This is

Annual Report
2018/2019

Johnny
~~Johannes~~
Gutenberg

Johnny's virtual reality headset gets its attractive metallic effect from an inline cold foil application using FoilStar.

www.heidelberg.com

The velvety cloud nine effect is achieved using flocking. In the Heidelberg cloud, data feels silky-soft and secure.

www.heidelberg.com

This is

Annual Report 2018/2019

Commercial Printing!

Find out what makes

data

so impressive.

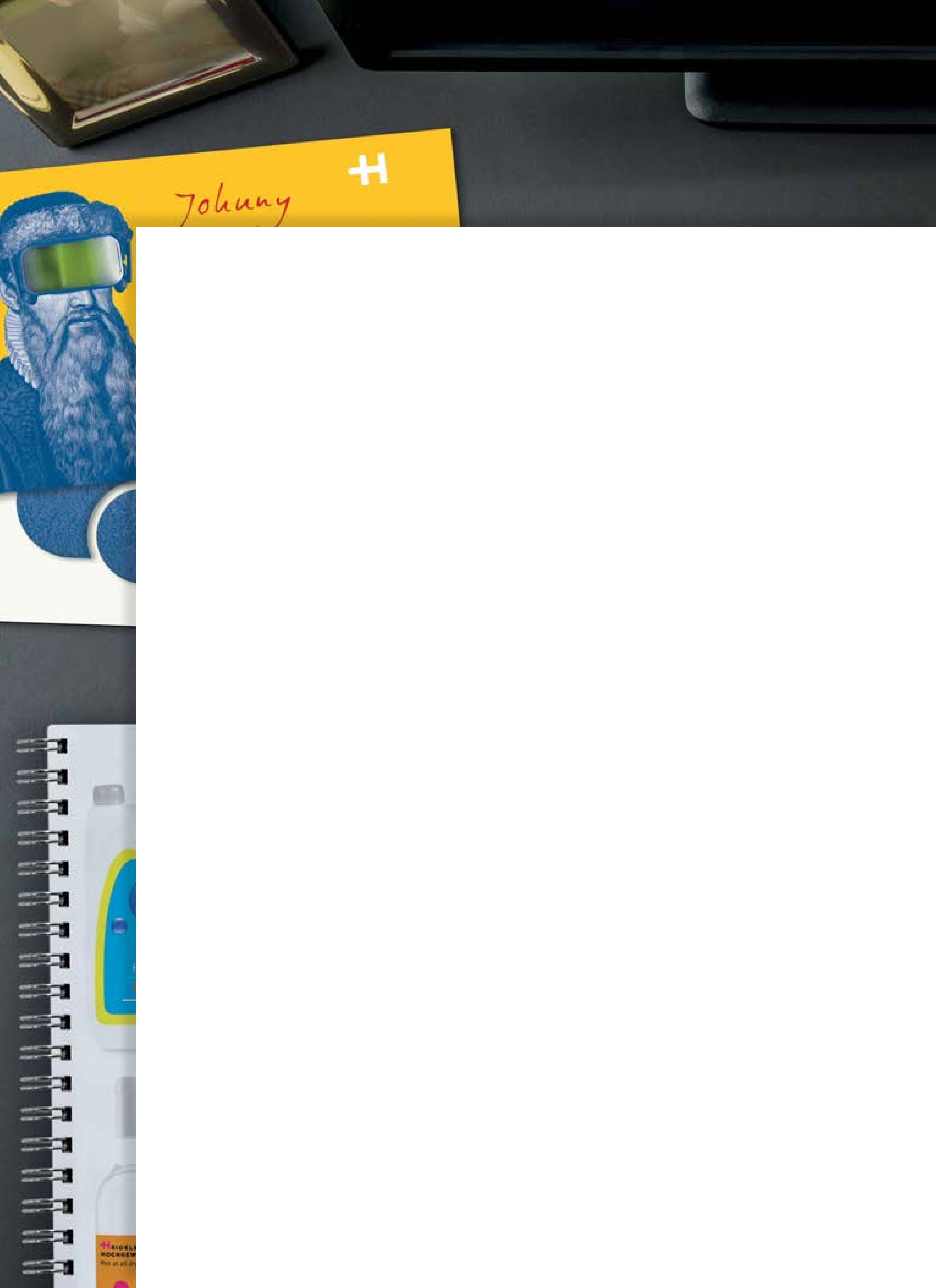
HEIDELBERG


Johnny
~~Johannes~~
Gutenberg
Annual Report
2017/2018
Annual Report
2016/2017
Annual report
on packaging
printing
Annual report
on label printing
HEIBLUE
Huile
d'Olive
icecream
Health
spray
HEIDELBERG Annual Report 2017/2018

Rainer Hundsdörfer
Chairman of the Management Board

Dear reader,

Our journey to the digital future of Heidelberg has picked up speed over the past years. Our goal of offering customers a powerful and reliable end-to-end system was rounded off with the successful introduction of our subscription model. In this third part of our annual report trilogy, which is dedicated to commercial printing, we will show you just what makes data so impressive – in every sense of the word. The things we hold in our hands every day, such as flyers, cards, calendars and brochures, are not disappearing in a cloud of pixels – but instead are benefiting from the digital future. Just think about your most recent business card order, or customized birthday invitation and greeting cards that online stores let you design. Our Heidelberg postcard edition illustrates the impressive range of different finishes that appeal to our senses – and that are a firm feature of the marketing mix.
Discover the world of (e-) commerce on the following pages!
Kind regards


Johnny


HEIDELBERG
Thank you!
The Wi-fi Password is:
Wishing you:
The new annual report on commercial printing!
www.heidelberg.com
Mister
Johnny
Gensfleisch Gutenberg
Gutenbergplatz 5
55116 Mainz

WE HAVE IT IN THE PALMS OF OUR HANDS EVERY DAY – COMMERCIAL PRINTING*!

AROUND 11,500 EMPLOYEES WORLDWIDE

250 LOCATIONS IN 170 COUNTRIES

The annual global printing volume is around

400 BILLION EUROS

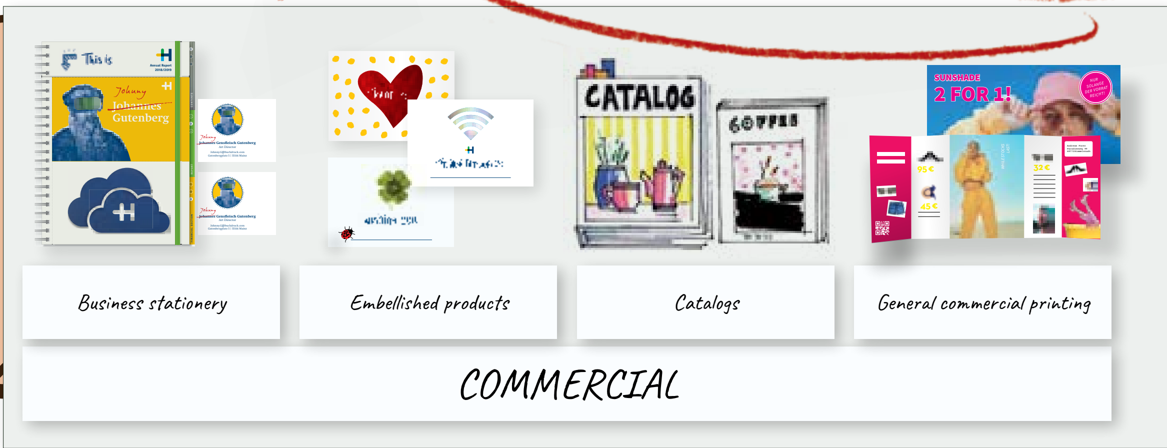
Interested? Further information can be found on pages 12 to 15 in "Markets and customers".

27% of all printed materials are **packaging** – the fastest-growing market segment with an average growth rate of 3% overall. / see AR 2016/2017

Although the **label market** only accounts for around 6% of total printing volumes, it has the highest growth rates in the industry. / see AR 2017/2018

The **commercial printing market** accounts for approximately 50%, making it the **biggest market segment** in terms of global printing production volumes.

* COMMERCIAL PRINTING PRODUCTS AT A GLANCE



What exactly is **commercial printing?** Technically defined, it is a process of taking artwork and transferring it onto a piece of paper or card. Commercial printing is designed to complete both **high-volume orders and small print runs** within a **short period of time.** It can be used to produce a **wide variety of products** such as brochures, books, flyers, invitations, magazines, newsletters, catalogs, and more. Commercial printing has **many advantages** that create professional and outstanding final products for many people to enjoy.

Commercial printing is not vanishing into

PIXELS,

and is instead much more networked with e-commerce transactions than ever before:

Digital printing was used for flyers and cards early on, so they enjoy the advantages of what are known as hybrid printed products, which are a combination of, for example, offset and digital printing. The same also goes for # web-to-print (W2P), without which commercial applications would no longer be what they are today – just think about the last time you ordered business cards or customized birthday invitations.

Today, print shops have to network even more with their customers and expand their e-business printing range – whether in B2B or B2C – or seek out certain niches. Digital progress is creating new trends, including for customization. Customization at the micro level is also being accompanied by the trend towards "mass customization", i.e. customization with the efficiency of mass production – which in turn demands online platforms and a higher degree of automation. At the same time, online giants have recognized the advertising impact of printed materials. To increase their "conversion rate" they are using a combination of intelligently designed and finished printed materials and cross-media technologies such as augmented and virtual reality, QR and hidden codes.

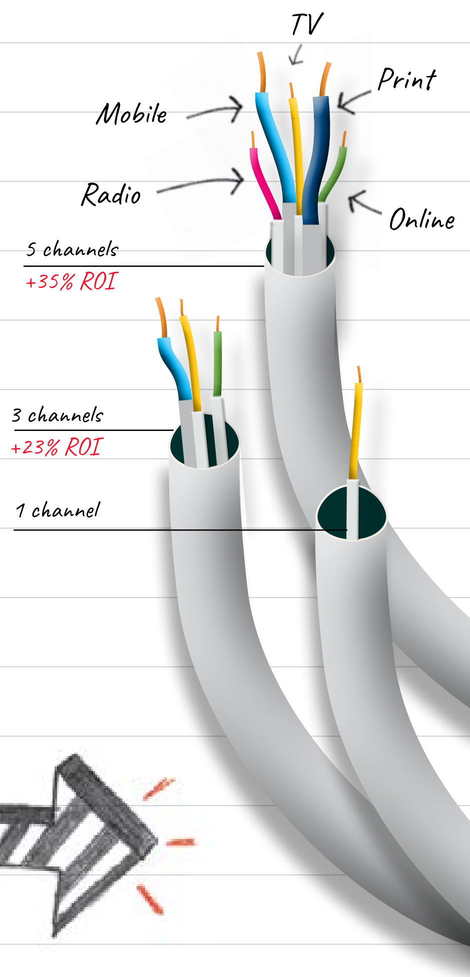
And the demands customers place on print will continue to grow, because they no longer want "printed paper" – they want a product that will help them sell what they want to sell. So that our customers can fully satisfy the wishes of their target groups, we have continued to work on our "end-to-end system", successfully launched our subscription model and further expanded the Smart Print Shop with the "Push-to-Stop" standard.

WOW

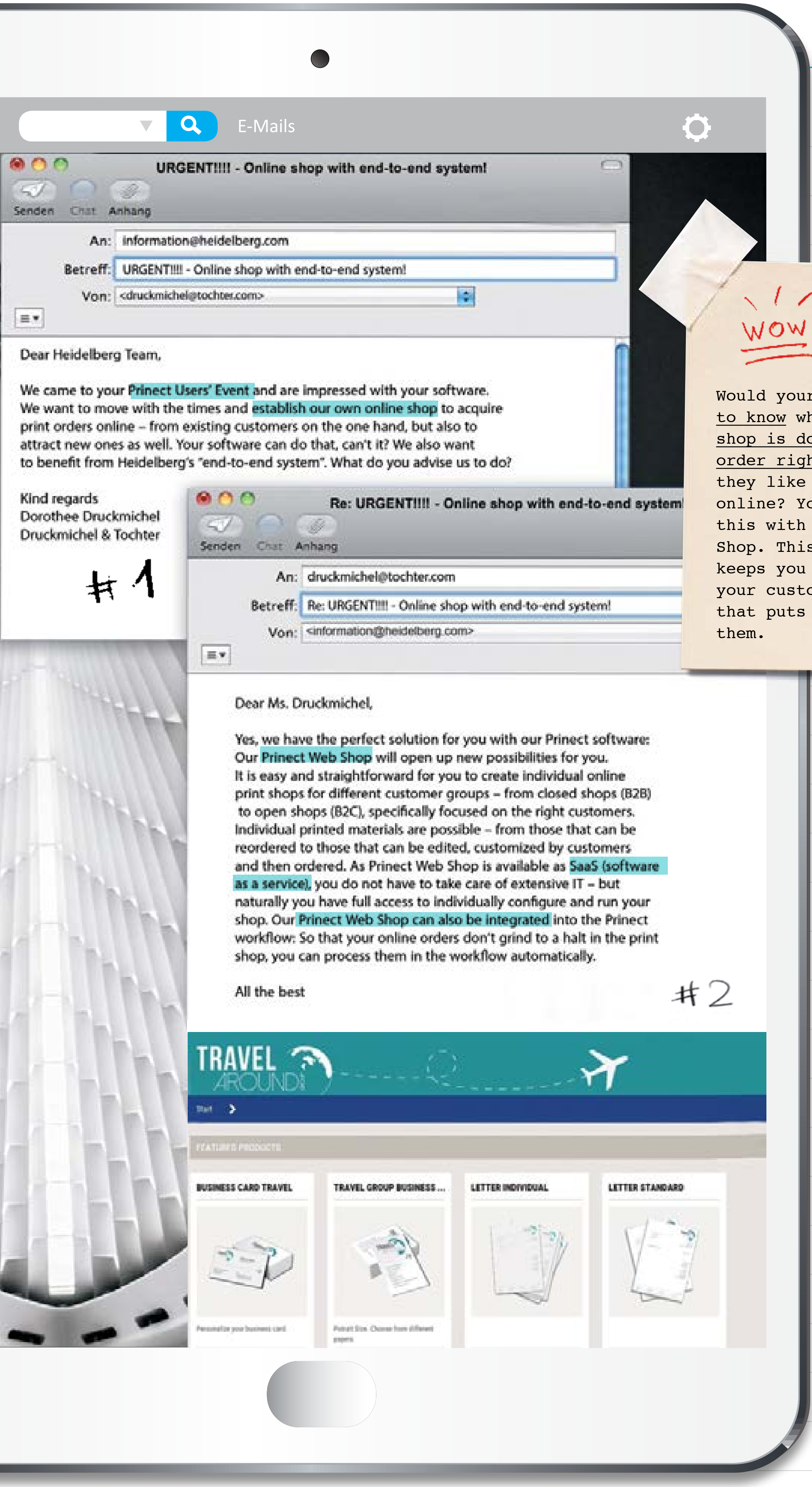
Print is not just one channel that makes up part of the **communications mix**. Its unique properties mean that it actually plays a **dominant role**. Especially in an increasingly fast-paced digital world, people are looking more for a sensual experience, looking to slow down and for something they can trust. Print adds **high-touch to high-tech**, because printed materials are **"brain-friendly" thanks to their consistent nature and multisensory qualities.** Thanks to psychological research and neuroscience, we now understand how people perceive, how their emotions arise, how they make decisions and the role print media play in this.

Multichannel marketing

Each additional advertising channel used increases the return on investment (ROI), i.e. the ratio of investment to the profit generated as a result. It is important to know the strengths of each individual communication channel and to find the right mix.



On the following pages you will learn about the trends in commercial printing that digitization makes possible.
Happy reading and discovering!



URGENT!!!! - Online shop with end-to-end system!

Senden Chat Anhang

An: information@heidelberg.com

Betreff: URGENT!!!! - Online shop with end-to-end system!

Von: <druckmichel@tochter.com>

Dear Heidelberg Team,

We came to your Prinect Users' Event and are impressed with your software. We want to move with the times and establish our own online shop to acquire print orders online – from existing customers on the one hand, but also to attract new ones as well. Your software can do that, can't it? We also want to benefit from Heidelberg's "end-to-end system". What do you advise us to do?

Kind regards
Dorothee Druckmichel
Druckmichel & Tochter

#1

Re: URGENT!!!! - Online shop with end-to-end system!

Senden Chat Anhang

An: druckmichel@tochter.com

Betreff: Re: URGENT!!!! - Online shop with end-to-end system!

Von: <information@heidelberg.com>

Dear Ms. Druckmichel,

Yes, we have the perfect solution for you with our Prinect software: Our Prinect Web Shop will open up new possibilities for you. It is easy and straightforward for you to create individual online print shops for different customer groups – from closed shops (B2B) to open shops (B2C), specifically focused on the right customers. Individual printed materials are possible – from those that can be reordered to those that can be edited, customized by customers and then ordered. As Prinect Web Shop is available as SaaS (software as a service), you do not have to take care of extensive IT – but naturally you have full access to individually configure and run your shop. Our Prinect Web Shop can also be integrated into the Prinect workflow: So that your online orders don't grind to a halt in the print shop, you can process them in the workflow automatically.

All the best

#2

WOW

Would your customers like to know what the print shop is doing with their order right now? Or would they like to approve work online? You can offer all this with Prinect Web Shop. This automatically keeps you in contact with your customers in a way that puts the focus on them.

Test the possibilities of our Prinect Web Shop system with our "Travel" demo shop.

Just register and give it a try!

THE BUSINESS POST INVITATION GREETING CARD MAKES THINGS PERSONAL THANKS TO ONLINE PRINT SHOPS

Have you ever wondered how they do it? You create 1,000 business cards or the invitations for your 50th birthday using your tablet one evening on the sofa – customized and with multisensory touches just as you want them. And you do it all without any knowledge of graphics or printing, and, if necessary, your brand-new creations can even be delivered within 24 hours. How do they do it? Let's take a look behind the scenes.

The desired product is chosen – in this case a business card. Then comes the customization: of course you need your name and address! In the second step you can choose from a variety of options: type of paper, rounded corners, various finishes such as a spot coating – or you can give your business card a soft-touch finish with a foil.

After entering all your delivery and postage requirements, you just click to confirm your printing order and complete your purchase.

The print data for all gang jobs – such as business cards, greeting cards and post-cards – are checked automatically by the print shop and minor errors are also corrected automatically.

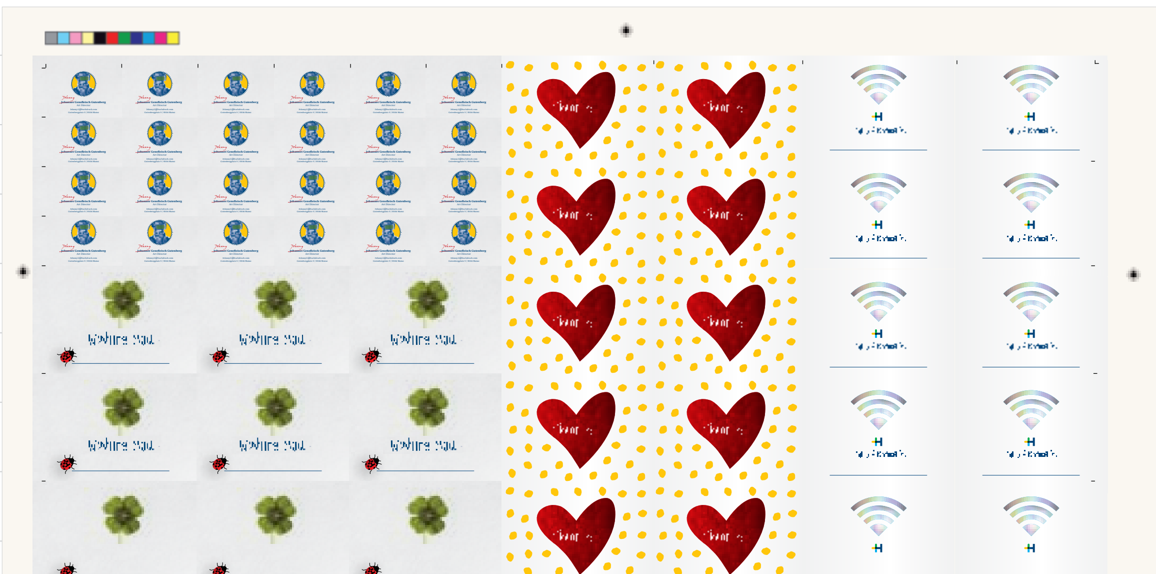
Then it's off to the printing presses: The print shop uses a sheetfed offset press, the Speedmaster XL-106, which makes it possible to fit all the different print forms on a single sheet.
Then our integrated Prinect workflow uses the gang assistant to reliably generate gang jobs, including automatic layout generation, with optimum arrangement for positioning multiple product copies on the sheet for different formats and run lengths. This process is called gang run printing, and the advantages are obvious: it saves time and paper, reduces fixed costs and is easier on the environment as well.

