auditors, who signed the audit reports, took part in advising the Supervisory Board. The auditors, chartered under German law, who signed the Auditor's Report took part in the discussions of the Supervisory Board concerning the documents to be examined. They reported on the significant results of their examination and made themselves available to the members of the Supervisory Board to answer questions. The Auditor's Report does not include any comments or indications of possible inaccuracies in the Declaration of Compliance with the Corporate Governance Code.

At the meeting of the Supervisory Board on June 4, 2007, the Audit Committee recommended approval of the non-consolidated and consolidated financial statements. We examined and accepted the overall Annual Financial Statements prepared by the Management Board as well as the Consolidated Financial Statements, the Management Report of Heidelberger Druckmaschinen Aktiengesellschaft, and the Group Management Report. We therefore agreed to the audit results of both annual statements and approved the non-consolidated and consolidated Financial Statements as of March 31, 2007.

The Supervisory Board agreed to the suggestion of the Management Board on the appropriation of distributable profit, including the payment of a dividend of € 0.95 per share.

Composition of Management Board and Supervisory Board

There was a change in the composition of the Management Board during the financial year. As of October 1, 2006 Dirk Kaliebe succeeded Dr. Herbert Meyer as the Company's CFO. Dr. Meyer has been a member of the Company's Management Board since December 1, 1994. During his twelve years as CFO, he played a major role in transforming a medium-sized engineering company into a globally active solutions provider. I would like to express my sincere appreciation to him, in the name of the Supervisory Board as well!

As of March 31, 2007, after more than eight years on the Supervisory Board – beginning in 2003 he was also member of the Audit Committee of the Supervisory Board –, Prof. Dr. Clemens Börsig resigned his mandate for Supervisory Board and the Audit Committee. Dr. Siegfried Jaschinski was appointed as successor by decision of the Mannheim District Court of April 3, 2007.

The Supervisory Board wishes to thank the members of the Company's Management Board and all the employees for their commitment and successful work!

Munich, June 4, 2007

For the Supervisory Board



Dr. Mark Wössner
Chairman of the Supervisory Board

Corporate Governance Report

- > **New Version of the Code Disclosed on July 24, 2006**
- > **Heidelberg Continues to Follow All the Code's Recommendations**

Ever since approval of the German Corporate Governance Code in 2002, Heidelberg has taken a favorable approach to its goals, striving to implement its recommendations and suggestions to the greatest possible extent. During the current year, the Company again succeeded in following all the recommendations of the Code.

Although particular provisions of the Code may be controversial in public discussions, this has not impaired its general acceptance. Now, five years on, no one seriously questions its right to exist. Some requirements for corporate governance reporting that appear to be unclear and inconsistent are still viewed critically. Furthermore, for the future, it is questionable whether law-givers will react to the increasing divergence from the recommendations of the Code through the enactment of corresponding statutory provisions – which would run counter to the basic idea of the Code, which is precisely to develop a standard, not a law.

Further Extension of Reporting

In its version dated June 12, 2006, Item 4.2.5 of the Code also recommends integrating the so-called Compensation Report with the Corporate Governance Report – in addition to the existing reporting obligations (see Item 3.10, 5.4.7, 6.6 and 7.1.3 on this topic). This approach is convincing insofar as from now on, the remuneration of the Management Board and Supervisory Board are thereby to be published together in the same section of the Annual Report. Nevertheless, publication of the individual Management Board remunerations is also legally required under the Law on the Disclosure of Management Board Remuneration (Gesetz zur Offenlegung von Vorstandsvergütungen), which provides for alternative reporting as a component of the Compensation Report in the Management Report. This would make unnecessary the individualized information in the Notes to the Financial Statements – which conflicts with the wording of the Code. Furthermore, information according to Section 289 Paragraph 4 as well as Section 315 Paragraph 4 of the Commercial Code is now an integral part of reporting requirements.

In order to reduce the impact of the increased complexity, our reporting on the remuneration of the Company's Supervisory Board and Management Board is brought together in the next section, Compensation Report, which at the same time is part of the Management Report.

Declaration of Compliance According to Section 161 of the Stock Corporation Act

The Management Board and the Supervisory Board issued the declaration of compliance on November 24, 2006. As in the previous year, Heidelberg met all the preconditions for full compliance in the past, and compliance is expected with future situations and events. Concerning the new version of the Code of June 12, 2006, which was published just a few days following Heidelberg's Annual General Meeting, only a few measures had to be undertaken. Heidelberg can therefore again state that the Company fulfills the recommendations of the Code without reservation. This also applies to the Code's numerous recommendations. Heidelberg entirely fulfills the recommendations outlined in Items 2.2.4, 2.3.3, 3.7, 3.10, 4.2.3, 5.1.2, 5.2, 5.3.2, 5.3.3, and 5.3.4.

The recommendations in Items 3.6 and 6.8 are only fulfilled to a large extent. Not every meeting of the Supervisory Board requires individual preparation by shareholders and staff representatives. Also, in view of the large number of the Company's publications, it is not feasible to translate all of them into English. There continue to be no plans to make the entire Annual General Meeting accessible via the Internet as is stipulated in Item 2.3.4. Nevertheless, the opening of the Annual General Meeting by the Chairman of the Supervisory Board as well as the speech of the Chairman of the Management Board will continue to be transmitted via the Internet in the future.

Transparency for Our Shareholders

Our quarterly reports and our communications in the trade and financial press enable all stakeholders and our shareholders to inform themselves concerning Heidelberg at any time. We provide information about significant deadlines in the Financial Calendar, which is published in the Annual Report, as well as in the quarterly reports, and in the Internet at www.heidelberg.com. On our Internet site, in the Investor Relations section, we provide all available and up-to-date information, including not only key performance data, disclosures, actions subject to reporting, and corporate governance, but also the so-called annual document and the declarations of compliance of prior years. After all, comprehensive transparency includes the ongoing control of whether significant transactions are concluded between a member of the Heidelberg Group and a member of the Company's Management Board, or a member of the Supervisory Board, or a related party. Such was not the case during the reporting period.

Management Board and Supervisory Board in Close Cooperation

The Management Board informs the Supervisory Board regularly, extensively, and immediately on all developments and events that are of significance for the business development and condition of the Heidelberg Group. The Management Board and the Supervisory Board worked closely together in a relationship based on trust during the reporting year. The Supervisory Board also assisted in the restructuring of the organization of the Management Board as well as the partly newly created and partly modified management body. Additional details on the cooperation between the Management Board and the Supervisory Board are included in the Report of the Supervisory Board on pages 95 to 98.

Information about Shareholdings and Communications on Share Transactions

The Members of the Management Board and the Supervisory Board do not hold shares or financial instruments based on shares in the Company, either individually or collectively, exceeding 1 percent of the outstanding shares issued by the Company. Securities transactions subject to reporting by the members of the Company's Supervisory Board and Management Board under Section 15a of the German Securities Trade Act were properly disclosed and published on Heidelberg's Internet site.

Disclosure was required for the following transactions during the reporting year:

Party subject to reporting	Issuer	Reason for the disclosure obligation	Position and area of responsibility of the party with management responsibility	Financial instrument employed in the transaction	Transaction subject to disclosure
Kaliebe, Dirk	Heidelberger Druckmaschinen Aktiengesellschaft	Member of a management body	Member of the Management Board	Share, ISIN DE0007314007	Purchase of 950 no-par shares of Heidelberger Druckmaschinen Aktiengesellschaft at € 33.35 per share on November 29, 2006 in Frankfurt am Main; transaction volume: € 32,016.00
Rautert, Dr., Jürgen	Heidelberger Druckmaschinen Aktiengesellschaft	Member of a management body	Member of the Management Board	Share, ISIN DE0007314007	Purchase of 1,351 no-par shares of Heidelberger Druckmaschinen Aktiengesellschaft at € 34.16 per share on December 12, 2006 in Frankfurt am Main; transaction volume: € 46,382.36

Information about the Stock Option Plan

A summary of the prerequisites, terms, and development of Heidelberg's stock option plan to date is presented in Note 39 in the Notes to the Consolidated Financial Statements. Furthermore, Note 40 supplies information concerning the basic characteristics and terms of the new long-term incentive plan, in which in addition to the members of the Management Board, members of the Company's senior management may also participate, provided that they make the necessary investment for their own account.

Farsighted Risk Management

Risk management that is both structured and focuses on practical requirements not only helps the Company to recognize and assess risks at an early stage. This approach also allows Heidelberg to quickly introduce countermeasures. We report on the current corporate risks in the Management Report on pages 30 to 31 and pages 82 to 87.

Audit of the Financial Statements by PricewaterhouseCoopers

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

Heidelberg, May 8, 2007

For the Supervisory Board:
Dr. Mark Wössner



For the Management Board:
Bernhard Schreier



Compensation Report (Part of the Group Management Report)

The members of the Company's Management Board do not have any outside employment besides the mandates that are shown in the information concerning the Supervisory Board and the Management Board of the Company. They also do not maintain any significant holdings in other companies. During the reporting year, no loans or other credits were granted to the members of the Company's Management Board or Supervisory Board.

Features of the Remuneration of the Management Board

The total structure and amount of the remuneration of the Management Board is established and periodically monitored by the Human Resources Committee of the Supervisory Board of Heidelberger Druckmaschinen Aktiengesellschaft.

The remunerations of the Management Board comprise:

- > a fixed yearly salary;
- > annual variable remuneration;
- > share-based remuneration as a variable remuneration component with a long-term incentive effect;
- > in-kind remuneration; and
- > a company pension.

The members of our Management Board receive a monthly **fixed base remuneration** paid in equal monthly amounts. Provision is also made for **variable salary components**. On the one hand, an annual corporate bonus is paid that is dependent on the Group's success during the financial year, with free cash flow and the result of operating activities serving as yardsticks. On the other hand, each member of the Management Board is eligible to receive a personal bonus that is determined by the Chairman of the Supervisory Board in consultation with the Human Resources Committee, taking into consideration the particular duties and areas of responsibility. With full disbursement, the personal bonus amounts to 15 percent of the overall salary, the corporate bonus to 35 percent, and the fixed base pay to 50 percent of total salary. The amount of the bonuses and thereby their share of salary is adjusted if performance exceeds or falls short of a target. The corporate bonus (normally 70 percent of the overall bonus) is limited to a maximum of 130 percent (= 91 percent). No provision has been made for over-fulfillment in the case of the individual bonus (normally 30 percent of the total bonus).