Once all the printed sheets are finished, they are cut to the final format.
The greeting cards then receive special treatment from our Stahlfolder CH 56, which creates a fold so that the cards can be opened.

The finished products are then neatly packaged and sent to the desired address with a tracking function.

WOW

Web-to-print is growing all over the world, but with regional differences. Western Europe and North America used to be the leading providers, but their market share is shrinking as growth is accelerating in Asia and other regions.



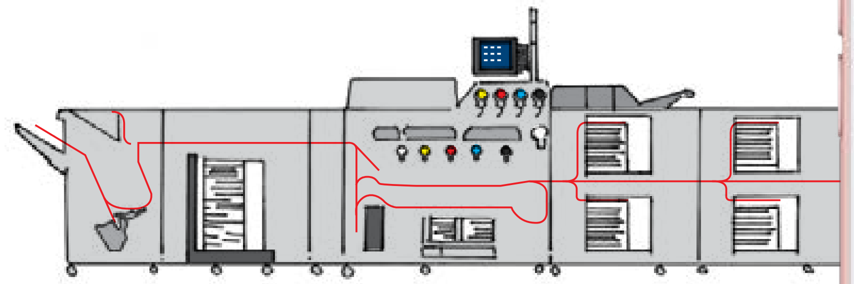
This is a gang printing form.

E-mails

To: information@diecitydruckerei.com
Subject: Urgent – Customer Styleboutique
From: Heidelberger Druck

#2

Hi Cornelia,
I’ve spoken to my colleagues at Heidelberg’s digital unit and I would like to invite you to our Print Media Center Commercial in Wiesloch. We have put together an end-to-end solution for your requirements.



Our Versafire EV with the right Prinect workflow is characterized by a large variety of applications and the five special colors: White, Varnish, Neon Yellow, Neon Pink and Invisible Red. * The white toner gives the user even more possibilities to print on different substrates such as metallized, colored or transparent media. For the first time, it is now possible to print white first and then the process colors CMYK on top. When printing on colored paper and foils, extraordinary effects can be realized – all in one pass. Our Stahlfolder CH 56 also offers a never-ending variety of possibilities for further processing. You can get a quick preview on YouTube: 3 jobs in 5 minutes – Stahlfolder CH 56!

Inbox

#1

Hi,

Our customer STYLEBoutique, a great women’s clothing boutique in the heart of the pedestrian area, would like to reach out to its (potential) customers with customized direct mail marketing. One of the challenges is that the boutique wants to link up its local customers’ shopping habits with the preferences they indicate on their Facebook and Instagram pages. The mail-outs have to be produced quickly and in small runs so that the boutique can present weekly trends. The finish also has to match the trends in fashion – this summer that means neon colors – and create customer awareness rather than just looking “flat”.

Thanks in advance,

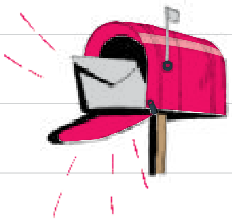
Die Citydruckerei
Cornelia C.

WOW

Direct mail marketing that offers recipients a “benefit” – such as a promotional gift, a voucher or a trial subscription – has been proven to work.

DIRECT MAILINGS

reflect buying habits and interests with



CUSTOMIZED FINISHING

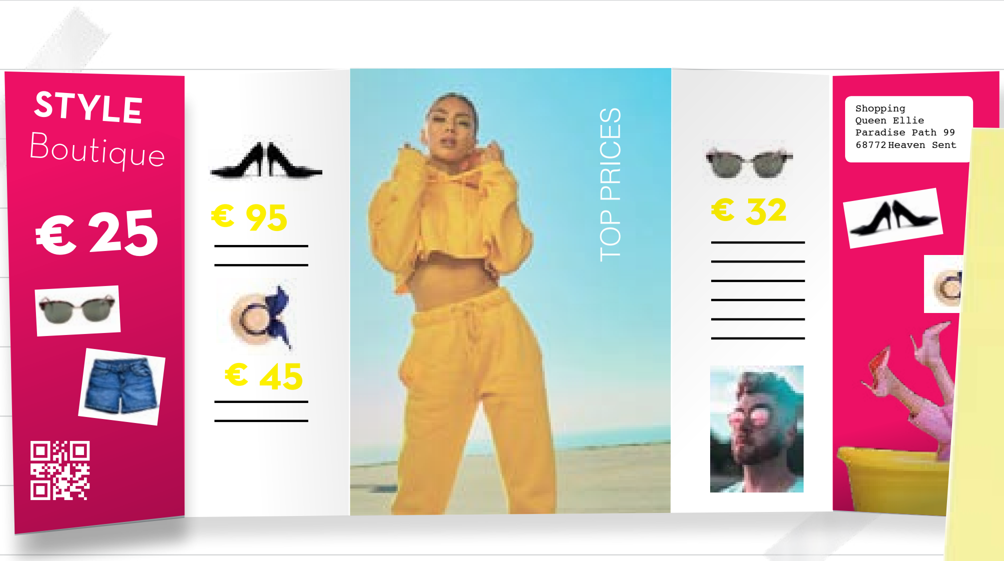
Have you ever wondered why direct mail marketing stills appears in your mail despite online advertising?

The answer is simple: because it works! If customers can hold something in their hands they will remember it better – and in interaction with online channels, direct mail marketing can tap even greater potential.

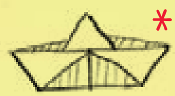
Whether it's a flyer or a letter, the advertising medium has to appeal to the recipient visually. Addressees will decide in just a matter of seconds whether a letter looks interesting and will be opened – or whether it will be put straight into the recycling bin unopened. This decision can be greatly influenced by using suitable colors, finishing effects or other processing options – such as different types of folds. In our example, the flyer for STYLE Boutique has quite deliberately been designed in bright neon pink, as neon colors suggest trends, power and modernity. In addition, the boutique has added personalized product suggestions chosen based on information about its customers' past purchases, both online and in the shop.

WOW

* Invisible what? Our Invisible Red special toner has a subtle shine under natural light – but under UV light it glows bright red. Invisible Red therefore offers copy protection, and the new Versafire EV offers the option of producing security applications.

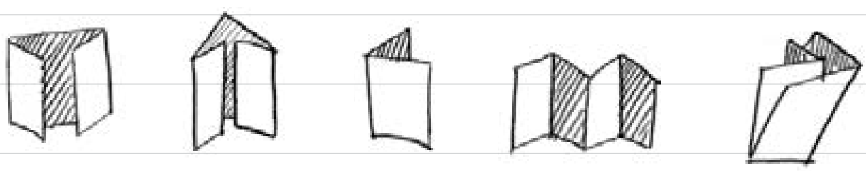


WOW



*

Finishing makes sense.
An example: A cruise operator sent its customers direct mail marketing with three travel offers. There was a small pocket containing a small towel with the scent of sun cream to remind customers of the original from their last trip. When asked, 22% more people remembered receiving the scented mailing than those who did not. Twice as many of them also remembered the three destinations that were being advertised.



Window fold | Gatefold | Parallel fold | Leporello | Cross fold

* Nothing but an unusual fold.

HEIDELBERG

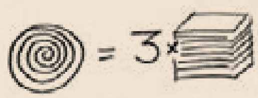
#2

Dear Pack-in Buying Team,

We have heard about your "efficiency" problem. But that will soon become a thing of the past, because we have the optimal solution for your immense paper consumption: our CutStar to go with your smart Speedmaster XL 162 with push-to-stop function. Now you can take your paper from the roll. A rotating blade precisely cuts the paper in the machine on sheets no larger than 1.20 x 1.62 m – above all saving you set-up and stopping times, because each time you change the reel you will get as much paper as would previously come on three of four pallets.

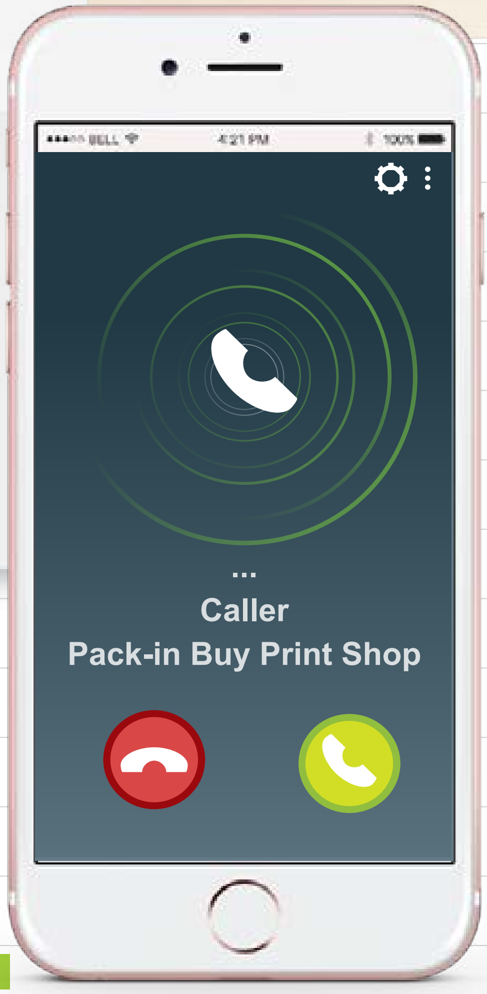
And so that you can better handle the many, many versions of your customer pack-ins, we recommend our Prinect Production Manager. It is the only workflow with all the functions that smart production with push-to-stop needs. Prinect Production automates your production, color and quality management and provides key data for analysis and reporting.

WOW



Paper from a roll costs 6% less on average than pre-cut paper – an important factor given that paper accounts for around 30% of the total cost of a printed product.

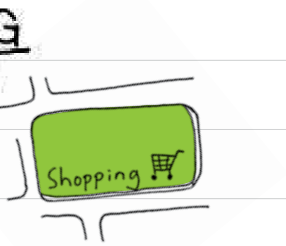
#1



It doesn't always have to be paper. Attention-grabbing pack-ins that look like a credit card add a certain something to the voucher included. And incidentally, vouchers for a fixed amount in € are more popular than those that offer a discount in % because the price advantage is more obvious.

PARCEL FLYERS

ARE IN DEMAND – THANKS TO RISING INTERNET SALES



According to the German Printing and Media Industries Federation, there are pack-ins such as flyers, vouchers or entire booklets that can be customized according to your product recommendations:

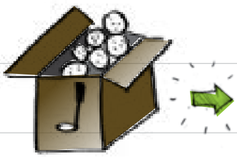
WOW

- that increase conversion rates (i.e. turning an interested party into a customer) in e-commerce by 26%;
- that increase shopping basket values by up to 62%; and
- that reduce repurchase cycles to 18 days.

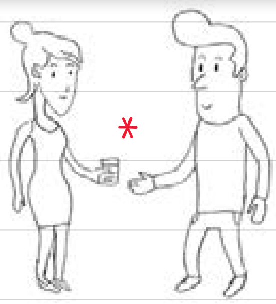
A well-known adventure trip organizer that "grew up" on the Internet had exhausted its online growth potential. An investment in printed pack-ins gave its growth another boost.

Are you wondering how they do it? One reason is that pack-ins are received by their recipients and potential customers when they are feeling good, because the consumer has ordered something he/she wants and is happy to have received the parcel. But there are other reasons as well: As pack-ins are adapted to the target group using specific selection criteria based on the goods ordered, chances are good that what the pack-ins are offering will be of interest to the addressee. Naturally, an eye-catching and clear design, not to mention the right finish, will make a pack-in a perfect experience.

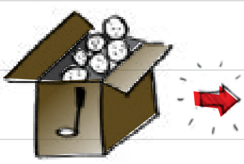
Golf balls



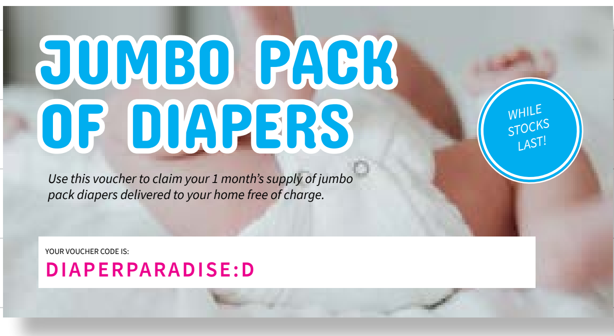
Optimized pack-ins right for the customer's order



Golf balls



Example of a pack-in that is not right for the customer's order



* Advertising with pack-ins is like handing out flyers tailored to your target group in an online pedestrian area.

An: information@heidelberg.com
Kopie:
Blindkopie:
Betreff: Lots of different catalogs?

Hello there,

Our long-time customer, a major tour operator, wants to change: The customer no longer needs a big main catalog with a lot of content, but rather several different travel brochures in smaller runs.

Do you have a solution?

#1

An: Gizeh@Printmaina.com
Kopie:
Blindkopie:
Betreff: Everything you want

Hello Mr. Gizeh,

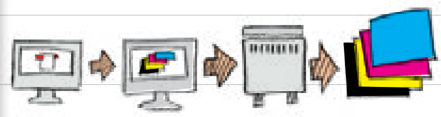
Certainly we have a solution: the Suprasetter CtP* platesetter – which can be fully integrated into your existing Push-to-Stop system, even fully automatically if you want. Then your platesetting would run like clockwork. Our Prinect workflow software with its Plate Pilot ensures an optimized sequence for printing plate output. This makes it no problem at all to produce different travel brochures – even in small print runs.

#2

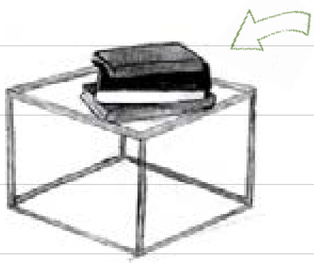
WOW

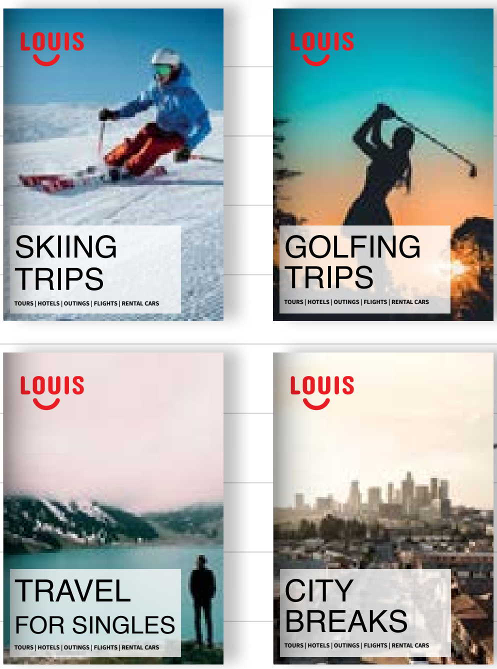
* CtP – quite simple:

Computer-to-plate is a prepress process in which images are placed on the printing plates in the platesetter from the PC. CtP is the leading technology in printing plate manufacturing.



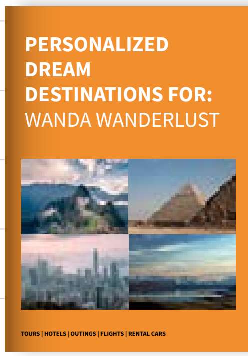
The catalog becomes a coffee table book.
Catalogs don't belong on a bookshelf anymore, they can be left out on the table, as a major furniture store has taught us – you could say that catalogs are now socially respectable.





WOW

Greater individuality in digital printing:
After each consultation, a tour operator prints and sends out an individual travel brochure adapted to the customer's requirements. Marketing once again benefits from the smart and varied possibilities afforded by print.



CATALOG 4.0

· WITH NEW FUNCTIONS ·

simply × medial

Catalogs are one of the oldest forms of marketing – today you can find a bewildering variety brimming with additional functions. For a long time now, with just a few exceptions, retailers no longer produce comprehensive versions of their catalogs, relying instead on countless variations. Why? Take, for example, offers that change with the seasons, such as Easter, Halloween or Christmas.

Whereas a tour operator used to put out no more than two main catalogs, today it has a big online catalog and lots of small printed versions – specifically for family vacationers, city breaks, cruises, sports trips, car trips, and so on. Surveys have found that 20% of all online purchases are motivated by printed catalogs. It is about sending the right messages on all channels. A major Swedish furniture store – the circulation king with around 30 million catalogs – uses digital visualization for customers in different regions, adapted to reflect various living environments. The company is also increasingly using augmented reality. A well-known online retailer uses printed toy catalogs with additional functions at Christmas. And with good reason: Printed materials cannot be clicked away quite so easily. Although the cost per contact may seem higher at first glance, print frequently generates lower costs per order thanks to its high conversion rate.

WOW €?

A **Christmas toy catalog** for a major online retailer **is missing one crucial thing: prices. Why?** It is assumed that the retailer uses dynamic pricing that changes depending on, for example, how far away the customer is from the nearest toy store.

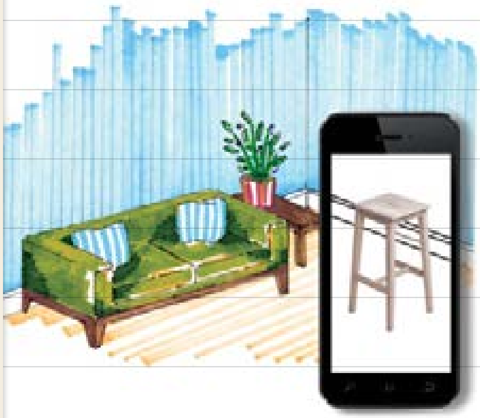
Scan & Shop

QR codes for a major online retailer

A major online retailer uses QR codes in its Christmas catalog, which can be scanned with an app to order and pay for goods.

AUGMENTED REALITY

The app from a well-known furniture store uses an augmented reality function to allow customers to try out a great number of products, seeing what different pieces of furniture would look like in their own homes. Using the back camera on their smartphone, customers can easily see tables, sofas and beds on their display.



WOW

Smart print connections

Print is an essential part of communication – but nowadays print is smart. Web analysis and big data make it possible to know exactly what customers like. The majority of online orders are no longer sent by PC, but by cell phone instead. It is the communication channel of choice.

An: information@heidelberg.com
Betreff: Subscription

Dear Heidelberg Team,

As you know, we specialize in high-quality commercial printing in offset and digital printing, and also make folding boxes, displays and mail-outs. In the field of "social media printing", we have discovered another business segment with a customer and really want to grow here in the months ahead. We believe that as a print service provider we have to offer all-round support for our customers and their products. For this reason, we will have less time to spend on the optimization of production resources and processes and on procuring consumables moving ahead. So what we need from you is an end-to-end solution to cover all the bases.

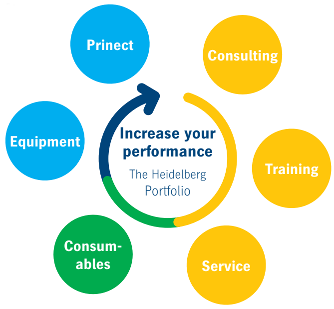
1

An: Social.Media.Print.Group.de
Kopie:

Hello Mr. Müller,

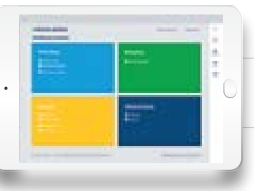
2

Then let us make you a new offer with "Heidelberg Subscription": You will no longer purchase machinery, but instead an agreed monthly printing volume – including a full production system consisting of machinery, workflow, optimally coordinated consumables, expertise and service. This way we can ensure an optimal and stable printing process with the utmost availability. What this specifically means for you is that you no longer have to tie up capital in expensive machinery, and can instead focus entirely on your customers and their products. You can also sign service contracts with us for your existing machinery, in order to automatically manage and monitor all your materials consumption for production with the Heidelberg Assistant*. Those interested can find further information on Heidelberg's subscription offer here: www.heidelberg-subscription.com



WOW

We design your solution system with you. If the agreed goals are met or even exceeded, this benefits both the customer and Heidelberg. This way, both sides benefit from a sound and plannable business foundation aimed at enhancing performance with no surprises.