Variable remuneration components with long-term incentive effects are also made available to the members of the Management Board within the framework of the Stock Option Plan and the long-term incentive plan (LTIs). These plans are designed as follows:

> **Stock Option Plan**

When granting subscription rights, as a precondition, eligible individuals may be required to buy shares of the Company on their own account and retain them for the length of an appropriate vesting period. Subscription rights may only be exercised if, between the date of issue and the date the subscription right is exercised, the market price of the Company's shares outperforms the value of the Dow Jones EURO STOXX Index (hereinafter referred to as the 'Index') as calculated on the basis of the total shareholder return method. The target is deemed as having been reached if the performance of our share thereby determined exceeds the Index. If subscription rights are not exercised despite the target having been reached, they may not be exercised again until the target has been reached again. The exercise price is defined as the average closing price of our shares on the final ten consecutive stock market trading days in Frankfurt am Main prior to the relevant subscription period for the respective subscription rights (the 'exercise price'). The period of vesting commences when the subscription rights are issued and ends three years after the issue date. The period of validity of the subscription rights commences when the subscription rights are issued and ends six years after the date of issue. Overall, a total of six tranches were issued during the period 1999 to 2004. The 1999 and 2000 tranches have meanwhile expired.

> **Long-Term Incentive Plan**

This plan provides for conferring so-called Performance Share Units (PSU) to the members of the Management Board – contingent, however, on undertaking an own-account investment. Participants must make investments for their own accounts as a prerequisite for acquiring Heidelberger Druckmaschinen Aktiengesellschaft shares. The number of PSUs that are finally granted is contingent on performance criteria. Claims under the final number of PSUs are satisfied either by means of a payment or through the delivery of Heidelberg shares. A total of 4,500 PSUs have been designated for each member of the Management Board, with an investment for own account of 1,500 shares. The PSUs under the LTI 2006 were designated on April 1, 2006 and expire at the close of March 31, 2009. The Company's performance criteria realized by the Company during the term of validity are defined on the one hand as the arithmetic average of the free cash flow rate (free cash flow divided by net sales), and on the other hand by the arithmetic average of the EBIT percentage rate (EBIT divided by net sales). For example, based on an equal weighting of the two targets, an average EBIT percentage rate of 10 percent and an average free cash flow rate of 6 percent over a period of three years would result in an

allocation of 100 percent of the conditionally committed PSUs, or 4,500 PSUs, to a member of the Management Board who took out an investment for own account totaling 1,500 shares.

In addition, the members of the Management Board receive **pension rights (direct commitments)** as well as **payments in kind**. Payments in kind consist largely of the value determined by tax guidelines for the use of a company car.

The contracts of members of the Management Board do not have a provision for termination during the term of the office. Beginning at age 60, both parties have the right to give one year's notice, with notice of termination at month's end.

The remuneration of the members of the Management Board in detail is as follows:

Bernhard Schreier:

Figures in € thousands	
2006/2007	
Performance-neutral remuneration	
Base payment	488
Remuneration in kind	13
Performance-based remuneration	
Bonuses	492
Cash remuneration	<u>993</u>
Components with long-term incentive effects (PSUs)	
Number of Performance Share Units (PSUs) issued under the LTI 2006	4,500
Fair value at the time the LTI 2006 was granted (total) at 100 percent target attainment	149
Number of PSUs under the Stock Option Plan, tranches for 2001 to 2004	52,500
Expenses for the LTI attributable to the financial year	12
Pension plan	
Expected annual pension at retirement age ¹⁾	371
Defined benefit obligation	3,773
Addition to the pension provision according to the IFRS ²⁾	270

¹⁾ Status of the pension-eligible remuneration as of March 31, 2007

²⁾ Service cost and interest cost

Mr. Schreier's term of office as a regular member of the Management Board runs for five years.

> **Pension Plan**

The pension commitment provides for a pension related to the amount of the last basic remuneration and survivors' benefits, with the percentage rate based on the number of years of service. The percentage rates of increase vary depending on years of service. Based on the pension contract and as a result of the years of service with the Company, the maximum pension percentage rate of 75 percent has already been reached. The pension will be paid beginning at age 65. The payment will be adjusted in the same percentage relationship as the basic pay of salary group B9 for civil servants in Germany. A pension will also be paid if, before reaching retirement age, the contract is cancelled or is not extended by the Company without giving cause that would have entitled the Company to terminate employment without notice. In this case, claims acquired by other activity up to age 65 are fully offset. A potential claim under a contractual compensation for restraint of competition is also taken into account. A claim for committed benefits under the Company's pension provisions remains in force even in the case of an early cancellation of employment. Otherwise, the statutory full vesting periods are deemed to have been fulfilled. The payment of the old-age pension is fully secured by a reinsurance policy, with the resultant claim against Mr. Schreier pledged as collateral.

> **Payments upon Termination of the Management Board Mandate**

During the period following the declaration of intent by RWE Aktiengesellschaft to sell its majority holding in Heidelberg, if a company other than RWE Aktiengesellschaft acquires a majority holding in the Company Mr. Schreier has been granted a special cancellation right that must be exercised within a period of six months following the occurrence of such a change in ownership. In this case, Mr. Schreier would receive a severance payment amounting to remuneration for two years (basic salary plus bonuses). If Mr. Schreier exercises his special cancellation right, he will receive a pension beginning at the time of the early resignation, with the pension calculated as if the contractual relationship had continued through the end of his mandate.

Dirk Kaliebe:

Mr. Kaliebe has been a member of the Management Board since October 1, 2006.

Figures in € thousands	
2006/2007	
Performance-neutral remuneration¹⁾	
Base payment	138
Remuneration in kind	4
Performance-based remuneration¹⁾	
Bonuses	138
Cash remuneration¹⁾	280
Components with long-term incentive effects (PSUs)	
Number of Performance Share Units (PSUs) issued under the LTI 2006	4,500
Fair value at the time the LTI 2006 was granted (total) at 100 percent target attainment	149
Number of PSUs under the Stock Option Plan, tranches for 2001 to 2004	33,750
Expenses for the LTI attributable to the financial year	12
Pension plan	
Accrued pension capital at financial year-end	76
Pension contribution for the reporting year ¹⁾²⁾	41
Defined benefit obligation	172
Addition to the pension provision according to the IFRS ¹⁾³⁾	42

¹⁾ For the period of service on the Management Board during October 1, 2006 to March 31, 2007

²⁾ Based on the status of pension-eligible remuneration as of March 31, 2007, excluding the yet-to-be-determined profit-related portion

³⁾ Service cost and interest cost

Mr. Kaliebe's term of office as a regular member of the Management Board runs for three years.

> Pension Plan

The pension contract for Mr. Kaliebe provides for a defined contribution pension commitment. Each year, the Company deposits into an investment fund 30 percent of his basic salary as a contribution on July 1, applicable retroactively to the prior financial year. Depending on corporate earnings, this amount can be higher. The precise level of the pension depends ultimately on the financial success of the investment fund. The pension will be paid at the age of 65 principally in the form of a one-time payment of pension

capital. Provision is also made for early payment at age 60, at which time the pension will be paid principally as one-time payment pension capital. Provision is also made for a disability and survivors' benefit (60 percent of the disability payment) contingent on the amount of the last basic remuneration. In this case, the percentage rate depends on the years of service with the Company, with a maximum pension percentage rate of 60 percent due to attributable time. Should the service contract expire prior to the beginning of benefit payments, the claim to the established pension capital at this point in time remains valid. The other pension benefits (disability and survivors' benefits) earned in accordance with Section 2 of the Law to Improve Company Pension Plans (BetrAVG) remain valid on a pro rata basis. Otherwise, the statutory full vesting periods are considered to have been met.

Dr. Jürgen Rautert:

Figures in € thousands	
2006/2007	
Performance-neutral remuneration	
Base payment	313
Remuneration in kind	10
Performance-based remuneration	
Bonuses	315
Cash remuneration	638
Components with long-term incentive effects (PSUs)	
Number of Performance Share Units (PSUs) issued under the LTI 2006	4,500
Fair value at the time the LTI 2006 was granted (total) at 100 percent target attainment	149
Number of PSUs under the Stock Option Plan, tranches for 2001 to 2004	–
Expenses for the LTI attributable to the financial year	12
Pension plan	
Expected annual pension at retirement age ¹⁾	190
Defined benefit obligation	1,769
Addition to the pension provision according to the IFRS ²⁾	151

¹⁾ Status of pension-eligible remuneration as of March 31, 2007

²⁾ Service cost and interest cost

Dr. Rautert's term of office as a regular member of the Management Board runs for five years.

> Pension Plan

Pension commitments provide for a pension that is contingent on the amount of last basic remuneration and survivors' benefits, with the percentage related to the years of service for the Company and the rates of increase varying depending on the years of service. The relevant pension percentage rate (60 percent) will be attained in 2011. The pension will be paid beginning at age 60. The payment will be adjusted in the same percentage relationship as the basic salary of salary group B9 for civil servants in Germany. A pension will also be paid if before reaching retirement age but after age 55, the contract is cancelled or is not extended by the Company without giving cause that would have entitled the Company to terminate employment without notice. In this case, claims acquired by Dr. Rautert by other activity up to age 60 are fully offset. A claim for committed benefits under the Company's pension provisions remains in force even in the case of the early cancellation of employment. Otherwise, the statutory full vesting periods are deemed to have been fulfilled. The payment of the old-age pension is fully secured by a reinsurance policy, with the resultant claim against Dr. Rautert pledged as collateral.

Dr. Herbert Meyer:

Dr. Meyer was a member of the Management Board up to September 30, 2006. Dr. Meyer has been receiving an old-age pension since October 1, 2006.