** The Heidelberg Assistant is the digital interface for accessing key figures, contracts and services at any time, and for viewing the availability and efficiency of your machinery at a glance. At the same time, it grants access to various Heidelberg products and services: You can communicate conveniently online and send information quickly and easily for technical support. More than 1,000 customers have been using it since March 2019 with more still to come.*

turi2 edition

WOW

Issue #5 of "turi 2 edition: Digital me. Ego in times of Internet" describes a world centered around ego. What sets this issue apart is the 1,241 individualized covers showing a different likeness, each one itself consisting of 1,241 portraits. They were printed on our Primefire 106 – the inkjet system in 70 × 100 cm format.

SOCIAL MEDIA PRINT

Whether Facebook, Twitter or Instagram: Social networks are enormously popular because they give people the chance to share experiences and memories with others. Not to mention messenger services like WhatsApp, which are now used by a billion people to share everything directly with friends and to create and organize virtual groups.

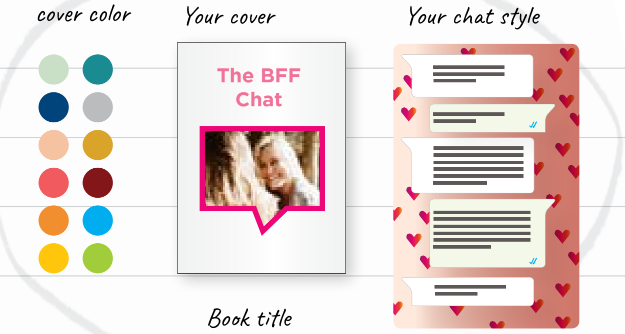
But who would have thought that the online community now wants to bring their digital conversations and experiences with their loved ones back into the analog world? You're wondering how this works? Quite easily: Various e-business print platforms allow you to upload your #1 chat histories – with or without pictures. You can even give your printed book an extra personal note with different backgrounds, cover designs and bindings. It all works in the same way as for a photo album, only with messages. Facebook timeline albums are a thing as well. Just enter the timeframe you want, and the picture comments are there as well. Social media printing is not just limited to books: Snapchat or Instagram pictures can be turned into trend #2: "photo strips" or stickers. And for all those fans of Polaroid or Instax not satisfied with the default photo frame designs, e-business print platforms offer limitless options to give free rein to your creativity. #3 The right photo frame for every occasion!

1 Your WhatsApp book

Your cover color

Your cover

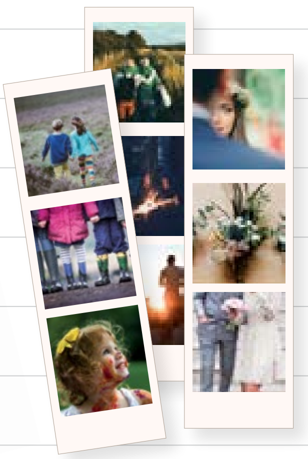
Your chat style



Book title

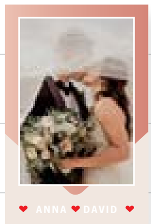
Design your WhatsApp book however you want it.

2 Cool photo strips and stickers



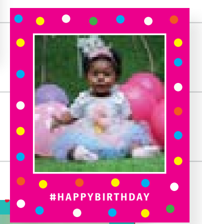
The scrapbook highlight: personal stickers!

3 Individual photo frame

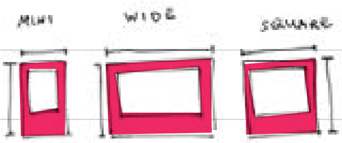


Wedding

Birthday



Baby



Two-year overview – Heidelberg Group

Figures in € millions	2017/2018	**2018/2019**
Incoming orders	2,588	2,559
Net sales	2,420	2,490
EBITDA [1]	172	180
in percent of sales	7.1	7.2
Result of operating activities excluding restructuring result	103	101
Net result after taxes	14	21
in percent of sales	0.6	0.8
Research and development costs	121	127
Investments	142	134
Equity	341	399
Net debt [2]	236	250
Free cash flow	–8	–93
Earnings per share in €	0.05	0.07
Number of employees at financial year-end [3]	11,563	11,522

[1] Result of operating activities before interest and taxes and before depreciation and amortization, excluding restructuring result
[2] Net total of financial liabilities and cash and cash equivalents and short-term securities
[3] Number of employees excluding trainees

In individual cases, rounding may result in discrepancies concerning the totals and percentages contained in this annual report.

The Wi-fi Password is:

The wi-fi symbol shines – literally – thanks to an inline cold foil application using FoilStar.

www.heidelberg.com

Contents

Rainer Hundsdörfer
Chief Executive Officer

"Digital transformation means cultural change and needs courage, perseverance, patience and strength."

Dirk Kaliebe
Chief Financial Officer and Financial Services

"Our balanced financing framework offers room for investments in the future."

Letter from the Management Board

Ladies and gentlemen,

Heidelberg's strategic focus in the financial year 2018/2019 again concentrated on the implementation of our digitization strategy, "Heidelberg goes digital!". The systematic networking of process steps in print shops and the use of data to improve our customers' productivity resulted in the successful launch of our new subscription model and an increase in contract business. We offer print shops a full range of printing presses, services, consumables and software over the entire lifecycle of a press in a usage-dependent all-in contract. This revolutionary model has caused a commotion in our industry. For the future, we have a large number of project conclusions in the pipeline and the successive expansion of our contract business will mean a growing share of recurring sales, thereby reducing the dependence on economic development that is typical for the mechanical engineering industry.

We confirmed our technology leadership with the launch of digital printing presses for packaging and label printing. In the area of sheetfed offset machines, we are pioneering automation right through to fully autonomous processes. With the inauguration of the new innovation center at the Wiesloch-Walldorf production site in December 2018, we laid an important milestone for our future success in the year under review. Our success in the growth market of electric mobility also serves to demonstrate our innovative strength and success outside our core business as announced. By early 2019, we sold almost 1,500 Heidelberg Wallboxes, a charging system for electric vehicles.

All in all, we have made good progress in implementing our digitization strategy. In light of the positive response from customers, the strategic path of digital transformation adopted by Heidelberg has proven to be the right one.

In addition to this progress, we made another pioneering move in early 2019 with the intensification of the cooperation with our long-standing Chinese partner, the Masterwork Group. Together, we intend to expand our leading market position in the growth sector of packaging printing, leverage the available potential in China and Asia even more efficiently, and realize efficiency improvements by extending cooperation in the area of production. Masterwork also became a further strategic anchor shareholder with the acquisition of an 8.5 percent equity interest in Heidelberg. The cash generated by this capital measure serves to strengthen our statement of financial position in a phase of growing economic uncertainty while also creating scope for future-oriented investments.

While we enjoyed visible success in our strategic development, the picture in terms of our operating performance was one of light and shade. We achieved our targets for the financial year 2018/2019, with consolidated sales increasing by around 3 percent to € 2.49 billion and the EBITDA margin improving slightly to 7.2 percent. However, global economic uncertainty and the lack of clarity with regard to the outcome of the Brexit negotiations increasingly had a negative impact on our business towards the end of the financial year in the form of a growing reluctance to invest in new machinery in particular.

Prof. Dr. Ulrich Hermann
Chief Digital Officer
Lifecycle Solutions

"Digital business models offer recurring revenue and growth."

Stephan Plenz
Chief Technology Officer
Digital Technology

"Smart Print Shop with Push to Stop – Industry 4.0 in the print shop."

With leading economic and industry experts having made substantial downward revisions to their forecasts for 2019, we are also more cautious with regard to the new financial year that began on April 1. We are now expecting sales and profitability to see only relatively stable development compared with the previous year and have also defined our medium-term expectations of future sales growth more cautiously.

However, the market trends and the positive response from customers mean we remain confident that the strategic approach "Heidelberg goes digital!" we have adopted is the right one. Accordingly, we are maintaining our strategic pillars of digital transformation, expanding our technology leadership through innovation and operational excellence – i.e. high cost efficiency – and will implement the necessary measures. The future belongs to our subscription model as well as digital packaging and label printing. They are core elements of Heidelberg's future growth story.

We will not be distracted from our objective of creating sustainable value for our Company and all of Heidelberg's stakeholders. We are aware that a far-reaching corporate transformation like this will take time. However, it will generate the growth that is urgently required and improve our profitability for the long term. The contract business is being expanded continuously. Our unsatisfactory share price performance in the past financial year mainly reflects the current risks and uncertainties. In our view, the opportunities of our strategic reorientation are not yet priced in.

Our long-standing CFO, Dirk Kaliebe, played a crucial role in paving the way for this reorientation with the successful refinancing measures undertaken in recent years for the realignment of the capital structure. In light of this, we regret all the more his decision not to renew his contract when it ends in 2021, and to step down from the Management Board as of September 30, 2019.

We would like to thank you, dear shareholders and bondholders, for the confidence and patience you have shown to date and would be delighted if you would continue to accompany us on our path. Our particular thanks go to our employees, whose outstanding commitment and loyalty is vital if we are to realize the necessary transformation of Heidelberg. We would also like to thank our customers, suppliers and other business partners for their close and trusting cooperation.

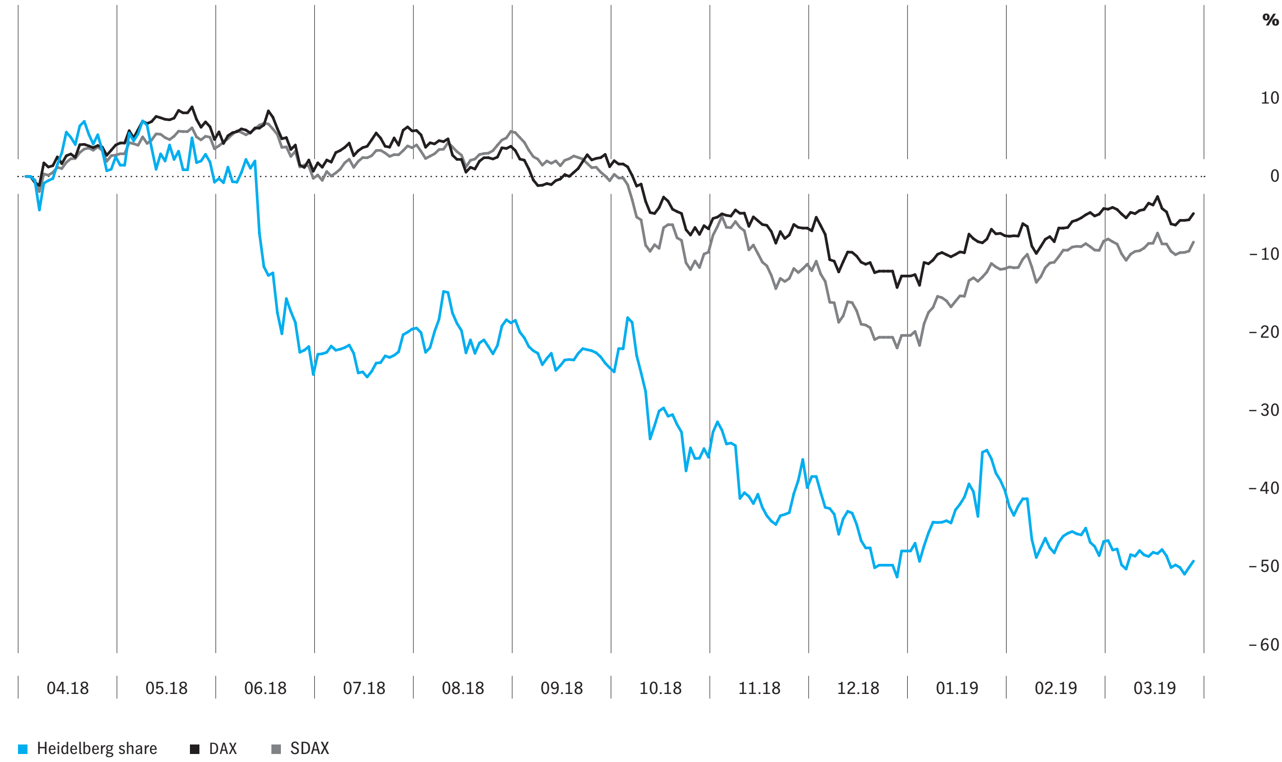
Sincerely,

Rainer Hundsdörfer | Dirk Kaliebe | Prof. Dr. Ulrich Hermann | Stephan Plenz

Heidelberg on the Capital Markets

Performance of the Heidelberg share

Compared to the DAX (Index: April 1, 2018 = 0 percent)



The Heidelberg share and the Heidelberg bonds

- Heidelberg share price declines significantly in the year under review
- Heidelberg bonds continuously above 100 percent in the first half of 2018/2019

Heidelberg's share price declined significantly in the financial year 2018/2019. A rise from the beginning to the middle of April was followed by the share price tracking sideways. The Heidelberg share reached its high for the year of € 3.26 on May 7, 2018. The share price underwent a significant correction following the publication of the outlook for the financial year 2018/2019 in mid-June 2018, but recovered to around € 2.60 by the time the figures for the first quarter were published at the beginning of August. Following a two-month sideways movement, Heidelberg's share price reflected the negative development of incoming orders in the German mechanical and plant engineering industry from mid-October onwards. The share then saw a continuous downward trend until the end of the financial year. The announcement of a potential strategic anchor investor at the end of January 2019 saw a temporary recovery in the share price to around € 2.00. The Heidelberg share closed the financial year on March 29, 2019 at € 1.55, down around 49 percent compared with the beginning of the financial year. The German DAX benchmark index and the small cap selection index, the SDAX, also saw losses in the same period, falling by around 5 percent and 8 percent respectively compared with the beginning of the financial year.

The development of Heidelberger Druckmaschinen's 2015 convertible bond mirrored that of the share. In the first quarter of 2018/2019, the bond reached its high for the year of around 122 percent on April 18, 2018. This was followed by a sustained downward trend, with a low for the year of around 93 percent on December 27, 2018. However, the bond then recovered to close the financial year at almost 100 percent. By contrast, the performance of Heidelberg's 2015 corporate bond was much less volatile. It traded in excess of 100 percent almost continuously throughout the financial year 2018/2019. The corporate bond was reduced from € 205 million to around € 150 million as a result of its partial repayment as of July 18, 2018.

A turbulent year for the DAX benchmark index

The German DAX benchmark index began the financial year 2018/2019 at around 12,000 points in April 2018. Following a strong start, it reached its high for the year at 13,169 points on May 22, 2018. This was followed by a continuous downward trend driven by political factors such as the trade dispute between the US and China that has been ongoing since February 2018, the Italian budget crisis and the Brexit negotiations, resulting in the DAX repeatedly recording new lows. The German benchmark index bottomed out for the year on December 27, 2018 at around 10,382 points. A phase of recovery at the beginning of the 2019 calendar year allowed the DAX to close at 11,526 points on March 29, 2019.

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

The aim of our investor and creditor relations activities is to present Heidelberg transparently on the capital markets in order to achieve an appropriate valuation for the Heidelberg share and bonds. To this end, we inform all stakeholders in an open and timely manner and set great store on not only publishing financial figures but also explaining them. This includes working continuously with the average of 13 financial analysts and two rating agencies that regularly assessed the Heidelberg share and bonds in the year under review.

At the analysts' conference in Frankfurt/Main in June 2018, the Management Board presented the progress made in the planned digital transformation of the Group.

In addition to the analyst and investor conference on the annual financial statements and regular conference calls on the publication of quarterly figures, our investor relations activities focus on constantly communicating with investors, analysts and other capital market participants at a number of international capital market conferences and roadshows. Our work was supplemented by a series of visits to our Company's production sites by investors and analysts. As well as one-on-ones and group discussions with the Management Board and the Investor Relations team, these visits included tours of our production facilities and printing demonstration centers and our new innovation center.

Contact with private investors is very important to us, which was reflected as in previous years by the events for private shareholders in cooperation with Schutzgemeinschaft der Kapitalanleger e. V. (SdK), Deutsche Schutzvereinigung für Wertpapierbesitz e. V. (DSW) and regional banks. We presented Heidelberg's strategic reorientation with the slogan "Heidelberg goes digital!" at a total of four events in Frankfurt/Main, Bonn, Heidelberg and Göppingen.

Our upcoming events and the option to sign up for them can be found on our IR web pages under "Events for private shareholders". Beyond presenting the Company at these events, we also offer opportunities for personal meetings with the Company representatives.

Investors can also contact the Investor Relations team by telephone at any time on +49-6222-82 67121 if they have questions about the Company, the share or the bonds; they are also welcome to use the online IR contact form. Our IR web pages also contain extensive information on the Heidelberg share and bonds, audio recordings of conference calls, the latest IR presentations, corporate news and dates of publications.

Annual General Meeting 2018 approves all agenda items by significant majority

On July 27, 2018, around 1,300 shareholders attended our Annual General Meeting for the financial year 2017/2018, which was held at the Rosengarten Congress Center in Mannheim. This meant that around 38 percent of Heidelberg's share capital was represented. The Management Board explained the Company's strategy and the accounts for the past financial year (April 1, 2017 to March 31, 2018). In his speech, Chief Executive Officer Rainer Hundsdörfer presented the progress made in the planned digital transformation of the Company. The Company's shareholders then voted on four of the five agenda items, including the regular election of three of the six shareholder representatives to the Supervisory Board. The candidates were Dr. Siegfried Jaschinski, Ferdinand Rüesch and Prof. Dr.-Ing. Günther Schuh. All of the agenda items were approved by a significant majority. At the constituent meeting of the new Supervisory Board following the Annual General Meeting, Dr. Siegfried Jaschinski was reelected as Chairman of the Supervisory Board of Heidelberg until 2023.

New anchor shareholder drives digital transformation

The cash capital increase of around 9.2 percent of the existing share capital resolved by the Management Board and Supervisory Board of Heidelberger Druckmaschinen AG in March 2019 was implemented on March 22, 2019 with the addition of Masterwork Machinery S.à r.l. as an additional strategic anchor investor. At an agreed issue price of € 2.68 per share, the cash generated amounted to around € 69 million before transaction costs. The new share capital of the Company was increased to € 779,466,887.68, divided into 304,479,253 no-par value shares.

The capital increase allowed Heidelberg to acquire a further strategic anchor shareholder with a long-term investment horizon that will hold around 8.5 percent of the shares in Heidelberg in the future. The funds generated will strengthen equity and will be used in particular to accelerate the implementation of the digital agenda (such as for the digitization of products, processes and business models) and for general business financing. In addition, the expansion of the partnership with Masterwork that has been in place since 2014 will allow additional potential to be leveraged in the growth area of packaging printing, particularly in the world's biggest individual market, China.

Shareholder structure: Free float at around 84 percent

Following the voting right notifications received, the proportion of Heidelberger Druckmaschinen shares in free float on March 31, 2019 – in accordance with the Deutsche Börse definition – was around 84 percent of the share capital of 304,479,253 shares.