Figures in € thousands	
2006/2007¹⁾	
Performance-neutral remuneration	
Base payment	185
Remuneration in kind	8
Performance-based remuneration	
Bonuses	189
Cash remuneration	<u>382</u>
Components with long-term incentive effects (PSUs)	
Expenses for the LTI attributable to the financial year	0
Pension plan	
Addition to the pension provision according to the IFRS ²⁾	94

¹⁾ For the period of his membership on the Management Board, from April 1 to September 30, 2006

²⁾ Service cost and interest cost

Characteristics of the Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is regulated in the Articles of Incorporation and approved by the Annual General Meeting. It comprises two components: an annual fixed remuneration of € 18,000, and a variable component that depends on the dividend. The variable remuneration amounts to € 750 for each € 0.05 in dividends per share paid in excess of € 0.45. In other words, the members of the Supervisory Board only receive an additional variable remuneration if the dividend exceeds € 0.50. Whereas fixed remuneration is paid after financial year-end, the variable remuneration is only payable following the conclusion of the Annual General Meeting that approves the actions of the Supervisory Board for the relevant financial year. The Chairman, his Deputy, as well as Committee Chairmen and members of the Supervisory Board, receive remuneration increased by specific multipliers in view of their additional responsibilities. The Chairman of the Supervisory Board therefore receives double the normal Supervisory Board remuneration, with the Deputy Chairman and the Committee Chairmen receiving 1.5 times and the members of the Supervisory Board Committees 1.25 times normal Supervisory Board remuneration. A member of the Supervisory Board who holds more than one position only receives remuneration for the position with the greatest amount. Members of the Supervisory Board who only serve on the Board for part of the financial year receive pro rata remuneration. The same applies respecting the application of the multipliers if a member of the Supervisory Board is only active for a portion of the financial year that entitles increased remuneration. The members of the Supervisory Board also receive a lump-sum reimbursement for expenses of € 500 for each meeting day unless proof is supplied for higher outlays.

The remuneration of the members of the Supervisory Board is as follows:

	Figures in € thousands					
	2005/2006			2006/2007		
	Fixed remuneration	Variable remuneration	Total	Fixed remuneration	Variable remuneration	Total
Dr. Mark Wössner ¹⁾	39	6	45	38	15	53
Rainer Wagner ²⁾	30	4	34	31	11	42
Martin Blessing	24	4	28	25	9	34
Prof. Dr. Clemens Börsig ³⁾	26	4	30	25	9	34
Wolfgang Flörchinger	20	3	23	20	8	28
Martin Gauß	25	4	29	25	9	34
Mirko Geiger ⁴⁾	17	3	20	27	9	36
Gunther Heller	20	3	23	20	8	28
Dr. Jürgen Heraeus	20	3	23	20	8	28
Jörg Hofmann ⁵⁾	–	–	–	20	8	28
Berthold Huber ⁶⁾	25	4	29	–	–	–
Johanna Klein ⁶⁾	20	3	23	–	–	–
Pat Klinis ⁷⁾	9	1	10	–	–	–
Robert J. Koehler	20	3	23	20	8	28
Uwe Lüders	20	3	23	20	8	28
Josef Pitz ⁷⁾	10	2	12	–	–	–
Dr. Gerhard Rupprecht	25	4	29	24	9	33
Beate Schmitt ⁵⁾	–	–	–	20	8	28
Dr. Klaus Sturany	27	5	32	27	11	38
Peter Sudadse ⁴⁾	13	2	15	20	8	28
Total	390	61	451	382	146	528

¹⁾ Chairman of the Supervisory Board

²⁾ Deputy Chairman of the Supervisory Board

³⁾ On the Supervisory Board through March 31, 2007

⁴⁾ On the Supervisory Board since August 1, 2005

⁵⁾ On the Supervisory Board since April 3, 2006

⁶⁾ On the Supervisory Board through March 31, 2006

⁷⁾ On the Supervisory Board through July 31, 2005

Information According to Section 315 Paragraph 4 of the Commercial Code (Part of the Group Management Report)

Following the retirement of 3,322,658 shares within the framework of the share buyback program that was approved by the Management Board and the Supervisory Board, as of March 30, 2007 the capital stock of Heidelberger Druckmaschinen Aktiengesellschaft amounts to € 204,103,795.20, apportioned among 79,728,045 no-par bearer shares. The Articles of Incorporation were correspondingly updated on April 3, 2007.

The Company is not aware of any limitations affecting the voting rights or the transfer of shares.

Indirect participations in the capital of the Company are currently held by RWE Aktiengesellschaft, still with 15.096 percent, and Allianz Aktiengesellschaft, with 12.03 percent.

There are no holders of shares with special rights that provide a controlling authorization.

Furthermore, there is no separate voting right control or audit privilege of the employees holding a participation in the capital that is not directly exercised.

The appointment and recall of the members of the Company's Management Board occurs in accordance with Articles 84 f. of the Stock Corporation Act in association with Section 31 ff. of the Codetermination Act. Changes in the Articles of Association are in accordance with the provisions of Articles 179 ff. of the Stock Corporation Act in association with the special provisions of Articles 15 and 19 of our Articles of Incorporation.

With the resolution of the Annual General Meeting of July 20, 2006, the Management Board was authorized, up to January 19, 2008, to acquire the Company's own shares for all permissible purposes amounting to the lower of up to 10 percent of the current capital stock or 10 percent of the capital stock at the time the authorization is exercised. If the Supervisory Board agrees, in line with additional provisions, the shares acquired under this authorization may also be sold other than on the stock market or through an offer to all shareholders. Should this authorization be used, the subscription right of the shareholders is excluded. The Management Board was further authorized, in agreement with the Supervisory Board, to offer and transfer the acquired Company shares to third parties under exclusion of the subscription right of shareholders to the extent that this occurs for the purpose of acquiring equity investments in companies, in parts of companies, or to implement mergers. The Management

Board is also authorized, in agreement with the Supervisory Board, to offer and transfer shares to members of the Company's Management Board and members of senior management under exclusion of the subscription right of the shareholders within the framework of the Company's Stock Option Plan. The Stock Option Plan was approved by the Company's Ordinary Annual General Meeting on September 29, 1999 under agenda item No. 8. The authorization may be exercised either in full or in part. The Management Board is further authorized, in agreement with the Supervisory Board, to call in the Company's acquired own shares without the need for additional approval by the Annual General Meeting.

The Management Board is authorized up to July 1, 2009 and in agreement with the Supervisory Board, to increase the Company's capital stock by up to a total of € 63,782,937.60 through the issue of new shares against payment in cash or contributions in kind at one time or in stages. Additional details are provided in Section 3 Paragraph 6 of the Articles of Incorporation.

In accordance with a decision of the Annual General Meeting on July 20, 2006, the Management Board was authorized, in agreement with the Supervisory Board, to issue through July 19, 2011, either at one time or in stages, bearer warrants and/or convertible bonds in a total face value of up to € 500,000,000.00 with a term to maturity of a maximum of 30 years, as well as to grant option rights to the holders of bonds with warrants or conversion rights for the holders of convertible bonds to bearer shares of the Company in a pro rata amount of the capital stock in a total amount of up to € 21,260,979.20 subject to the conditions of the option or convertible bond. For this purpose, the capital stock in Section 3 Paragraph 5 of the Articles of Incorporation was increased on a contingent basis by up to € 21,260,979.20.

Furthermore, in accordance with a decision of the Annual General Meeting on July 21, 2004, the Management Board was authorized, in agreement with the Supervisory Board, to issue through July 20, 2009, either at one time or in stages, bearer warrants and/or convertible bonds in a total face value of up to € 500,000,000.00 with a term to maturity of a maximum of 20 years, as well as to grant option rights to the holders of bonds with warrants or conversion rights for the holders of convertible bonds to bearer shares of the Company in a pro rata amount of the capital stock in a total amount of up to € 21,992,570.88 subject to the conditions of the option or convertible bond. For this purpose, the capital stock in Section 3 Paragraph 5 of the Articles of Incorporation was increased on a contingent basis by up to € 21,992,570.88.

On February 9, 2006, under the partial utilization of the above-mentioned authorization and via its wholly-owned subsidiary Heidelberg International Finance B.V., Boxmeer, the Netherlands, the Heidelberg Group issued a convertible bond in the nominal amount of € 280,000,000.00 under the guarantee of

the parent company. The bond includes a conversion right to no-par shares of Heidelberger Druckmaschinen Aktiengesellschaft, which, at the discretion of the respective bearer, may be exercised during the period March 22, 2005 to January 30, 2012 in accordance with pre-established conditions. The bond is listed on the Luxemburg Stock Exchange.

In addition, on September 29, 1999, the Annual General Meeting authorized the Management Board to grant subscription rights to shares in the Company ('stock options') to members of the Company's Management Board, to members of the management units of the Company's subsidiary affiliated enterprises, and to members of the senior management of the Company and of subsidiary affiliated enterprises. For this purpose, capital stock in Section 3 Paragraph 3 of the Articles of Incorporation was increased on a contingent basis by up to € 10,996,288.00. The Company has the option to provide the beneficiaries with a cash settlement in lieu of shares. Total subscription rights granted by the Management Board on the basis of this authorization amount to 2,632,540 options as of March 31, 2007, of which 86,250 options are in favor of the Management Board.

The syndicated credit line of Heidelberger Druckmaschinen Aktiengesellschaft includes a standard 'Change of Control' clause that grants the contracting parties additional rights to information as well as cancellation in the case of a change in the control or majority structure of the Company. Equally standard provisions granting the contracting parties the right to cancellation as well as to early repayment are provided for by the convertible bond that was issued by our Dutch financing subsidiary, Heidelberg International Finance B.V., as well as by the two borrower's note loans of Landesbank Baden-Württemberg.

Since the time of the declaration of intent by RWE Aktiengesellschaft to divest its majority shareholding in Heidelberg, there has been a special right of termination of employment for the Chairman of the Management Board Bernhard Schreier in case a company other than RWE Aktiengesellschaft attains a majority shareholding in the Company. This special right of termination would have to be exercised within six months following the occurrence of such a change in the ownership structure. In this case, Mr. Schreier would receive a severance payment amounting to double his annual remuneration (basic salary plus bonus). If Mr. Schreier makes use of his special right of termination, he would be entitled to pension payments beginning at the time of the early resignation. The pension would be calculated as if the employment relationship had continued through the end of the contractual period of employment.