The following notifications of voting rights in excess of 3 percent had been received as of March 31, 2019:

- Masterwork Machinery S.à r.l.: 25,743,777 shares (around 8.5 percent)
- Ferd. Rüesch AG: 23,210,000 shares (around 7.6* percent)
- Universal-Investment-Gesellschaft mit beschränkter Haftung: 13,639,871 shares (around 4.5* percent)

* Recalculated following the capital increase in March 2019

Credit ratings as of March 31, 2019

	Standard & Poor's	Moody's
Company	B	B2
Outlook	Stable	Stable

Key performance data of the Heidelberg share

Figures in € ISIN: DE 0007314007	2017/2018	**2018/2019**
Basic earnings per share [1]	0.05	0.07
Cash flow per share	0.37	0.34
High	3.58	3.26
Low	2.31	1.49
Price at beginning of financial year [2]	2.32	3.03
Price at end of financial year [2]	3.04	1.55
Market capitalization – financial year-end in € millions	847	472
Number of shares outstanding in thousands (reporting date)	278,735	304,479

Key performance data of the Heidelberg 2015 corporate bond

Figures in percent RegS ISIN: DE 000A14J7A9	2017/2018	**2018/2019**
Nominal volume in € millions	205.4	150.0
High	109.6	105.5
Low	104.4	99.8
Price at beginning of financial year [3]	108.3	104.4
Price at end of financial year [3]	104.4	103.1

Key performance data of the Heidelberg 2015 convertible bond

Figures in percent ISIN: DE 000A14KEZ4	2017/2018	**2018/2019**
Nominal volume in € millions	58.6	58.6
High	130.7	121.6
Low	104.5	92.9
Price at beginning of financial year [3]	104.5	118.9
Price at end of financial year [3]	119.2	99.4

[1] Determined based on the weighted number of outstanding shares
[2] Xetra closing price, source: Bloomberg
[3] Closing price, source: Bloomberg

Management Report 2018/2019


Wishing you:

Thanks to a partial UV coating and two-step embossing, our cloverleaf looks anything but flat.

www.heidelberg.com

BASIC INFORMATION ON THE GROUP

Business Model of the Group

Company profile

Heidelberger Druckmaschinen Aktiengesellschaft has been a reliable and highly innovative partner to the global printing industry for many years. For more than 160 years we have stood for quality and future viability. This means that we are a company with a long tradition, but at the same time we help define the future trends in our industry thanks to state-of-the-art technologies and innovative business ideas. Our mission is to shape the digital future of our industry. We are aiming to develop Heidelberg into an end-to-end digital system for industrial value added, assisting print shops in their own digital transformation. The most important component on this path is the smart use of the data available to Heidelberg through the digital connection and networking of customer equipment. The Company is focused on customer requirements and on generating value added in terms of efficiency, profitability and customer success.

But with everything that is new, the proven values are always retained. Customers are at the heart of our business. We have geared our portfolio towards the growth areas of our industry. It is based on products for prepress, printing and further processing, service, consumables and software solutions, with a strong focus on a digital future. Our strong presence in the area of services and software in particular provides us with excellent foundations for digital transformation.

For this purpose, and above all, the potential resulting from combining individual product portfolio offerings to create an end-to-end productive solution for customers must be leveraged to increase productivity and profitability for our customers and for us. What we do – which is unique on the market – is to create a smart end-to-end system from a data-supported configuration of all operating resources, consisting of machinery, software, service and consumables. The model is based on Heidelberg's established ability to digitally network with its customers and printing press users and deliver a self-contained, productive system. We, too, share in the benefits this entails. With the new digital business models, our interests are aligned with those of the customer. It is in our own interest to ensure that the customer succeeds.

We are also addressing new markets beyond the printing industry. For example, we have successfully joined the e-mobility market with our expertise in power electronics.

With a market share of more than 40 percent for sheetfed offset presses, we were able to consolidate our position as the printing industry's market and technology leader in the current financial year as well. Consolidated sales amounted to almost € 2.5 billion in the financial year 2018/2019. Together with our sales partners, around 11,500 employees in total at 250 production sites in 170 countries around the globe ensure the implementation of our customers' requirements and our continuous development on the market.

Service network, sites and production

- Lifecycle business management and lifecycle operations support print shop performance
- Focus on greater efficiency and cooperation
- Production partner for industrial customer business
- China: Key production site and center of excellence

Around 85 percent of our sales are generated outside Germany. Our sales and service network spans the globe. In all key printing markets, we offer our customers high machine availability, guaranteed quality and on-time delivery directly or via partners.

Lifecycle business management and lifecycle operations support print shop performance

We have bundled all of our activities relating to service and service parts, consumables and CtP, including product management, under the term "lifecycle business". We intend to use a joint management organization for services and consumables to expand the competitive edge from a customer perspective that we enjoy thanks to a combination of service and consumable solutions. In this way, we are looking to significantly intensify our focus on increased customer productivity during the lifecycle phase of installed machinery.

This approach is optimally complemented by the range of the global Heidelberg service organization, which is highly valued by our customers and is considered to be an engineering leader even beyond the printing industry. Our service logistics network ensures that customers can enjoy a reliable supply of original Heidelberg service parts over the entire product lifecycle. Customers can choose what they need from a range of 260,000 different service parts. We have around 130,000 service parts permanently in stock, meaning that, on a daily basis, we can fulfill 98 percent of incoming orders when they are received and dispatch the respective parts to any destination worldwide within 24 hours. We also use the network to supply customers with our consumables. The performance promise of our integrated logistics network supports our customers' performance around the world and ensures high machine availability and reliable quality.

Through strategic partnerships with logistics providers, we are constantly optimizing our logistics network. The digitization of the entire print media industry is allowing most print shops to tap further efficiency potential. The innovative services offered by Heidelberg in the "Technical Services" and "Performance Services" categories also make an important contribution to this. For example, on the basis of more than 13,000 connected presses and around 28,000 software systems, the Company has a very large and well-founded database with which to serve its customers according to their exact requirements. The findings from this enable "Technical Services" to focus on planned service applications and "Performance Services" to focus on additional productivity increases and process optimization.

Big data is becoming smart data; the trend towards predictive services is therefore continuing. Heidelberg wants to use the benefits resulting from this for the good of its customers. For example, Heidelberg offers its online-based service tool for preventive fault detection, known as predictive monitoring, thereby highlighting the increased precision in the prediction of possible disruptions. With predictive monitoring, the technical condition of presses can be preventively monitored and analyzed at all times. Around 500 million data sets are generated per year for each press connected. These are then analyzed using algorithms which lead to a preventive action catalog. The goal is to identify possible faults early on and, if possible, to take care of them during the next scheduled servicing. Customers benefit from maximum press availability, reduced downtime and a more plannable production process. These data-based services also form the basis for new digital business models like subscription.

Heidelberg production network: Focus on greater efficiency and cooperation

The Heidelberg production network covers three countries across two continents. This constitutes a global network that is organized by families of components and by products. Our sheetfed offset machines are built at two production sites. In Wiesloch-Walldorf, Germany, we assemble highly automated and more specially configured high-tech printing presses in almost all our format classes based on customer requirements. In Shanghai in China, we produce high-quality, mostly preconfigured models. The latest digital printing systems are also assembled at the Wiesloch-Walldorf production site.

The Ludwigsburg production site manufactures individual parts, modules and postpress machinery. The Amstetten site is the most important casting supplier for our production locations and is continuing to expand industrial customer business. The primary production sites for label printing systems are Langgöns and St. Gallen in Switzerland. The production areas of the St. Gallen, Langgöns and Ludwigsburg sites were successfully integrated into the production network in the year under review, thereby strengthening cooperation within the network.

In production, we focus on parts for which quality is a key factor and products that provide competitive benefits for us and our customers thanks to our specializations. We continually analyze costs and processes with a view to optimizing vertical integration. Heidelberg is continuing the development of its production system with high intensity in order to realize enduring efficiency enhancements in the future as well. The latest step of the reorganization of the production system is now to involve the administrative areas even more. Efficient and agile process and project management are key focal points in the administrative environment. In addition to the ongoing programs and optimization activities, Project Speed, an efficiency project affecting all divisions, was launched in the financial year 2016/2017 in order to further sustainably reduce manufacturing and process costs. In the financial year 2018/2019, another big step was made towards achieving the goal of savings in the double-digit million range.

Furthermore, the US, the UK, Belgium, the Netherlands and Germany are home to our experts for specialty coatings and pressroom chemicals, while our specialist for business and automation software is also located in Belgium.

Heidelberger Druckmaschinen as a production partner for industrial customer business

Heidelberg Industry offers business solutions from engineering and model and prototype construction through to series production. The service range encompasses foundry products, mechanical part machining and production of industrial electronics with particular strengths in the mechanical and vehicle engineering, automotive and energy sectors.

With a casting capacity of up to 85,000 metric tons, our foundry in Amstetten is one of the most powerful in Europe. We use it to produce over 3,000 different components weighing between ten kilograms and six metric tons. We support our customers with perfectly attuned production processes for the manufacture and processing of high-end cast parts and enable production and cost benefits along the entire value chain.

In the area of electronics, we develop and produce bespoke control and power electronics. Having delivered over 100,000 charging cables and produced more than 20,000 OEM Wallboxes, Heidelberg is now one of the biggest suppliers in the area of electric mobility. Since June 2018, we have offered our own Wallbox, the Home Eco, to private customers and have already delivered around 1,500 units. We are also working on the expansion of this Wallbox model series to include intelligent models. In the area of power electronics, Heidelberg also develops and manufactures components and systems for international companies and technology groups.

As a result of rapidly increasing demand for individualized solutions for different markets, the scalability of the production process becomes necessary for industrial customers as well. Heidelberg Industry has established itself as a reliable partner for prototypes and small-series parts across the entire product portfolio. For example, Heidelberg has succeeded in positioning itself as a partner in the production of high-precision 3D printing platforms for the flexible production of such new systems. To do this, Heidelberg uses its View2Connect® collaboration tool, a cloud-based application for digital networking of today's process chains across company boundaries.

China: Key production site and center of excellence

In total, Heidelberg has approximately 850 employees in China, some 400 of whom work in sales and service positions. This puts Heidelberg in a strong position to realize future growth opportunities in China and Asia and to further develop and secure its position on these markets. Two branches in Beijing and Hong Kong and three offices in Guangzhou, Shanghai and Shenzhen serve to ensure comprehensive local customer care.

We also have our own production site in China, which is one of our largest individual markets. The product portfolio manufactured in China is adjusted and expanded continuously to reflect the requirements of the Asian market. The Shanghai production site is fully integrated into Heidelberg's plant network. This means that all its processes and its quality are compliant with Heidelberg's uniform global quality standards even though the share of certified local suppliers is on the rise.

The proverbial Heidelberg quality is now also known beyond China's borders, which was reflected in an export volume to other countries (Asia, Europe and the Americas) of some 20 percent of the total production volume. Some model series are already being produced exclusively for the world market in Shanghai and demonstrated to customers at the plant's print media center, where customers can also train their employees as required. Every year, the location welcomes a total of around 1,000 visitors from throughout Asia, making it an important pillar in this region.

Markets and customers

- The market for printed products is transforming
- Digital transformation is leading to new business models – data delivers value added
- The right solution for every business: Heidelberg

The market for printed products is transforming

The worldwide print production volume has been at more than € 400 billion annually for years. A figure of € 423 billion is expected for 2023. Within this market, there are three fundamental changes offering interesting growth opportunities. The FIRST CHANGE is regional: While print volumes are continuing to grow overall in the emerging economies, print service providers in the industrialized nations are facing a highly dynamic and rapidly changing market environment. The increasing substitution of printed products and business stationery by the Internet and the impact of demographic change on the buying and reading habits of the population is leading to a decline in sales. This is partially being compensated by the increase in the finishing of printed products, above all in cosmetics, and by customization, as they raise the value of individual printed products. This applies in particular to the market – which is growing overall – of packaging and label printing. The SECOND CHANGE relates to the printing technology used. Two-thirds of the print volume is created using sheetfed offset, flexographic and digital printing processes, and the trend is rising. SHEETFED OFFSET PRINTING accounts for around 40 percent of the printing volume, and is still the most frequently used printing technology. DIGITAL PRINTING has steadily increased its share of the global printing volume to around 18 percent since 2000, and the trend towards customization and the growing demand for quick turnaround times mean that it will continue to gain in importance, particularly in industrial applications. FLEXO PRINTING, an important technology on the packaging market, continues to benefit from the stable and significant growth in packaging and labels, and holds a share of around 14 percent of global print volumes. The THIRD CHANGE is shaped by the structural change in all areas of the printing industry that is continuing to be driven by industrialization, automation and digitization. While there used to be a balanced relationship between the three success factors of price or productivity advantages, print quality and customer proximity, these factors have changed over time and have favored the consolidation process in the printing industry. Today, productivity gains can be achieved through the use of software and a higher level of automation. This increases capacity utilization and, ultimately, the overall effectiveness of the system. In addition, print quality has become less dependent on the operator and more on the system, and the high level of investment in state-of-the-art equipment leaves less and less potential for differentiation.

Finally, the Internet has replaced customer proximity with globally transportable data. This development is also known as web-to-print (WTP), e-business printing or online printing, and describes production techniques for the Internet-based transmission or creation of printed materials. In 2018, the global WTP market was estimated to account for around USD 23.8 billion in print sales, and an annual growth rate of 5.1 percent is forecasted between now and 2023. Around 60 percent of this figure is attributable to B2B production, with the remaining 40 percent attributable to B2C production. This goes hand in hand with increasing price competition, which in turn raises the pressure on productivity. Around the world, we are therefore seeing the global growth of ever-larger, usually international print media and packaging groups, coupled with a decline in particular in small, more artisanal, but also in medium-sized companies.

Shorter production times, workflow automation and the regular review and fine-tuning of cost efficiency are increasingly a part of day-to-day life for printing operations. In addition to the scaling of company sizes, a requirement for developing capacity utilization and productivity potential is the bundling of printing capacity and, above all, digitization, i. e. software-controlled process optimization. Thus, data analysis and interpretation are becoming more and more important – to us and to our customers – to enable the networked use of autonomous and interactive processes. This development is increasingly resulting in business innovations and new business models among our customers, which are repositioning themselves in various forms: moving away from being pure-play copiers and towards being innovative and consulting service providers, or by also taking on upstream and downstream aspects of the value chain. For example, on the key market for packaging, a customer often not only prints folding boxes, but also handles cardboard production and recycling, which gives that customer a competitive edge, particularly for food packaging, as it is in control of the quality of raw materials and can rule out potential migration problems. To allow their services to stand out, print shops must therefore invest heavily in their own increasingly digital customer relationships. Digital marketing, an Internet presence and the digitization of ordering for print customers are increasingly becoming crucial success factors, as are inventory optimization and logistics.

Digital transformation is leading to new business models – data delivers value added

Our mission is therefore to assist print shops in their digital transformation. So that our customers can concentrate on their business innovations or new business models in the future, we are increasingly using high levels of automation (such as with our Push-to-Stop philosophy) and the networking of a print shop to create a Smart Print Shop. Since the end of 2017, we have also been offering "subscription models" (see "Strategy"), which are end-to-end solutions over the entire life cycle of a press, and are thus focusing even more on the digital future. The use of software will not just be the key to growth for the printing industry, but for Heidelberg as a leading provider of capital goods for the print media industry it will be the key to its transformation into a new digital business model that shares equally in the industrialization of its customers.

A milestone on this path of digital transformation was the launch of the Heidelberg Assistant, a digitization solution that redefines the foundations of the customer-supplier relationship. Today, more than 1,000 customers in Japan, Switzerland, Germany, the US and Canada are already enjoying the benefits of the Heidelberg Assistant. It provides our customers with data and information that enable them to smoothly manage their processes or the smart and efficient running of their print shop. For example, they receive a full overview of the service and maintenance status of their equipment, including data-based failure prediction. They can also access the industry's biggest knowledge base so as to fully leverage the potential of their entire value chain. Furthermore, access to big data performance analysis offers potential for further productivity enhancement.

The right solution for every business: Heidelberg

Our new business models, such as our subscription offering, are based on our business area strategies for the packaging, commercial and label market segments. The potential market for Heidelberg, particularly for consumables, has a volume of around € 8 billion. New machinery business offers Heidelberg market potential of around € 2.4 billion for sheetfed offset printing presses and around € 2.5 billion for digital printing presses. In this area, we are also devising strategic approaches to create sustainable solutions for our customers, like the "Smart Print Shop" and solutions for the growing market for digital packaging printing presses. We are also strategically well positioned on our new markets outside the traditional printing industry. Information can be found in the "Heidelberger Druckmaschinen as a production partner for industrial customer business" section on page 11 of this report.

Packaging market

In total, packaging accounts for around 27 percent of all printed materials. The packaging market is also the fastest growing market segment, with average growth of around 3 percent. At the same time, more and more packaging is being produced using digital printing processes, with the annual growth rate forecast at around 15 percent. Packaging is a key element in the marketing mix and brand communication. Three seconds. That's how long it takes a consumer in a supermarket to decide to buy something. International brand companies, which put a lot of money into advertising and product staging, have the highest standards of quality: If there is even a tiny flaw on a single folding box, all the pallets delivered are returned to the packaging supplier. So there can be no errors in production.

Heidelberg has the solution in zero-defect packaging: The greater the degree of automation, the data workflow and the more integrated inspections, the closer the print shop gets to claiming zero defects. The digital tools needed for this are provided by the Prinect software. Using assistance systems such as Intellistart, firms can link up their printing presses and color measurement and inspection systems to form smart systems that share data across all production steps, thereby automatically checking actual values against the defined targets for each process step and monitoring production quality. Packaging printers operating and producing internationally are facing another challenge as well. Brand manufacturers are increasingly developing new packaging variants for each product, which is leading to greater product diversity and smaller print runs. Our Primefire digital printing press is the optimal solution for high-quality industrial packaging needed in small quantities and as quickly as possible. Even customized packaging is possible, which opens up new options for manufacturers of branded goods. And Heidelberg is going one step further with web-to-pack. What has long been reality in the commercial sector has now arrived in the packaging market. Web-to-pack is more than "just" an online store for folding boxes. It describes the fundamental philosophy of making business and the entire process organization fit for the future in the era of Print 4.0. A study shows that packaging will account for almost 8 percent of the total volume of the web-to-print product mix in 2023 compared with around 3 percent today.

Commercial market

The market for products such as flyers, brochures, business cards, tickets, postcards, catalogs, annual reports and calendars is referred to as the commercial market. It has historically also been known as "job printing" or "occasional printing" on account of the fact that it originally constituted an additional, irregular source of income for publishing and newspaper print shops alongside their regular publications. Nowadays, there is nothing irregular about the commercial market, which is the largest market segment in terms of the worldwide print production volume at around 40 percent.

Printed products for the commercial market were also produced using digital printing processes at an earlier stage than in packaging printing, for example. In the general commercial and advertising sub-segments in particular, digital printing already accounts for around a quarter of all printing. The Versafire is Heidelberg's competitive digital printing system for all areas of application. At Heidelberg, it is not a case of "offset or digital", but rather "offset plus digital".

The development of printing technology shows that, unlike other segments, commercial printing is affected by digitization at an earlier stage and, in some cases, with a deeper structural impact.

Web-to-pack may still be in its infancy, but web-to-print is already an indispensable feature of commercial printing – just think about how many people now use websites to create and order customized birthday invitations or photo albums of the best snaps from their last summer vacation. The figures back this up: Photo products account for almost 30 percent of the total web-to-print product mix, followed by advertising at around 26 percent. This is also illustrated by the high growth rates of online print shops. The success of this business model for the production of customized printed materials in the sense of Industry 4.0 is based on three pillars: online sales, collective printing – where several print jobs are put on the same sheet and produced jointly – and fully integrated production from ordering to dispatch. Web-to-print is enjoying global growth because the benefits are evident: It simplifies the process of buying printed products by giving individuals and companies access to high-quality, well-designed printed materials without the need for graphic design expertise.

Traditional commercial printers are changing as well: While one variant of a supermarket advertising insert used to be printed per week, today there are several dozen due to the different offers available according to store size and the trend towards products from regional producers. Our answer to this is to increase productivity with our Push-to-Stop philosophy. For example, for order sequences with the same parameters for printing stock and color assignment, as happens for collective printing or signature changes, even completely autonomous printing is possible.

These examples show how zeros and ones have revolutionized the world of marketing. And, contrary to many predictions, physical advertising has not disappeared in a cloud of pixels. Printed advertising in particular is facing tough competition from digital options, but a study shows that it is not a question of one or the other: a cross-media approach is and will remain the best solution. The more different advertising channels are used, the higher the return on investment. Printed advertising offers crucial advantages: It attracts a lot of attention, because the "scroll speed" is significantly slower, and it is more credible and perfectly suited for advertising high-quality products and conveying emotional messages, not least because of the endless options for enhancement and finishing. Find out more in our image section on pages IV to XV.

Label market

While the label market is relatively small, making up around 6 percent of the total print volume, it offers the biggest growth opportunities in the printing industry on account of the high demand for exceptionally finished labels and just-in-time delivery. The share of web-to-print attributable to the label market is also expected to increase from around 1 percent to around 3 percent by 2023. Digital printing currently accounts for around 30 percent of label printing, and this share is seeing high single-digit growth rates in areas such as inkjet technology. Digital printing is therefore driving the change in this promising market segment. It is expected that almost every second press sold in this area will print digitally in the medium term.