Glossary



Asset management

Serves to improve both free cash flow and value contribution. Operating assets and liabilities are optimized in order to reduce tied capital and distribute it more efficiently.

Borrower's note loans

Usually, medium to long-term loans granted against delivery of a borrower's note – usually issued by companies with a corresponding credit standing, such as large capital investment and insurance companies, banks, and public sector entities.

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.

Contractual trust arrangement (CTA)

Pension obligations are shown separately as an off-balance-sheet item and transferred to a trust company that administers them. The assets of the trust company may only be used to fulfill the pension obligations.

Convertible bond

The bearer of a convertible bond may exchange it prior to maturity for shares at a predetermined relationship. The bond is repaid at maturity if the conversion right is not exercised.

Flexo printing

A relief printing process using inks with very low viscosity. Printing is effected by means of soft, elastic, and raised printing elements. Flexo printing is used especially in the printing of packaging and multi-color labels.

Free float

Shares that are not held by major shareholders – in other words, shares that are acquired and traded by the investing public. Blocks of shares accounting for less than 5 percent as well as blocks of shares held by institutional investors are regarded as free float.

Postpress/finishing

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

Prepress

All the steps required to prepare the printing plate for the actual printing process, 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. Prinect comprises Management Solutions, Production Solutions, and Color Solutions. 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.

Remote Services technology

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

Sheetfed offset printing

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

Spoilage

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

Technology Roadmap

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

Value contribution/ROCE

Value contribution and **ROCE** are the central management control components used in value management at Heidelberg. ROCE is calculated by dividing EBIT by the average operating assets.

The average **operating assets**, which comprise all assets used in the generation of the EBIT, are part of our calculation. They are calculated by subtracting non-interest-bearing liabilities – which include both non-interest-bearing fundamental capital components as well as pro rata financial liabilities used in the refinancing of the Financial Services Division – from operating fixed assets and gross current assets.

In our calculations, **EBIT** comprises the result of operating activities and income from participations, because we view our participations as part of our core business. Income from participations amounted to € –6 million during the financial year, compared with € –17 million the previous year.

We include the **cost of capital** in the calculation of the value contribution via a weighted average cost of capital. The weighting is based on the share of the respective capital components. We base our calculation of the cost of shareholders' equity after taxes on a risk-free interest rate of 4.25 percent, a market risk premium of 4.75 percent, and a so-called beta factor of 1.0. The after-tax borrowing cost rate is 2.93 percent. We apply a flat tax rate of 35 percent for the

NET OPERATING ASSETS		
Figures in € millions		
	2005/2006	2006/2007
Gross assets according to balance sheet	3,281	3,339
– Marketable securities/cash and cash equivalents	– 80	– 79
– Financial receivables/loans	– 33	– 69
– Tax refund claims	– 51	– 107
– Deferred tax assets	– 113	– 72
Operating assets (gross)	3,004	3,012
Gross debt according to balance sheet ¹⁾	2,143	2,137
– Provisions for pensions, taxes, and restructuring	– 419	– 403
– Tax liabilities	– 62	– 47
– Non-operating financial liabilities ²⁾	– 466	– 469
– Deferred tax liabilities	– 71	– 85
Operating non-interest bearing liabilities	1,125	1,133
Operating assets (net)	1,880	1,879
on average	1,911	1,879

¹⁾ Current and non-current liabilities from the consolidated balance sheet

²⁾ Financial liabilities not attributable to the Financial Services Division.

The refinancing costs of this division are included in the result of operating activities.

CAPITAL COMPONENTS		
Figures in € millions		
	2005/2006	2006/2007
Shareholders' equity (at carrying amount)	1,138	1,202
– Balance of deferred taxes	– 42	13
Adjusted shareholders' equity	1,096	1,215
on average	1,121	1,156
Pension provisions	214	133
+ Tax provisions	205	270
+ Balance of tax liabilities	11	– 59
+ Non-operating financial liabilities	466	469
Liabilities	896	813
on average	1,108	854
Adjusted total capital	1,992	2,028
on average	2,229	2,010

transition to pre-tax consideration. The parameters for the calculation as well as the calculation itself remained unchanged during the financial year.

EBIT less the cost of capital equals the **value contribution**, which reflects the expected return to the providers of capital on their invested capital.

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* Cover

Selected Products of the Heidelberg Group

PREPRESS		PRESS		POSTPRESS	
<p>Platesetter</p>  <p>Violet plates Prosetter</p>		<p>Sheetfed Offset</p>  <p>35 × 50 format Printmaster Speedmaster</p>		<p>Folding</p> <p>Stahlfolder, Baumfolder</p> 	
<p>Thermal plates</p>  <p>Thermal plates Suprasetter</p>		<p>50 × 70 format</p>  <p>50 × 70 format Printmaster Speedmaster</p>		<p>Saddlestitching</p> <p>Stitchmaster</p> 	
<p>Workflow</p> <p>Prinect</p> <p>Integrated workflow management system</p> <p>Integrates and optimizes the workflows in print shops – from management to production and from prepress to postpress</p>		<p>70 × 100 format</p>  <p>70 × 100 format Speedmaster</p>		<p>Adhesive Binding/Thread-Sealing</p> <p>Eurobind, Thread-Sealer</p> 	
		<p>Flexo Printing</p> <p>Label printing Folding carton printing</p>		<p>Die-Cutting</p> <p>Dymatrix, Varimatrix</p> 	
		<p>Web Offset</p> <p>Goss products</p>		<p>Folder Glueing</p> <p>Diana, ECO, Easygluer</p> 	
				<p>Mailroom</p> <p>by IDAB WAMAC</p>	
				<p>Cutting</p> <p>POLAR/Mohr products</p>	