Heidelberg's answer for demand-driven digital printing is "Labelfire". By integrating conventional printing and finishing processes in addition to inline finishing, Labelfire allows label makers to print the finished label from a single file – using just a single printing press. There are virtually no manual touch points between the print file and the finished product. The result is less waste, lower costs, greater energy efficiency and shorter delivery times. For print shops that want to secure an extra competitive edge, the Smartfire from Heidelberg is a perfect entry-level model for digital label printing.

Management and control

Heidelberger Druckmaschinen Aktiengesellschaft is a stock corporation under German law with a dual management structure consisting of the Management Board and the Supervisory Board. The Management Board has four members: Rainer Hundsdörfer (Chief Executive Officer), Dirk Kaliebe (Chief Financial Officer and Head of Heidelberg Financial Services), Stephan Plenz (Head of Heidelberg Digital Technology) and Prof. Ulrich Hermann (Head of Heidelberg Lifecycle Solutions). The organizational chart (see page 16) shows the allocation of the business units (BUs) to the Management Board divisions and the segments and the allocation of functional responsibilities within the Management Board as of March 31, 2019. Rainer Hundsdörfer is responsible for the areas of Corporate Development, Human Resources, Communications, Internal Audit/Compliance/Data Protection, Quality Management, and Environmental and Energy Management. Rainer Hundsdörfer also has overall responsibility for Sales and Marketing, meaning he is in charge of the regional sales organization. In his role as CFO, Dirk Kaliebe is also the head of the Heidelberg Financial Services segment and is responsible for the Customer Financing business unit and the areas of Controlling, Accounting, Corporate Finance, Taxes, Investor Relations, Facility Management, Shared Services, and Mergers and Acquisitions, as well as Legal, Patents and Corporate Governance. Prof. Dr. Ulrich Hermann is the head of the Heidelberg Lifecycle Solutions segment and is therefore responsible for the Lifecycle Business, Software Solutions and Heidelberg Platforms business units as well as the areas of Customer Segment Management, Heidelberg Digital Unit and Marketing, IT, Lifecycle Operations, Print Media Center and Sales Excellence. As the Management Board member responsible for the Heidelberg Digital Technology segment, Stephan Plenz is in charge of the Sheetfed, Digital Print, Label and Postpress business units, as well as the Occupational Safety and Corporate Security, Procurement, Manufacturing and Assembly, Product Development and Product Safety functions.

The Supervisory Board consists of 12 members. In accordance with the German Stock Corporation Act (AktG), its most important duties include appointing and dismissing members of the Management Board, monitoring and advising the Management Board, adopting the annual financial statements, approving the consolidated financial statements, and approving or advising on key business planning and decisions. Details of the cooperation between the Management Board and the Supervisory Board and of corporate governance at Heidelberg can be found in the Annual Report in the Report of the Supervisory Board and the Corporate Governance Report.

Organizational chart as of March 31, 2019

Rainer Hundsdörfer Chief Executive Officer	**Dirk Kaliebe** Chief Financial Officer and Head of Financial Services	**Prof. Dr. Ulrich Hermann** Chief Digital Officer Lifecycle Solutions	**Stephan Plenz** Chief Technology Officer Digital Technology
MARKETS			
¬ Regional Sales Organization			
BUSINESS UNITS			
	¬ Financial Services	¬ Heidelberg Platforms ¬ Lifecycle Business ¬ Software Solutions	¬ Digital Print ¬ Label ¬ Postpress ¬ Sheetfed
FUNCTIONAL RESPONSIBILITIES			
¬ Chief Human Resources Officer / Human Resources ¬ Internal Audit / Compliance / Data Protection ¬ Communications ¬ Quality Management ¬ Corporate Development ¬ Environmental and Energy Management	¬ Controlling ¬ Corporate Finance ¬ Facility Management ¬ Investor Relations ¬ Mergers and Acquisitions ¬ Accounting ¬ Legal, Patents and Corporate Governance ¬ Shared Services ¬ Taxes	¬ Customer Segment Management ¬ Heidelberg Digital Unit and Marketing ¬ Information Technology ¬ Lifecycle Operations ¬ Print Media Center ¬ Sales Excellence	¬ Procurement ¬ Manufacturing and Assembly ¬ Product Development and Product Safety ¬ Occupational Health and Safety and Company Security

Segments and business units

In line with the operating activities, the internal reporting structure of the Heidelberg Group was divided into the following segments in the financial year 2018/2019: Heidelberg Digital Technology, Heidelberg Lifecycle Solutions and Heidelberg Financial Services. These are also the reportable segments in accordance with IFRS. Within the segments, Heidelberg is divided into business units (BUs). Each business unit formulates plans for how best to leverage the potential offered by its respective sub-market. The production, sales and administration functions, which continue to be organized centrally, derive targets on the basis of these plans and implement them. This organizational approach allows us to define our strategies at the level of the respective sub-markets while generating synergies within the functions and upholding the principle of "one face to the customer". Our sheetfed offset, flexo and digital printing press technologies are developed, produced and marketed by the corresponding business units. Finishing technologies for packaging and advertising are the responsibility of the Postpress business unit. The global provision of service capacity and service parts is coordinated by the Lifecycle Operations business unit, which has around 3,000 service employees and a global logistics system for service parts. The BU Lifecycle Business ensures that our customers around the world are supplied with consumables. Remarketed printing presses, mainly manufactured by Heidelberg, are traded in the Sheetfed business unit. The Digital Solutions business unit generates growth potential by expanding software business.

Group corporate structure and organization

Heidelberger Druckmaschinen Aktiengesellschaft is the parent company of the Heidelberg Group. It carries out central management responsibilities for the entire Group, but is also operationally active in its own right. The overview below shows which of the companies were material subsidiaries as of March 31, 2019 that are included in the consolidated financial statements. The list of all shareholdings of Heidelberger Druckmaschinen Aktiengesellschaft can be found in the appendix to the notes to the consolidated financial statements on pages 146 to 149.

Overview of material subsidiaries included in the consolidated financial statements

Gallus Druckmaschinen GmbH (D)	Heidelberg Italia S.r.L. (IT)
Gallus Ferd. Rüesch AG (CH)	Heidelberg Japan K.K. (J)
Heidelberg Baltic Finland OÜ (EST)	Heidelberg Manufacturing Deutschland GmbH (D)
Heidelberg Benelux BV (NL)	Heidelberg Mexico, S. de R.L. de C.V. (MEX)
Heidelberg Benelux BVBA (BE)	Heidelberg Polska Sp z.o.o. (PL)
Heidelberg Canada Graphic Equipment Ltd. (CDN)	Heidelberg Postpress Deutschland GmbH (D)
Heidelberg China Ltd. (PRC)	Heidelberg Print Finance International GmbH (D)
Heidelberg do Brasil Sistemas Graficos e Servicos Ltda. (BR)	Heidelberg Schweiz AG (CH)
Heidelberg France S.A.S. (F)	Heidelberg Spain S.L.U. (ES)
Heidelberg Graphic Equipment (Shanghai) Co. Ltd. (PRC)	Heidelberg USA, Inc. (USA)
Heidelberg Graphic Equipment Ltd. – Heidelberg Australia – (AUS)	Heidelberger Druckmaschinen Austria Vertriebs-GmbH (A)
Heidelberg Graphic Equipment Ltd. – Heidelberg UK – (GB)	Heidelberger Druckmaschinen Osteuropa Vertriebs-GmbH (A)
Heidelberg Graphics (Beijing) Co. Ltd. (PRC)	Heidelberger Druckmaschinen Vertrieb Deutschland GmbH (D)
Heidelberg Graphics (Thailand) Ltd. (TH)	Hi-Tech Chemicals BVBA (BE)

Strategy – Heidelberg goes digital!

Profitable growth through systematic implementation of digital agenda

As previously, our strategic focus is concentrated on the transformation of the Company that was initiated in the financial year 2017/2018 in line with the clearly defined digital agenda that we are implementing with the slogan “Heidelberg goes digital!”. The Group strategy is based on Heidelberg’s established market and technology leadership as an end-to-end system provider of printing presses, consumables, software and services. The Company’s aspiration is to be perceived as a pioneer in the digitization of the printing press industry. We aim to achieve even greater customer loyalty and to increasingly expand value added for the customer across the entire lifecycle.

The Company’s future operating success will be built on our global installed printing press base, its digital connection and networking, and the data it delivers. This will enable us to increase our customers’ efficiency, profitability and success. We have started offering usage-dependent contract models that will allow us to grow in line with our customers’ output.

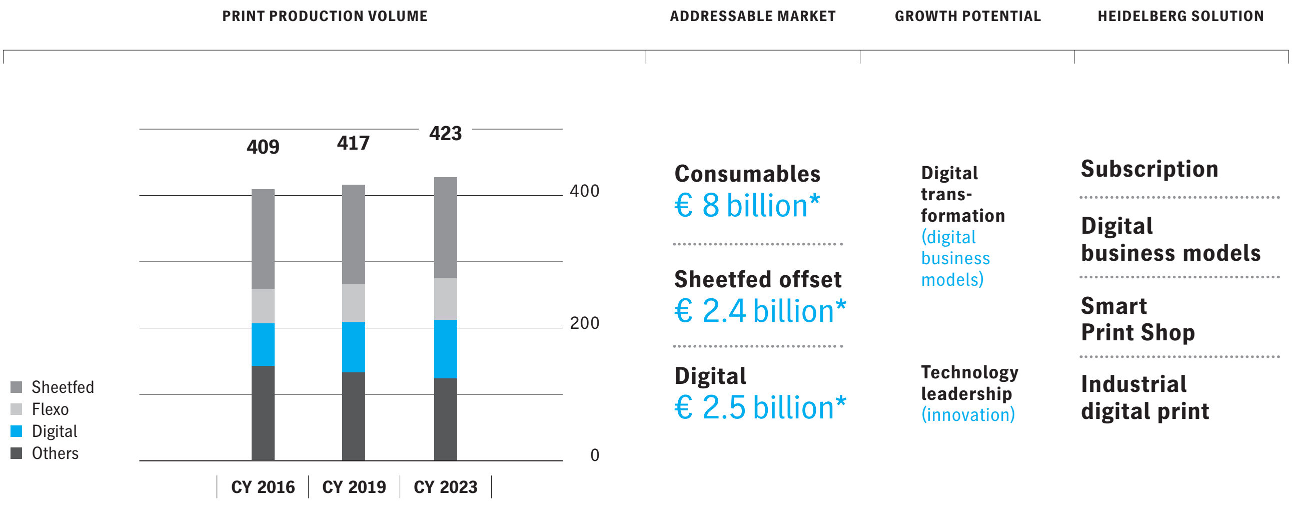
Value-added potential defined in all core areas

Although it is often underestimated in the face of the growth in digital media, print business is a huge area that will continue to enjoy steady growth in the coming years. The total print volume is expected to increase from around € 417 billion in 2019 to € 423 billion in 2023, with digital printing in particular enjoying above-average growth. Heidelberg has defined growth potential for all of its core areas – sheetfed offset equipment, digital printing, software, service and consumables – as well as suitable measures for leveraging this potential and creating value for our customers and all of the Company’s stakeholders.

In the area of sheetfed offset printing, some 90 percent of the available market volume of around € 2.4 billion is realized by five providers in Germany and Japan. Heidelberg is the undisputed market leader with a share of over

Our potentials: Growth through digital transformation and technology leadership

Figures in € billions



* Accessible market for Heidelberger Druckmaschinen, excluding postpress

40 percent. Heidelberg has a market share of around 5 percent when it comes to consumables such as imaging plates, inks and coatings, which account for an annual market volume of around € 8 billion. It intends to significantly increase this share through organic and external growth, for example by offering new digital business models as a holistic solution across the lifecycle of a printing press and by expanding its e-commerce platform.

The trend towards increasingly customized printed products with increasingly small print runs is strengthening the position of digital printing within the industry. To date, Heidelberg's share of the total market volume of around € 2.5 billion is less than 5 percent. It intends to successively increase this share by offering new and innovative digital printing presses, particularly in the areas of packaging and labels.

To allow it to efficiently leverage the resulting market potential with suitable products and services, Heidelberg has defined the implementation of the digital transformation and the expansion of its technology leadership as its two strategic growth drivers. These core strategic topics are supplemented by the implementation of numerous measures to improve the Company's operational excellence, and hence its profitability.

Digital transformation – participating in customers' output with the new subscription model

The concentration on increasingly large, industrialized print shops will continue in future. As this involves the use of larger, more powerful and more productive printing presses with higher utilization, the value-added structure of the industry will shift towards a higher share of service, software and consumables as a result. In order to increase customers' productivity, the huge data volume generated by the software used and the countless sensors installed in the presses must be harnessed intelligently. Big data is the central element of Heidelberg's future success. With more than 13,000 Heidelberg printing presses and around 28,000 Heidelberg Prinect modules for data transfer installed to date, the Group can already call up this data at any time of the day or night. To this end, Heidelberg has developed and established the Smart Print Shop – the intelligent networking and automation of all components and processes, with the user only having to intervene in the autonomous process chain as required.

Heidelberg is also the only provider in the industry that can offer its customers a full range of printing presses, services, consumables, consulting and software in an all-in contract. The optimal, data-driven interaction of all coordinated individual components enables a significant improvement in overall system effectiveness and utilization for the customer. This gives customers not only state-of-the-art technology, but first and foremost a solution with which they can increase their competitiveness.

In order to reap these rewards along with the customer, Heidelberg introduced its subscription model in late 2017. Under a subscription contract, the customer no longer pays for the individual components, but rather for use over the lifecycle as well as the number of sheets printed on a performance-related basis. The new business model guarantees constant, plannable revenue streams over a long period irrespective of the volatility of new machinery business and is directly linked to the growing print production volume with a higher share of wallet, i. e. more value created per order. Over a typical five-year contract, the potential project sales can be increased by up to 70 percent compared to a one-time transaction. Improved purchasing benefits and rising economies of scale can therefore also lead to higher margins. As announced, Heidelberg concluded the first subscription contracts by the end of the financial year 2018/2019: around 30 in total, almost half of which were with new customers of the Company. Using the initial insights and experience from an entirely new business model of this nature, it now intends to work intensively to create the necessary conditions and infrastructure for the efficient scaling of the business model and to significantly expand the number of contract customers. The first presses under contract are already productive and will generate further continuous sales in the financial year 2019/2020.

The automated e-shop that was launched in 2018 is intended to enable all Heidelberg customers to benefit from the aforementioned intelligent use of data. This digital platform allows printing presses to be automatically provided with the necessary consumables, thereby significantly reducing complexity for the customer. To this end, Heidelberg has launched the Heidelberg Digital Unit, a new center of excellence for digital marketing and e-commerce, which will increase e-commerce sales almost threefold over the next few years, among other things.

The market potential for digitization in our industry is considerable. We still expect the implementation of our digital transformation measures and the new business models to generate a sales volume of at least € 250 million in the medium to long term.

Expansion of technology leadership remains a key component of success

In the financial year 2019/2020, we will again channel around 5 percent of consolidated sales into research and development in order to expand our technology leadership. The Company's innovative strength has also been boosted by the innovation center for around 1,000 employees that opened at the Wiesloch-Walldorf site in December 2018. The numerous development projects are focused on the expansion of the industrial digital print portfolio and, in offset printing, the further development of the Smart Print Shop. Further information on our development activities can be found in the "Research and Development" chapter on pages 25 and 26 of this report.

The flagship product for digital printing is the packaging printing press "Primefire 106". Series production began in early 2018 and the first systems are already in operation in Germany, Switzerland, China and the US. Customer interest is high and the potential market will expand in the future as the press and its areas of application become more technologically advanced. As customization in the packaging market is continuing to gain in importance to a considerable extent, we believe the Primefire 106 offers significant sales potential. It can also play an important role in the future packaging market in connection with new business models like web-to-pack. The same is true for the new digital label printing press from Gallus ("Labelfire"). In this area, Heidelberg intends to benefit from the growth in the global print volume for self-adhesive labels. As the share of this market attributable to digital printing technology is still well below 10 percent, above-average growth rates are anticipated.

With regard to its entire product range, Heidelberg is increasingly benefiting from recently developed automation functions like Push-to-Stop and the aforementioned networking of printing presses, software, consumables and services within the Smart Print Shop. In light of the importance of data use, the expansion of the software range is one of the central pillars of Heidelberg's growth and digitization strategy. The Prinect production workflow, the established management information systems for central operations management and the Heidelberg Assistant are key factors in digital cooperation with customers.

The market potential for digital packaging printing and connected print production is particularly high. As previously, the expansion of Heidelberg's technology leadership is expected to generate a sales volume of around € 200 million in the medium to long term.

Sales opportunities beyond core business thanks to high-tech applications

The Group has already demonstrated at various level of application that its technologies can be used for business areas and products beyond its core business. One of the flagships is the Heidelberg Wallbox, which has already successfully established itself on the market for electric vehicle charging systems, with around 1,500 units shipped to the customer in the past financial year. The new innovation center will therefore continue to work on innovative products for digital platforms and IT solutions for design, production and services in the area of high-tech applications for industrial customers. This includes focusing on products for control and power electronics as well as the production of high-precision 3D printing platforms and innovative software solutions for digital business models.

We expect the expansion of the high-tech product range to generate sales potential of around € 50 million in the medium to long term.

Operational excellence with a focus on cost efficiency and improved productivity

Heidelberg's future success will depend not only on generating additional sales sources and sales potential, but also on improving its profitability. It intends to achieve this by increasingly focusing on profitable, high-margin activities in its core business areas as well as leveraging efficiency and cost reduction potential by improving operational excellence throughout the Group. Improvements to logistics, site and space optimization and the standardization of printing press platforms have already been realized and will be continued. The corporate culture, and hence the management culture, are also transitioning to a more streamlined, efficient and agile organization and being further modified to reflect our market segments of packaging, commercial and label with a focus on the customer. With regard to our global administrative, production and manufacturing structure – including in light of demographic development at our German production sites in particular – we are working on a future concept that will promote innovation while ensuring cost optimization. All in all, the efficiency improvement measures are expected to improve the operating result by around € 50 million in the medium term.

Key Performance Indicators

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

We have already achieved key strategic targets with the implementation of our digital agenda measures. Profitable growth is a core objective of this strategic orientation. In its management of the Group, the Management Board primarily uses key financial figures as the basis for its decisions. These control parameters are the main basis for the overall assessment of all issues and developments being assessed in the Group.

Most significant controlling performance indicators

Our planning and management are mainly based on the sales and earnings development of the Group. In terms of operational financial performance measurement, the most significant key financial performance indicators relevant to control in addition to **SALES** are the result of operating activities before interest, taxes, depreciation and amortization without the restructuring result (**EBITDA EXCLUDING RESTRUCTURING RESULT**), the **NET RESULT AFTER TAXES** and **LEVERAGE**, i. e. net debt in relation to EBITDA excluding restructuring result. More detailed information on the development of these financial performance indicators can be found in the individual sections of the "Economic report" on pages 27 to 40 and in the "Future prospects" section on pages 52 and 53.

Other financial and non-financial performance indicators

Other important key figures applied in operational financial performance measurement are primarily the result of operating activities before interest and taxes excluding restructuring result (**EBIT EXCLUDING RESTRUCTURING RESULT**), net working capital in relation to sales and **FREE CASH FLOW**. Moreover, we determine the return on capital employed (**ROCE**) for the Group. We are striving to sustainably increase our enterprise value after deducting capital costs, which we measure as economic value added (EVA). We have again improved this parameter in the year under review and, including the restructuring result, have again covered our cost of capital. More information can be found in the "ROCE and value added" section on page 38.

In addition to financial key figures, the Management Board also uses non-financial performance indicators, particularly relating to quality assurance.

Reconciliation of EBITDA excluding restructuring result to net result after taxes

Figures in € millions	2017/2018	**2018/2019**
EBITDA excluding restructuring result	172	180
Depreciation and amortization excluding depreciation and amortization due to restructuring	68	79
EBIT excluding restructuring result	103	101
Restructuring result	– 16	– 20
Result of operating activities	87	81
Financial result	– 48	– 49
Net result before taxes	39	32
Taxes on income	26	11
Net result after taxes	14	21

Partnerships

- Partnerships and cooperations for the expansion of new digital business models
- Focus on digitization and industrialization in all projects
- Tapping new market potential

In the past, Heidelberg's position as a market and technology leader has allowed it to establish itself as a preferred industry partner for worldwide cooperations at various levels. The resulting cooperations with companies that are likewise the leaders in their fields are paying off more and more. They are a key component of our strategy of becoming a digital company and a powerful engine for advancing our business. Cooperations help us to make our established activities more efficient and contribute to the faster cultivation of new market segments in defined growth areas and other sales regions. There is a focus on digital transformation in practically all projects. We combine our own innovative drive with that of our partners. This ensures the rapid integration of expertise and optimized resource management on both sides.

With the aim of establishing digital sales channels for Heidelberg sales organizations, Heidelberg launched the Heidelberg Digital Unit (HDU), its own center of expertise for digital marketing and e-commerce, at the start of 2018. This will become the digital Internet service provider of our global sales organization. With the new unit we are placing Heidelberg's online content on an entirely new footing, including e-commerce, Web pages and the Group's Internet presence. Heidelberg worked in close cooperation with the internet consulting company iq! in establishing the HDU. As the first step, iq!'s Internet specialists complemented our existing skillset in the fields of digital marketing and e-commerce. We have now taken over almost all of the expert positions from iq! and filled them with new Heidelberg employees. iq! will continue to advise us on strategic projects in the future. The vision behind the HDU is to establish a leading ecosystem for the print media industry along the customer journey. The clear focus on digitization and automation, the establishment of new processes, the appointment of online experts and the definition of new forms of cooperation are the conditions for achieving this. To this end, we have combined digital sales, marketing, data analysis and customer-oriented IT in a single unit with the aim of creating a seamless omnichannel approach for our customers. The first online campaigns were already launched in the period under review.

As part of the ongoing digitization and industrialization of our industry, we see digital business as one of Heidelberg's most important growth paths. This is not just about digital printing, but also the integration of offset and digital printing systems into a continuous workflow that transparently connects customers, service providers and suppliers. To expand our share of this market further, we are investing in new business applications and cooperating with innovative partners who are the leaders in their respective segment. We are aiming to be the preferred partner in the industry. We have a successful cooperation with Fujifilm, Japan, in digital printing. Above all, pronounced expertise on the packaging market, outstanding color and print quality, in conjunction with the service promise and the reliability of the Heidelberg brand, are key decision-making factors that lead customers to choose the Primefire 106. As planned, series production started in 2018. Print shops in Europe, the US and China are already producing with high quality and productivity for their customers using the new digital print system Primefire. We have also begun series production at the Wiesloch-Walldorf production site of the digital label printing machine Gallus Labelfire, which was also developed in collaboration between Heidelberg, Fujifilm and Gallus.

Since the start of the partnership between Heidelberg and Ricoh in 2011, more than 1,500 users have already opted for a Versafire CP/CV digital printing system from the cooperation between the two companies for the economic and flexible production of small print runs, including variable data printing. Using the Prinect Digital front-end developed by Heidelberg, systems can be completely integrated into the Prinect print shop workflow. Customers can therefore control digital and offset printing systems from a single workflow.

In order to further expand our market position in the growth area of packaging printing, we agreed to significantly extend our long-standing sales partnership with China's largest manufacturer of die-cutters and hot-foil embossing machines, Masterwork Group (Masterwork), in the period under review. The Tianjin-based company acquired an interest of around 8.5 percent in Heidelberg's share capital by way of a cash capital increase from authorized capital. This will allow additional potential to be leveraged in the growth area of packaging printing, particularly in the world's biggest individual market, China. Cooperation in the value added of both companies is also set to be intensified.

On the product side, we also expanded the portfolio for our folding box customers in the period under review. We presented die-cutters for industrial packaging customers in the form of the Powermatrix 106 CSB and the Promatrix 145 CSB, while the recent launch of the Diana Go folder gluing machine rounds off our range of products for smaller runs. All in all, our partnership with Masterwork is progressing extremely well.

Heidelberg's development into a service company also requires cooperation with innovative providers in the field of services in order to promote digitization in this area as well. For example, we operate cloud-based service platforms with leading providers such as PTC Inc. and USU Software AG. Using big data analytics, we are now able to offer our customers new data-driven service products (smart services) to increase their competitive capability. With personalized access to the newly developed "Heidelberg Assistant" customer portal, customers can access important data and address their service requirements.

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

Heidelberg Financial Services has been successfully supporting print shops in developing financing solutions for a number of years. We actively moderate between our customers and global financing partners. Tailored financing solutions are an essential element for our customers' success.

Research and Development

- “Open for innovation”: World’s most state-of-the-art innovation center for the industry opens at the Wiesloch-Walldorf production site
- European development network with unique industry expertise
- Development projects driving digital change within the industry
- New working environment and agile methods with a focus on customer benefit

The past financial year marked a turning point in research and development at Heidelberg: With the opening of the new innovation center (IVC) at the Wiesloch-Walldorf production site, Heidelberg is stepping up its efforts to remain the technology leader and shape the digital transformation process in the printing industry in the future.

“Open for innovation” – this is the slogan with which the new IVC officially began operations on December 13, 2018. The new innovation incubator for the graphics industry is the most state-of-the-art development center in the sector and an important driver of Heidelberg’s continued digital transformation. It also represents the heart of our Company and the future digital campus that Heidelberg is gradually establishing at its Wiesloch-Walldorf production site.

The conversion of a former production hall into an innovation center for more than 1,000 people is the only project of its kind in the world. On an area totaling around 40,000 m², the Wiesloch-Walldorf production site is now home to around 26,000 m² of ultra-modern office space and around 14,000 m² of space for laboratories – including a state-of-the-art ink development lab – and testing. The office space comprises 13 neighborhoods each housing 80 employees, while around 3,700 m² of space is dedicated to the 43 laboratories alone.

European development network with unique industry expertise

The new IVC is the heart of the European development network operated by Heidelberg with additional locations in Kiel, Ludwigsburg, Weiden and St. Gallen (Switzerland). Almost 1,000 developers work throughout the entire network in the areas of printing technology, including prepress and further processing, control systems, drive systems and software including user interfaces, and consumables with a focus on ink development for digital printing. Around two-thirds of them have a university degree or a doctorate. In addition to traditional mechanical engineering, they have key expertise in the areas of digitization and image processing, electronics and software development, and process engineering and chemicals.

Development projects driving digital change within the industry

For our customers, digitization is the key. With regard to the possibilities of producing customized digital print applications in the traditional areas of commercial, packaging and label printing industrially, and hence at optimal cost. And with regard to the digitization of all value-added products and the adoption of new business models in order to remain competitive.

To master this challenge, Heidelberg invests around 5 percent of its sales in development every year. The numerous development projects are focused on the expansion of the industrial digital printing portfolio and, in offset printing, the further development of Push-to-Stop technology for autonomous printing, where the user only intervenes in processes that the system cannot resolve by itself. Various development teams are also working on the digitization of all print shop processes – the Smart Print Shop – and the further expansion of digital business models, e. g. “Heidelberg Subscription”, under which customers increasingly pay for the benefits they obtain from a system. Development work draws upon the most extensive data pool in the industry, which Heidelberg has built up over the past decade using the customer systems that are connected to the Company. The proximity of the IVC to key areas of production as well as service, procurement, marketing and product management serves to promote an agile, cross-sector development process. All of the initiatives are aimed at continuously driving digital change within the industry.

Five-year overview: Research and development

	2014/2015	2015/2016	2016/2017	2017/2018	**2018/2019**
R&D costs in € millions	121	122	119	121	127
in percent of sales	5.2	4.9	4.7	5.0	5.1
R&D employees	933	888	891	911	988
Patent applications	94	76	75	81	89

New working environment and methods focus on customer benefit and reflect the dynamics of change in an increasingly digital world

In order to bring development projects to success more quickly and efficiently, the dynamics of change in an increasingly digital world must be taken into account. This is why Heidelberg is using agile working methods like Scrum to a greater extent. This allows development to respond quickly and flexibly to changing customer requirements in the digital world and incorporate new market insights into the development process in a timely manner. Products reach market maturity more quickly and can then be optimized for specific market segments in cooperation with and for customers.

Heidelberg has also designed its development process to be open, meaning that customers, suppliers, partner companies and employees can be integrated into the process at all times. This enhances cost efficiency and customer benefit.

The IVC represents the start of a new era for Heidelberg's employees in terms of the design of their working environment as well. The building concept allows the entire development process to be brought together under one roof, making communication and teamwork between employees easier. State-of-the-art, innovative techniques are used, such as interactive monitors that enable digital reviews. A creative and pleasant atmosphere is ensured through teamwork and communication, working in different locations, including in the open air, and a combination of dedicated workstations and shared communication zones. In other words, the new IVC is the role model for the future working environment throughout Heidelberg. As an innovation platform built on communication and transparency, it is the key to, and a symbol of, the cultural change at Heidelberg.

R & D in figures

Around 8.5 percent of our workforce is currently employed in the area of research and development. We invested around 5 percent of our sales in research and development in the year under review. Heidelberg submitted a total of 89 new patent applications in the financial year 2018/2019 (previous year: 81). This means that Heidelberg's innovations and unique selling propositions are protected by around 3,370 active patents and patent applications worldwide.

ECONOMIC REPORT

Macroeconomic and Industry-Specific Conditions

The global economy continued to enjoy extremely dynamic development in 2018, expanding by 3 percent. This strong upturn was recorded not only in the industrialized nations, which saw growth of 2.1 percent, but also in the emerging economies, which generated growth of 4.5 percent in 2018.

However, the pace of growth slowed in all regions during the second half of the year.

Gross domestic product in the US performed strongly until recently on the back of substantial fiscal impetus, rising by 2.9 percent, whereas the increase in production slowed considerably in the euro zone and Japan in particular.

The euro zone economy expanded by just 1.8 percent in the year as a whole due to the uncertainty surrounding Brexit, reduced foreign trade momentum and country-specific factors such as strikes and social protests in France and problems in the automotive sector and production downtime due to extremely dry conditions in Germany, while the Japanese economy grew by a mere 0.8 percent.

The expansion of the Chinese economy also slowed in 2018. Although the growth in gross domestic product was down only slightly on the previous year at 6.6 percent, the pace of growth declined further during the course of the year to just 6.4 percent at year-end. By contrast, the other Southeast Asian nations enjoyed a relatively strong economic performance in the past year. The same applies for Central and Eastern Europe, which continued to generate impressive growth momentum. In Brazil, however, the economy expanded by just 1.1 percent in 2018, the same level as in the previous year.

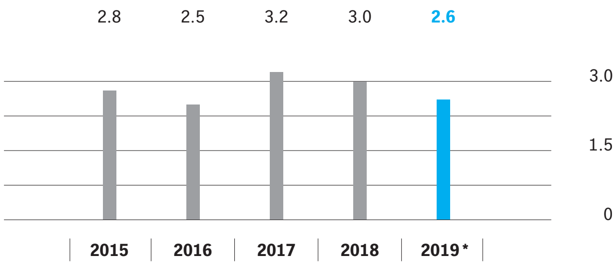
The German economy also weakened slightly at 1.5 percent, although this represented the ninth consecutive year of growth.

According to preliminary figures from the German Engineering Federation (VDMA), production in the German mechanical engineering industry in 2018 increased by 2 percent adjusted for inflation, while incoming orders rose by as much as 5 percent. Domestic orders increased by 6 percent, while demand from outside Germany rose by 4 percent. In the printing and paper technology sector, orders for printing presses increased by 2 percent adjusted for inflation, while sales declined by 4 percent.

Sources: IHS Global Insight 2018 and 2019; VDMA 2019

Change in global GDP [1)]

Figures in percent



* Forecast
[1)] Data determined in accordance with the straight aggregate method

The chain-weighted method would deliver the following results:
2015: 3.0%; 2016: 2.7%; 2017: 3.3%; 2018: 3.2%; 2019: 2.8%

Source: Global Insight (WMM); calendar year; as of April 2019

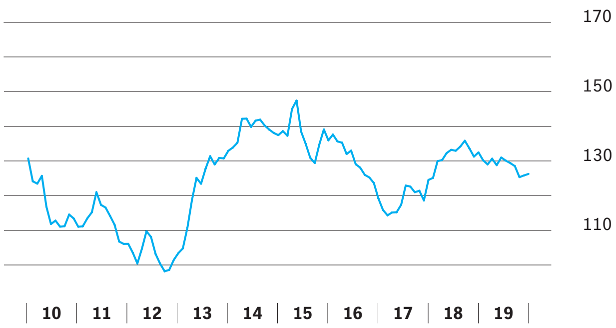
Development of EUR/USD

January 2010 to January 2019

Source: Global Insight

Development of EUR/JPY

January 2010 to January 2019



Source: Global Insight

Business Development

- Sales volume up around 2.9 percent year-on-year
- EBITDA margin improves slightly to 7.2 percent
- Net result before taxes € 32 million, net result after taxes increases to € 21 million
- Leverage remains below target of 2

Overall assessment of business development

Heidelberg successfully pressed ahead with its digital transformation in the financial year 2018/2019: Its business structure and organization were adapted to the challenges of digitization, new business models continued to be implemented and new products were successfully established on the market both within and outside the print media industry. As forecast, sales increased moderately to € 2,490 million in the financial year 2018/2019. Operating profitability, measured as the EBITDA margin excluding the restructuring result, was within the target corridor and up slightly on the previous year at 7.2 percent. The additional staff costs resulting from the most recent collective bargaining agreement, the cost of series start-ups in digital printing and increased development costs due to lower capitalization were partially offset by measures as part of our operational excellence program. The Heidelberg Digital Technology segment outperformed the EBITDA forecast of between 2 and 3 percent excluding the restructuring result, while the Heidelberg Lifecycle Solutions segment was within the target corridor of 12 to 13 percent. The Heidelberg Financial Services segment made a positive earnings contribution in the past financial year as planned.

The net result after taxes improved to € 21 million in the financial year 2018/2019 after € 14 million in the previous year, meaning that Heidelberg achieved the desired improvement in earnings.

As forecast, leverage (the ratio of net debt to EBITDA) was again kept below the target of 2.

We continued to optimize our financing structure in the year under review. In July 2018, Heidelberg made a partial cash repayment of its corporate bond (around € 55 million). Our instruments and maturities are diversified and balanced. In March 2019, we strengthened our capital structure by way of a capital increase from authorized capital and acquired a new strategic anchor investor in the form of Masterwork Group, China.

Incoming orders down slightly on previous year

Incoming orders totaled € 2,559 million in the financial year 2018/2019, down slightly on the previous year (€ 2,588 million). The higher level of incoming orders in the Heidelberg Lifecycle Solutions segment was offset by a downturn in the Heidelberg Digital Technology segment, particularly in the second half of the financial year. Incoming orders increased in the North America and Eastern Europe regions, remained roughly at the prior-year level in Asia/Pacific and declined in the EMEA region.

The order backlog increased from € 604 million in the previous year to around € 654 million as of March 31, 2019, largely due to services and consumables but also as a result of the new subscription contracts.

Moderate sales growth as forecast

Sales amounted to € 2,490 million in the year under review, up around 2.9 percent on the previous year (€ 2,420 million). Sales of sheetfed offset and digital printing presses increased in particular. Sales per employee (excluding trainees) amounted to € 216 thousand in the year under review after € 209 thousand in the previous year.

Five-year overview: Business development

Figures in € millions	2014/2015	2015/2016	2016/2017	2017/2018	**2018/2019**
Incoming orders	2,434	2,492	2,593	2,588	2,559
Sales	2,334	2,512	2,524	2,420	2,490

Results of Operations

- Slight improvement in EBITDA margin
- Financial result and restructuring result in line with forecast
- Net result after taxes increases

At € 180 million, EBITDA excluding the restructuring result was up on the previous year (€ 172 million). The EBITDA margin excluding the restructuring result amounted to around 7.2 percent of sales, thereby falling within the forecast range of 7 to 7.5 percent.

Income statement

Figures in € millions	2017/2018	**2018/2019**
Net sales	2,420	2,490
Change in inventories/other own work capitalized	87	65
Total operating performance	2,507	2,556
EBITDA excluding restructuring result	172	180
Result of operating activities excluding restructuring result	103	101
Restructuring result	– 16	– 20
Result of operating activities	87	81
Financial result	– 48	– 49
Net result before taxes	39	32
Taxes on income	26	11
Net result after taxes	14	21

Income statement: Moderate increase in net result after taxes

As a result of the higher sales volume, the Group's total operating performance increased from € 2,507 million in the previous year to € 2,556 million in the year under review. The ratio of the cost of materials to total operating performance and the staff cost ratio were both unchanged year-on-year at around 45 percent and 35 percent respectively.

Depreciation and amortization increased in the year under review compared with the previous year. This was mainly due to depreciation and amortization of capitalized development costs and buildings.

Other operating expenses and income repeated the prior-year level at a net amount of € 344 million in the year under review (previous year: € 339 million). As forecast, the restructuring result amounted to € – 20 million in the year under review (previous year: € – 16 million). It primarily included partial retirement agreements for controlling demographic development at the German locations.

At € – 49 million, the financial result was in line with the prior-year figure of € – 48 million. As expected, the interest savings from the partial repayment of the 2015 corporate bond were slightly exceeded by non-recurring transaction and prepayment fees of around € 4 million.

All in all, the net result before taxes amounted to € 32 million (previous year: € 39 million). The net result after taxes increased to € 21 million (previous year: € 14 million). The net result after taxes in the previous year was negatively impacted by deferred tax expenses of around € 25 million reported by the US tax group as a result of the US tax reform.

Five-year overview: Results of operations

Figures in € millions	2014/2015	2015/2016	2016/2017	2017/2018	**2018/2019**
Sales	2,334	2,512	2,524	2,420	2,490
Per capita sales[1] (in € thousands)	195	217	219	209	216
EBITDA excluding restructuring result[2]	188	189	179	172	180
in percent of sales	8.1	7.5	7.1	7.1	7.2
Result of operating activities excluding restructuring result	119	116	108	103	101
Restructuring result	– 99	– 21	– 18	– 16	– 20
Financial result	– 96	– 65	– 56	– 48	– 49
Net result after taxes	– 72	28	36	14	21
in percent of sales	– 3.1	1.1	1.4	0.6	0.8

[1] Number of employees excluding trainees
[2] Result of operating activities before interest and taxes and before depreciation and amortization, excluding the restructuring result

Net Assets

- Leverage maintained at below target of 2
- Increased inventories due to digital series start-ups
- Slight rise in net debt due to higher net working capital

Non-current assets and inventories increased due to investments in our new innovation center as well as series start-ups. Net debt rose as a result of the corresponding financing measures for the new innovation center.

Assets

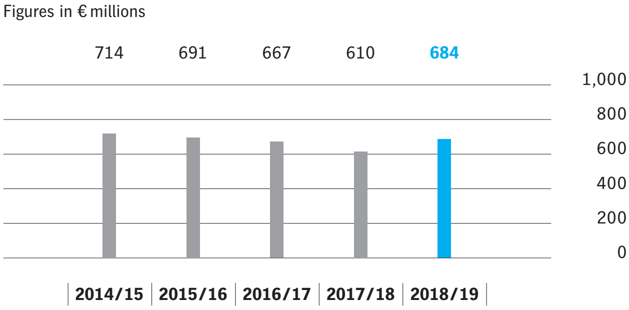
Figures in € millions	31-Mar-2018	31-Mar-2019
Non-current assets	810	846
Inventories	622	685
Trade receivables	370	360
Receivables from sales financing	66	60
Current securities and cash and cash equivalents	202	215
Other assets	186	163
	2,256	**2,329**

Assets: Increased inventories due to digital series start-ups

The total assets of the Heidelberg Group amounted to € 2,329 million as of March 31, 2019. Non-current assets increased in the year under review, largely as a result of investments in our new innovation center and the establishment of the subscription model. As in previous years, we used leasing as a form of financing when this made good business sense – particularly for vehicle fleets and IT.

At 27.5 percent of sales, net working capital remained at a sound level. Inventories increased, among others, as a result of the planned series start-up of the digital portfolio. Consequently, net working capital rose to € 684 million as of March 31, 2019 (March 31, 2018: € 610 million).

Development of net working capital



Trade receivables amounted to € 360 million as of March 31 of the year under review (previous year: € 370 million). We continued to successfully pursue our proven strategy of many years of arranging customer financing agreements with financing partners in the Heidelberg Financial Services segment and reduced receivables from sales financing year-on-year as of March 31, 2019.