SERVICE*			
<p>Consulting</p> <p>Project Management Business Optimization On-Site Training Print Media Academy</p>	<p>Technical Service</p> <p>Service Parts & Logistics Maintenance Output Optimization</p>	<p>Consumables</p> <p>Printing Inks Printing Plates Blankets Chemicals</p>	<p>Financial Services</p> <p>Customer Finance Insurance</p>
<p>Remarketed Equipment</p>			

* The service components are assigned to the respective divisions, for which they are supplied. Customer Finance is shown in the Financial Services Division.

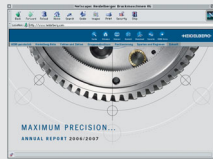
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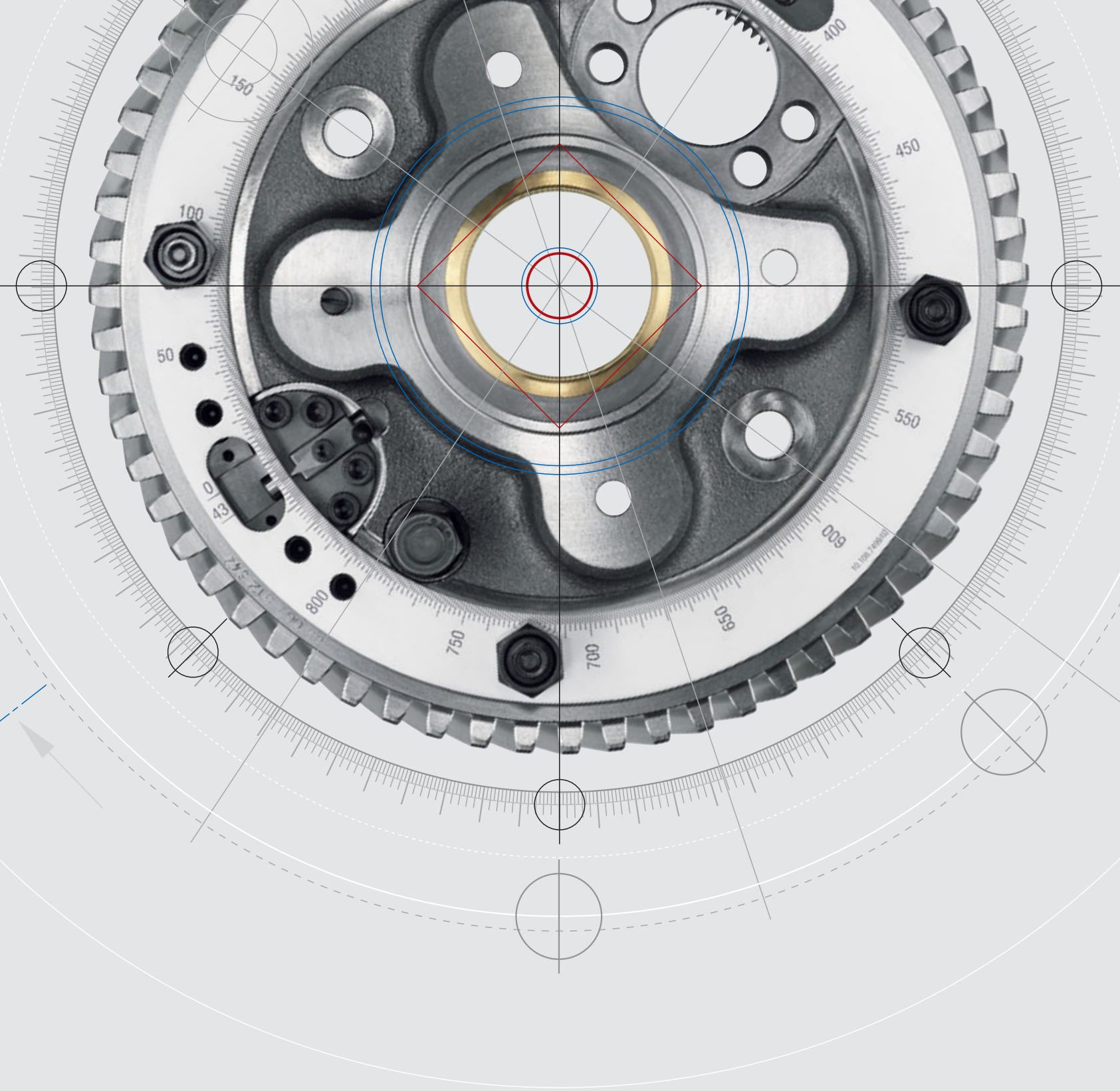


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