Equity and liabilities

Figures in € millions	31-Mar-2018	**31-Mar-2019**
Equity	341	399
Provisions	878	880
of which pension provisions	523	582
Financial liabilities	438	465
Trade payables	237	245
Other equity and liabilities	362	340
	2,256	**2,329**

Equity and liabilities: Substantial rise in equity

On the equity and liabilities side, the Heidelberg Group's equity increased substantially year-on-year to € 399 million, primarily as a result of a capital increase and the positive net result after taxes. In March 2019, the Masterwork Group, China, acquired around 8.5 percent of Heidelberg's share capital by way of the issue of new shares with shareholders' subscription rights disapplied. The reduction in the interest rate for German pensions had an opposing effect. The equity ratio therefore rose to around 17 percent at the reporting date (previous year: around 15 percent).

Although pension provisions increased as of the reporting date March 31, 2019 due to the reduction of the interest rate for German pensions, total provisions remained unchanged year-on-year at € 880 million, largely as a result of the utilization of provisions for the early termination of a lease for a building. Net debt increased during the year under review before returning to the level recorded in recent years, amounting to € 250 million at the end of the year (March 31, 2018: € 236 million). At 1.4, the ratio of net debt to EBITDA excluding the restructuring result (leverage) remained well below the target level of 2. Financial liabilities increased to € 465 million at the reporting date after € 438 million as of March 31, 2018, largely as a result of the higher level of net working capital for series start-ups and financing measures for real estate. Trade payables rose slightly to € 245 million as of March 31, 2019 (previous year: € 237 million).

Five-year overview: Net assets

Figures in € millions	2014/2015	2015/2016	2016/2017	2017/2018	**2018/2019**
Total assets	2,293	2,202	2,219	2,256	2,329
Total operating performance	2,356	2,520	2,556	2,507	2,556
Ratio of total assets to total operating performance (in percent)	97.3	87.4	86.8	90.0	91.1
Net working capital	714	691	667	610	684
in percent of sales [1]	30.6	27.5	26.4	25.2	27.5
Equity	183	287	340	341	399
in percent of total equity and liabilities	8.0	13.0	15.3	15.1	17.1
Net debt [2]	256	281	252	236	250
Leverage [3]	1.4	1.5	1.4	1.4	1.4

[1] Net working capital in relation to sales for the last four quarters
[2] Net total of financial liabilities and cash and cash equivalents and current securities
[3] Net debt in relation to EBITDA excluding restructuring result

Financial Position

- Financing sources and maturities remain diversified and balanced
- Stable liquidity framework secured for the long term
- Equity base strengthened with new anchor share-holder

We continued to work on optimizing our financing structure in the year under review. In July 2018, we made a partial cash repayment of our corporate bond (around € 55 million). We also increased our share capital by way of a capital increase from authorized capital in March 2019, thereby strengthening our equity base. The financing sources and maturities of the instruments are adequately diversified and the overall financial framework is geared for the medium to long term.

Statement of cash flows: Free cash flow squeezed by higher inventories and investments

Cash flow remained at the prior-year level and hence was comfortably positive at € 105 million. The increase in net working capital and the early termination of a lease for a building meant that a net cash outflow of € – 116 million was reported in other operating changes. Net cash used in investing activities amounted to € – 82 million in the year under review. In the past financial year, we invested in digital projects, the establishment of new business models and our new investment center at the Wiesloch-Walldorf production site in particular. We are also investing in improving the demographic structure of the Company through targeted partial retirement programs. As expected, free cash flow was therefore clearly negative at € – 93 million in the year under review.

Five-year overview: Financial position

Figures in € millions	2014/2015	2015/2016	2016/2017	2017/2018	**2018/2019**
Net result after taxes	– 72	28	36	14	21
Cash flow	– 120	99	107	104	105
Other operating changes	141	– 58	33	– 16	– 116
of which: net working capital	96	35	33	24	– 62
of which: receivables from sales financing	20	10	9	– 10	6
of which: other	25	– 104	– 10	– 31	– 60
Cash flow and other operating changes	21	41	139	88	– 11
Cash used in investing activities	– 39	– 74	– 115	– 95	– 82
Free cash flow	– 17	– 32	24	– 8	– 93
in percent of sales	– 0.7	– 1.3	1.0	– 0.3	– 3.7

Financing structure: Further optimization of financing sources and maturities

Our financing strategy is based on achieving adequate diversification of the overall credit framework in terms of instruments and maturities. Accordingly, capital market instruments (corporate bond and convertible bond), the syndicated credit line and other instruments and development loans are the pillars of our financing portfolio. They are well balanced and cover net debt in the long term.

In July 2018, Heidelberg made a partial cash repayment of its corporate bond (around € 55 million). The syndicated credit facility of around € 320 million that was newly agreed in March 2018 affords Heidelberg financial flexibility and long-term planning security. In addition to the day-to-day operations of the global organization, this credit facility in particular will also provide strategic support for the further expansion of new digital business models, such as the newly established subscription business. The capital structure was also sustainably strengthened through the successful implementation of the capital increase with Masterwork.

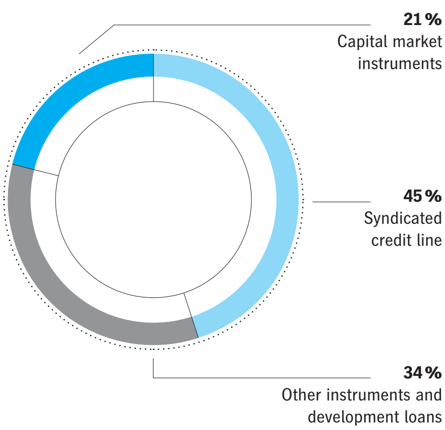
With its range of instruments, Heidelberg currently has comfortable total credit facilities of around € 715 million.

We supplement our financing with operating leases where economically appropriate. Other off-balance-sheet financing instruments do not have any significant influence on the economic position of the Group. Thus, Heidelberg continues to have a stable liquidity framework. In the future, we will continue to work on the diversification of sources and maturities in order to reduce our interest expenses.

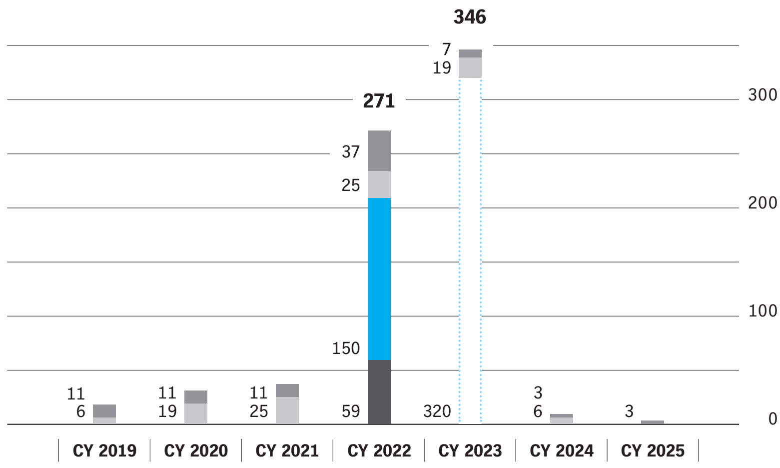
Financing instruments and maturity profile

Figures in € millions

Total volume of around € 715 million



Maturity profile per calendar year



Note: Not including other financial liabilities and finance leases

- Other instruments | amortizing
- Convertible bond (March 2022; put option in 2020)
- Syndicated credit line (March 2023)
- Corporate bond (May 2022)
- EIB loan | amortizing

Segment Report

- Heidelberg Digital Technology: Sales growth
- Heidelberg Lifecycle Solutions: Earnings margin within target range
- Heidelberg Financial Services: Successful cooperation with financing partners

The segments were reorganized as of April 1, 2018 as part of the digital transformation of the Company. The figures for the financial year 2017/2018 were restated accordingly. Since April 1, 2018, the Heidelberg Digital Technology segment has also included the Digital Print business unit. The Digital Business and Services segment was renamed Heidelberg Lifecycle Solutions and restructured.

Heidelberg Digital Technology segment: Sales growth

At € 1,535 million (previous year: € 1,465 million), sales in the Heidelberg Digital Technology segment increased significantly year-on-year in the financial year 2018/2019. Sheetfed offset and digital printing presses contributed to this in particular. By contrast, incoming orders were down year-on-year at € 1,517 million (previous year: € 1,591 million). The order backlog was € 511 million as of the end of the reporting period and therefore lower than the prior-year figure of € 543 million. The segment's EBITDA excluding the restructuring result was up on the previous year at € 53 million, with a margin of around 3.5 percent. A restructuring result of € – 12 million was recognized in the segment in the year under review. The Heidelberg Digital Technology segment had a total of 7,308 employees as of March 31, 2019 (previous year: 7,261). Investments in the segment amounted to € 98 million in the year under review. In addition to replacement investments, we primarily invested in our new innovation center and the expansion of our digital business.

Heidelberg Digital Technology

Figures in € millions	2017/2018	2018/2019
Incoming orders	1,591	1,517
Sales	1,465	1,535
Order backlog	543	511
EBITDA excluding restructuring result	45	53
Result of operating activities excluding restructuring result	– 5	– 9
Restructuring result	– 10	– 12
Investments	81	98
Employees [1]	7,261	7,308

[1] Number of employees excluding trainees

Heidelberg Lifecycle Solutions segment: Earnings margin within target range

In the Heidelberg Lifecycle Solutions segment, sales remained stable in the year under review at € 951 million (previous year: € 951 million). Incoming orders increased to € 1,037 million (previous year: € 993 million). This was also due to the new subscription contracts.

EBITDA excluding the restructuring result amounted to € 122 million (previous year: € 123 million), corresponding to a margin for the segment of around 12.8 percent of sales. A restructuring result of € – 8 million was incurred in this segment. As of March 31, 2019, the Heidelberg Lifecycle Solutions segment had a total of 4,174 employees (previous year: 4,262 employees). At € 32 million, investments in the Heidelberg Lifecycle Solutions segment were down on the previous year.

Heidelberg Lifecycle Solutions

Figures in € millions	2017/2018	2018/2019
Incoming orders	993	1,037
Sales	951	951
Order backlog	61	143
EBITDA excluding restructuring result	123	122
Result of operating activities excluding restructuring result	106	106
Restructuring result	– 6	– 8
Investments	58	32
Employees [1]	4,262	4,174

[1] Number of employees excluding trainees

Heidelberg Financial Services segment: Customer financing delivers positive earnings contribution, cooperation with financing partners continues to reduce capital commitment

In a capital-intensive sector like the printing industry, financing solutions are crucial to our customers' success. Heidelberg Financial Services has been supporting print shops in implementing their planned investments for a number of years, primarily by means of its dense network of financing partners worldwide. We actively moderate between our customers and financing partners. Where required, we help our customers – especially in emerging economies – to acquire Heidelberg technologies via direct financing provided by one of our Group-owned print finance companies.

In addition, we successfully continued our long-standing cooperation with our financing partners in the past financial year. Against this backdrop, overall demand for new direct financing was low. We are also in advanced discussions with our largest financing partners on the externalization of subscription contracts. Our partners are demonstrating keen interest in this business model.

As expected, the decline in the volume of receivables in recent years was accompanied by unchanged interest income at a relatively low € 4 million (previous year: € 4 million). Our receivables from sales financing, which result from the granting of direct financing, declined from € 66 million in the previous year to € 60 million in the financial year 2018/2019. The volume of counter-liabilities assumed remained unchanged year-on-year, amounting to € 17 million at the reporting date.

The segment result (EBITDA) amounted to € 4 million and was therefore higher than the previous year's result (€ 3 million). This is due to stable interest income and risk provisioning effects. Overall, we generated a positive risk provisioning result which, in addition to the relatively lower volume, was also significantly influenced by our consistent receivables management and the resulting decline in amounts past due. Thanks to the systematic implementation of our strategy in receivables and risk management, we were able to keep the loss ratio below the long-term average and thus make a positive contribution to earnings.

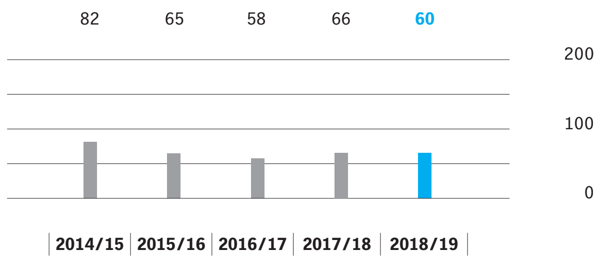
Heidelberg Financial Services

Figures in € millions	2017/2018	**2018/2019**
Sales	4	4
EBITDA	3	4
Result of operating activities excluding restructuring result	2	4
Employees [1]	40	40

[1] Number of employees excluding trainees

Receivables from sales financing

Figures in € millions



Report on the Regions

- EMEA down slightly on previous year
- Asia/Pacific region: China with significant sales increase
- North and South America record revenue growth

Europe, Middle East and Africa (EMEA)

The order volume in the EMEA region declined from € 1,151 million in the previous year to € 1,076 million in the year under review. The order volume on the Italian market returned to normal following the end of a government subsidy program, while the UK saw a downturn due to the uncertainty surrounding Brexit. Although Germany maintained the high order level recorded in the previous year on the whole, a strong first half of the year was followed by a substantial decline due to economic factors. Spain recorded considerable growth in the current financial year. In terms of sales, which totaled € 1,050 million in the region following € 1,085 million in the previous year, Germany and Switzerland saw growth while sales in Italy, France and the UK were down on the previous year.

Asia/Pacific

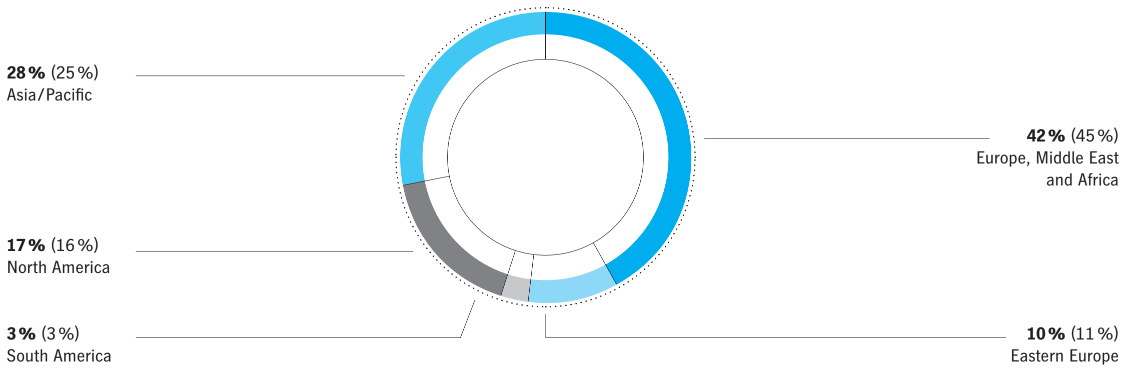
In the Asia/Pacific region, incoming orders were down slightly at € 658 million (previous year: € 671 million), whereas sales increased substantially year-on-year to € 687 million (previous year: € 610 million). Our key market, China, recorded growth in terms of incoming orders and especially sales. The sales volume on the Japanese market was higher than in the previous year, but orders failed to repeat the prior-year level.

Eastern Europe

Incoming orders in the Eastern Europe region increased significantly to € 296 million in the year under review (previous year: € 262 million) on the back of major orders in Romania and Turkey. By contrast, sales declined to € 242 million (previous year: € 265 million). The Russian market in particular saw lower sales, including as a result of unfavorable exchange rate development.

Sales by region

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



North America

In the year under review, the North America region exceeded the prior-year level in terms of both incoming orders at € 457 million (previous year: € 425 million) and sales at € 427 million (previous year: € 399 million). This development was driven by the US in particular, but Mexico also recorded growth in sales and orders, whereas the figures for Canada were unchanged year-on-year.

South America

At € 72 million, incoming orders in the South America region failed to repeat the prior-year level (€ 79 million). The smaller markets in the region in particular saw falling orders. By contrast, sales in the region increased from € 62 million in the previous year to € 84 million in the year under review, primarily thanks to Brazil and Argentina.

Incoming orders by region

Figures in € millions	2017/2018	**2018/2019**
EMEA	1,151	1,076
Asia/Pacific	671	658
Eastern Europe	262	296
North America	425	457
South America	79	72
Heidelberg Group	**2,588**	**2,559**

Sales by region

Figures in € millions	2017/2018	**2018/2019**
EMEA	1,085	1,050
Asia/Pacific	610	687
Eastern Europe	265	242
North America	399	427
South America	62	84
Heidelberg Group	**2,420**	**2,490**

ROCE and Value Added

- ROCE on a par with previous year
- Value added positive

ROCE stands for “return on capital employed”. This figure is calculated by comparing the result of operating activities excluding restructuring result plus net investment income to average capital employed. The cost of capital is determined using the weighted average cost of capital before taxes of Heidelberg, which is currently around 6.0 percent (previous year: 5.7 percent). The increase compared with the previous year is attributable to higher equity costs and the slight reduction in the debt ratio. All in all, the cost of capital was up on the previous year at € 68 million due to the higher level of average operating assets and the increase in the weighted average cost of capital.

ROCE was clearly positive for the year under review at € 98 million, thereby confirming the prior-year figures. Investments in our new innovation center and the planned start of series production for our digital portfolio led to an increase in average operating assets to € 1,130 million (previous year: € 1,028 million).

ROCE as a percentage of average operating assets therefore amounted to 8.7 percent in the year under review (previous year: 9.8 percent) and, with the cost of capital remaining low, contributed positive **VALUE ADDED** of € 30 million.

Five-year overview: ROCE and value added

Figures in € millions	2014/2015 [4]	2015/2016	2016/2017	2017/2018	**2018/2019**
Operating assets (average) [1]	1,024	1,035	1,034	1,028	1,130
ROCE [2]	116	112	106	101	98
in percent of operating assets	11.3	10.8	10.2	9.8	8.7
Cost of capital	92	76	68	59	68
in percent of operating assets	9.0	7.3	6.6	5.7	6.0
Value added [3]	24	36	38	42	30
in percent of operating assets	2.3	3.5	3.7	4.1	2.7

[1] Average operating assets less average operating liabilities
[2] Includes the result of operating activities excluding restructuring result, plus net income from investments
[3] Result from ROCE less cost of capital
[4] Including special effect of approximately € 50 million

Employees

The number of people employed by the Heidelberg Group around the world decreased by 41 as of March 31, 2019 (previous year: 11,563 employees excluding trainees). There were 7,272 employees in Germany and 4,250 outside Germany at the reporting date.

Motivated and qualified employees are Heidelberg's greatest asset. Against the backdrop of demographic change and rising digitization it is our objective to prepare our workforce for the future requirements of their rapidly changing work environment. Among other things, training programs on agile methods of cooperation have been created and new learning models such as micro-learning have been introduced in order to support the trend toward informal learning. The procedural structuring of short, daily learning activities, or "bite-sized learning", minimizes the translation requirements for the learning content and makes it easier to apply it in day-to-day workplace situations. We have also expanded our range of management development opportunities. Open presentation and workshop offerings for managers in Germany and abroad are intended to generate new perspectives on the topic of management in a dynamic environment.

In the area of sales, we have established a Sales Academy to prepare our employees for the increasingly rapidly evolving content and requirements. The first of three training cascades was rolled out around the world in the past financial year. We are now preparing the second wave of training for the financial year 2019/2020 with new digital learning formats.

Training is a top priority at Heidelberg and it relies on premium quality. Ninety-nine young people began their training with Heidelberg on September 1, 2019. We provide training in 17 occupations at four locations and offer various bachelor programs in the areas of engineering, media and business. The ongoing digital transformation is also making considerable demands of the Company's vocational training. To make it easier to shape the technological and social change, Heidelberg has opened a future workshop for its trainees at the Wiesloch-Walldorf production site, thereby integrating them into the Company's digitization strategy right from the start. At the future workshop, trainees are familiarized with the use of state-of-the-art digital working methods such as augmented or virtual reality and utility films from an early stage.

Employees by region

Number of employees [1]	31-Mar-2018	**31-Mar-2019**
EMEA	8,585	8,578
Asia/Pacific	1,677	1,639
Eastern Europe	491	494
North America	712	708
South America	98	103
Heidelberg Group	**11,563**	**11,522**

[1] Excluding trainees

For further information on our activities in employee matters, please refer to our separate combined non-financial report. This report can be found on our website www.heidelberg.com under "Investor Relations", "Reports and Presentations".

Sustainability

For Heidelberg, sustainability means combining long-term business success with ecological and social responsibility. Attention to sustainability aspects is part of the Group's environmental standards and our standards of conduct as they apply to our products, our production processes and our supply chain and as regards our interactions with each other and our partners. Compliance with standards of conduct and environmental standards is mandatory throughout the Group, and is set out in the Heidelberg Group's environmental policy and in our Code of Conduct, both of which can be found on the Heidelberg website.

Sustainability is a firm fixture of the Heidelberg Group's organization. Group-wide ecological goals and issues are defined by the Eco Council, which is headed by the Management Board member responsible for environmental issues, and whose members include the environmental management officer and representatives from the areas of Production, Digital Technologies, Product Development and Product Safety, Lifecycle Solutions (Service, Consumables), Quality, Investor Relations/Communications, Legal, and Facility Management. The interdisciplinary Eco Steering Committee advises the Eco Council, proposes an environmental strategy and program, and oversees their implementation in the individual areas. Other committees and working groups focus on key subjects.

The content of our activities is defined by our environmental policy, which is geared towards raising awareness, conserving resources and resource efficiency, and reducing emissions. The Heidelberg Group's **ENVIRONMENTAL POLICY** can be found on the Company's website: www.heidelberg.com/eco.

For more information on our sustainability activities, please refer to our separate combined non-financial report. This report can be found on our website www.heidelberg.com under "Investor Relations", "Reports and Presentations".

Ecological key figures

	2017/2018	**2018/2019**
Energy in GWh/a	290	290
Energy in GWh/a (weather-adjusted) [1)]	288	303
Water in m^3/a	207,903	227,710
CO_2 emissions in metric tons [2)]	105,153	105,418
Waste in metric tons	35,980	41,545
Recycling rate in percent	96.36	97.53

1) In accordance with VDI 2067, heating energy consumption was adjusted based on the degree days figure of the Heidelberg site
2) CO_2 emissions resulting from energy consumption have been based on information from the respective electric utility at the particular production site; other emissions data are based on GEMIS

Note: The above overview takes into account the Company's five largest production sites, which altogether account for 95 percent of the Group-wide energy consumption. The notable increase in waste volumes is mainly due to a large number of construction measures at the Wiesloch-Walldorf site.

RISKS AND OPPORTUNITIES

As an internationally operating company, Heidelberg is exposed to macroeconomic, financial, industry and company-specific uncertainties and changes. We define risks and opportunities as possible future developments or events that can lead to a positive or negative deviation from planning, forecasts or targets. The early identification of risks and opportunities serves as the basis for the conscious handling of risks and the targeted exploitation of potential opportunities.

Risk and Opportunity Management System

Objectives and strategy

The goal of Heidelberg's risk and opportunity management system is to enable both opportunity-oriented and risk-aware action on the basis of a comprehensible and rule-based approach, in order to be able to increase enterprise value and to ensure its continuation as a going concern. Sustained business success requires the avoidance of risks to the Company's existence, the monitoring and active management of risks consciously taken and the optimal exploitation of opportunities. Furthermore, the objective is not just to comply with all regulatory requirements for the risk and opportunity management system, but also to establish a risk culture and to raise risk awareness in the Company as a whole.

Opportunities can arise both externally, for example through a change in the competitive environment, regulatory conditions and customer requirements, and internally, through innovation, the development of new products, quality improvement and the adjustment of the Company's own structures. Opportunities are therefore not exclusively identified by management or risk officers, but also by individual employees.

Structure and process

Both Heidelberg's company-wide opportunity and risk management system and its internal control system (ICS), which, among others, serves as a basis for the Group accounting process, are based on the framework and guidelines provided by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Risk and opportunity management is solidly integrated as part of corporate planning at Heidelberg. The Management Board is responsible for appropriate risk and opportunity management in the Company. Clear values, principles and guidelines help the Management Board and the management operate and control the Group. The Company's guidelines and organizational instructions stipulate a structured process with which individual risks in the Group, general risk and any opportunities are systematically tracked, assessed and quantified.

The operating units and central divisions are incorporated in this process. The companies included in the risk management system are the same as those included in the consolidated financial statements. Information on risks is collected locally. The risk-significant areas of observation and the risk survey methodology are set out in the guidelines. The classification into risk categories is based on the potential impact on the net results and liquidity of the individual units. Reporting thresholds are set on a uniform basis. For all key areas such as Procurement, Development, Production, Sales, Human Resources, IT, Legal and Finance there is a risk officer who reports risks to central Group Risk Management (GRM) in a standardized manner. Each risk officer is responsible for the identification, assessment, control and monitoring of risks within his or her area.

Risks reported to Group Risk Management are recorded in a risk catalog several times a year at Group level. GRM checks the completeness, identification and compilation of the top risks in cooperation with the Risk Committee and prepares the risk report.

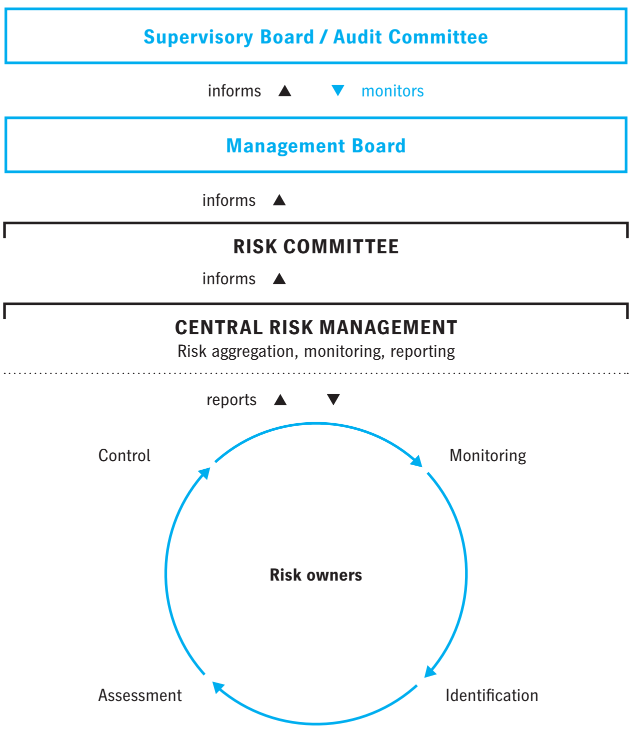
The Risk Committee is an interdisciplinary body whose members work closely with GRM on the continuous improvement of the risk management process, and is required to regularly examine risks and opportunities from all angles – including non-quantifiable risks in particular. It consists of Management Board members and selected senior executives from various fields of business. It designs the risk catalog of the most significant risks and, among other things, determines the materiality thresholds for the reporting of risks. Based on the risk catalog, GRM prepares the risk report containing all material risks and submits this to the Management Board. The Management Board regularly reports to the Audit Committee or directly to the Supervisory Board on existing risks and their development.

In line with audit planning, the Internal Audit department checks risk and opportunity management procedures and the effectiveness of the ICS at process level. A representative for Internal Audit is a member of the Risk Committee. Finally, the Audit Committee also deals with the effectiveness of the ICS, the risk management system and the internal audit system, examines their functionality and arranges for regular reporting (in some cases from the directly responsible executives) on audit planning and findings. The auditor also assesses the functionality of the risk early warning system in accordance with section 317(4) of the German Commercial Code (HGB).

Heidelberg's risk and opportunity management process comprises the elements of risk identification, assessment, control and monitoring (see diagram below).

Identification of risks and opportunities

The Group-wide risk officers perform ongoing monitoring of the general economic environment, which contributes to the effective identification of risks and opportunities.



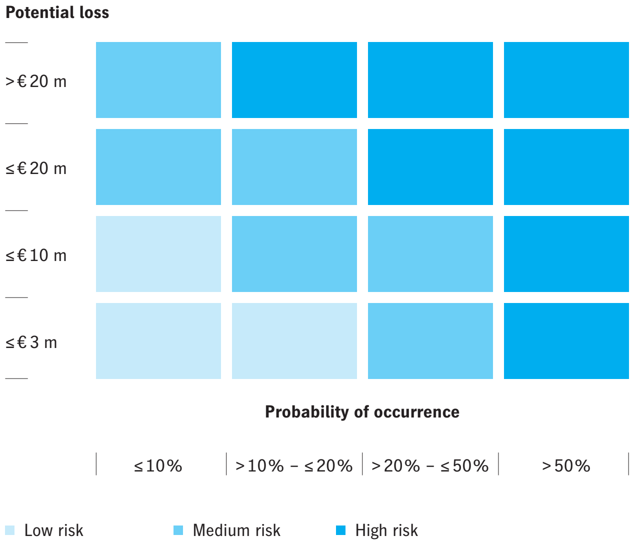
Furthermore, GRM assists in the identification and categorization of risks and opportunities by preparing the risk catalog. The catalog and its potential risk areas are reviewed and, if necessary, updated several times a year. Risk and opportunity identification is not limited to external risk factors, but also considers internal aspects such as internal processes and projects, IT, compliance and HR issues. The identification of risks and opportunities as early as possible is a priority in order to be able to promptly take any appropriate measures.

Assessment of risks and opportunities

After risks and opportunities have been identified, they are assessed. All individual risks ascertained are assessed qualitatively and quantitatively, taking risk-mitigating activities into account (net analysis). If possible, the assessment is based on objective criteria or empirical evidence. Similar individual risks are combined as an aggregated risk. The risk assessment is based on the dimensions "probability of occurrence", "extent of damage" and "expected risk development in the planning period". For risks with a probability of occurrence of more than 50 percent – if so stipulated in IFRS standards – provisions are recognized or taken into account in the corporate planning.

The categories for the extent of damage are represented as a "possible loss" with quantitative figures in millions of euros, and also by the qualitative levels low, medium and high. The final assessment of a risk is made by grouping the risks on the basis of the two dimensions of the risk matrix. Thus, the risk as a whole is classified as low, medium or high.

Risk matrix



An important factor in risk and opportunity assessment is the earliest period in which the Group's targets can be influenced. The occurrence of a risk can therefore affect the achievement of goals in the current financial year or also in subsequent financial years.

Controlling risks and opportunities

Depending on the risk, suitable management strategies are defined in the course of risk controlling. General strategies for risk control are risk avoidance by not going ahead with an originally planned activity, risk mitigation with the aim of minimizing the probability of occurrence, or risk transfer with the aim of reducing the consequences of the occurrence of the risk and risk acceptance, in which the risk is deliberately taken. It is the task of every risk officer to take opportunities in his or her area and to devise and implement suitable risk-mitigating measures. The guideline for this is the Group Risk Management Policy, which sets out the principles for risk and opportunity management. The internal policy also stipulates responsibilities, risk categories and materiality limits.

Monitoring of risks and opportunities

Regular risk monitoring allows the detection of changes in individual risks. Adjustments in risk management can therefore be promptly turned into the initiation of necessary measures. Within his or her own area, taking materiality limits into account, each risk manager is responsible for reporting all known risks to risk management periodically, or also to the Management Board on an ad hoc basis as necessary, and checking their completeness. In addition to complying with and implementing suitable countermeasures, risk officers are responsible for their own monitoring of risks and opportunities. This way, the developments in constantly changing risks and opportunities, and the adequacy and effectiveness of the current risk strategy, are continually reviewed by risk officers.

Risk and Opportunity Report

Corporate risks are divided into the categories “Strategic”, “Operational”, “Financial”, and “Legal and Compliance”. The following table provides an overview of the risk categories and their overall risk assessment in addition to changes since the previous year:

Categories of risks and opportunities	Assessment	Change as against previous year
Strategic		
Politics	High	Constant
Industry	High	Constant
Operational		
Economy, market development	High	Constant
Sales financing	Medium	Constant
Procurement	Medium	Higher
Production	Low	Constant
Sales partnerships	Low	Constant
Information security	High	Higher
HR	Medium	Constant
Financial		
Currency and interest	Medium	Constant
Pension obligations	Medium	Constant
Taxation	Medium	Constant
Liquidity	Low	Constant
Refinancing	Low	Constant
Rating	Low	Constant
Legal and compliance	Medium	Constant

Strategic risks and opportunities

Political risks

As a key factor influencing economic conditions, political risks can have a direct impact on Heidelberg’s business activities and its financial position and performance. In particular, the situation in the Middle East with the conflict parties US and Iran as well as the resulting global political tensions are a source of great uncertainty and could have a negative impact on economic conditions.

2019 is expected to see weaker growth in the world economy as well as for Germany. The International Monetary Fund and the leading economic research institutes have recently downwardly revised their growth forecasts for the German and world economy. There are increasingly significant uncertainties with regard to economic and financial policy. Experts see the main reasons for the slowdown as the sustained trade dispute between the US, China and Europe as well as the growing risk that Brexit will take place without a deal with the European Union. In addition to the global uncertainties, Germany is subject to internal risks due to the growing shortage of qualified employees and supply bottlenecks. There are also risks in the financial environment, as debt has risen significantly in recent years in the industrialized nations as well as a number of emerging economies. At the same time, asset prices (equities, government bonds and real estate) have risen to all-time highs in many countries on the back of expansive monetary policy.

The economic institutes expect Germany to return to stronger growth in 2020. The IMF also believes it is possible that the current slowdown in growth in the world economy will prove to be a temporary problem. This is supported by the announcement by the central banks in the US and Europe that their monetary policy will not be tightened any further for the time being, as well as the prospect of an end to the US-China trade dispute. Although the IMF has raised its growth forecast for China for 2019, economists expect the Chinese GDP growth rate to decline to 6.3 percent in 2019 and 6.0 percent in 2020. As the global economic slowdown at the start of the financial year was reflected in a tangible reduction in momentum in terms of orders for new machinery, and the latest annual forecast by the industry association VDMA was more pessimistic in light of the growing uncertainty on the world markets due to trade disputes and Brexit, Heidelberg is entering the new financial year 2019/2020 with caution. In its forecast and the planning on which the risk and opportunity report is based, however, Heidelberg continues to assume that the general conditions for free world trade will remain unchanged and the protectionist activities – including tariff and non-tariff barriers to trade – that can currently be observed will not have any significant monetary effect for now.

Political risks are currently regarded as high.

Industry-specific risks and opportunities

As a result of the economic conditions, which are characterized by considerable risks to the world economy as a result of economic policy uncertainties, economists at the German Engineering Federation (VDMA) are forecasting growth in machine production in Germany of around 1 percent next year after adjustment for inflation. The US, Chinese and German markets are regarded cautiously optimistic for mechanical engineering companies in general, whereas the other EU markets are viewed with relative skepticism.

The entire printing industry remains affected by overcapacity and price competition. Rapid innovation cycles and the accompanying investment costs and risks mean that size and rationalization are the only way for many print companies to ensure their survival in an increasingly tough competitive environment. Rising paper prices are a particularly critical development, as it is often not possible to pass on these cost increases to end customers. As such, this could negatively affect our customers' investment behavior. The increased automation of our printing presses in the context of industrial print production (e.g. Push-to-Stop) can lead to a significant increase in net productivity and hence efficiency improvements for our customers. In turn, this makes Heidelberg's production portfolio attractive and improves the retention of existing customers.

For the print media industry, Heidelberg expects a similarly challenging environment as in the past financial year on account of the sector's ongoing industrialization, with the number of larger print media service providers growing in the industrialized countries and the number of medium and smaller print shops falling. While print volumes are continuing to grow overall in the emerging economies, print service providers in the industrialized nations are facing a highly dynamic and rapidly changing market environment. The increasing substitution of printed products and business stationery by the Internet and the impact of demographic change on the buying and reading habits of the population is leading to a decline in sales. This is partially being compensated by the increase in the finishing of printed products, above all in cosmetics and customization, as they raise the value of individual printed products. In view of the changes in the printing industry, in calculating our sector risk assessment we have taken into account the risk that planned sales and margin targets will not be met.

Heidelberg sees digital business as a key growth market. The printing industry is subect to continuous technological change. Especially in digital technology, there are different solution approaches. It is not yet foreseeable which of the existing technological solutions will prevail in the long term. Additionally, there is a risk that the speed and/or the extent of market penetration of Heidelberg's digital offering may deviate from market expectations. The Company will therefore continue to invest in new business applications and models in the future and cooperate with innovative partners who are the leaders in their respective segment. Heidelberg sees itself not just as a provider of equipment, but also as a partner to our customers, offering a comprehensive service for effective and reliable production processes, data-driven services and easy access to necessary consumables. This is discussed in greater detail in the "Markets and customers" and "Partnerships" sections.

In our research and development activities, we work in close cooperation with partners such as customers, suppliers, other companies and universities. This enables us to meet the requirements of our customers and markets in a targeted and comprehensive way. Partnerships also allow us to combine the innovative strength of our partners with our own in order to respond more quickly to current market conditions and reduce our product risks. Before we invest in possible new ventures, the risks and opportunities are weighed on the basis of various scenarios.

We protect the results of our research and development work with our own property rights to the greatest possible extent, thereby reducing risks in relation to research and development. Further information can be found in the "Research and Development" and "Partnerships" sections.

The development of key foreign currencies can also have a major impact on our competitive situation and thus directly on our sales volumes.

Furthermore, there could be synergies from possible business combinations between some market participants, which can lead to a rise in price pressure on account of the higher market share.

The industry-specific risks arising from the market environment and competition are considered to be high.

Operational risks and opportunities

Economic and market development risks

In the business planning for the Digital Technology (HDT) and Lifecycle Solutions (HDLS) segments, we are assuming a slowdown in global economic momentum and a decline in foreign trade affecting the industrialized nations and emerging economies in equal measure.

For example, investment activity in the US is likely to slow as the fiscal impetus ends and monetary policy becomes less expansive. Weaker foreign demand has also curbed growth in the euro zone tangibly, particularly in Germany. Companies are delaying investments in response to the trade disputes between the US on the one hand and China and the EU on the other, as well as the uncertainty concerning Brexit.

The emerging economies are likely to see slightly slower economic development in the forecast period than in the last two years. Among other things, this is due to China, even though the Chinese government has announced expansive economic policy measures and made it clear that it will resist any pronounced economic weakness.

The downside risks for the world economy are considerable. One of the reasons is the high degree of economic policy uncertainty. The unresolved trade conflicts could place an additional burden on the world economy, resulting in a tangible slowdown in macroeconomic development.

If the global economy were to grow less than expected, or if key markets were to suffer an unexpected economic downturn, there is a risk that the planned sales performance will not be achieved, particularly in new machinery business (above all in the HDT segment). In terms of strategy, Heidelberg is focusing on the implementation of its digitization strategy in order to reduce the inherent risk of new machinery business. The Lifecycle Solutions segment is considerably less cyclical as it depends on the installed base and on the print production volume to a greater extent than on new machinery business. The share of total sales from less cyclical business with service and consumables will increase further in the coming years, thereby reducing economic fluctuations within the Group.

A continuous improvement in key business processes and constant cost control are of essential importance for further increasing Heidelberg's profitability. Heidelberg is of the opinion that the opportunities to further optimize cost structures within the Group have not yet been exhausted. The measures initiated by management to achieve operational excellence at Heidelberg were taken into account in planning as cost-reducing factors.

Overall, operational risks from the economy and the markets, including the realization of planned cost reductions, are considered to be high.

Sales financing risks

In sales financing business, there are risks of default on receivables due to industry, customer, residual value and country risks. The majority of the financing portfolio consists of receivables from customers located in emerging countries, particularly Brazil. As a result of the persistently weak economy, Heidelberg still has a relatively high share of overdue contracts in Brazil. However, these are monitored and managed very closely with intensive receivables management. The risks arising from counter-liabilities are unchanged as against the previous year. Overall, losses on sales financing in the past financial year were below the average level for the previous years.

Furthermore, liquidity risks could arise for sales financing as the Company's own need for financing commitments could increase in the event of limited availability of third-party financing partners. These higher requirements would tie up the additional funds available to Heidelberg and raise the risk profile of sales financing.

In addition to the sales financing risk for existing receivables, this risk includes any liquidity risks in connection with the externalization strategy of our subscription business. Here, too, the Company's own need for financing commitments could increase in the event of limited availability of third-party financing partners. These higher requirements would tie up additional funds and hence raise the risk profile.

Intensive cooperation with external financing partners has allowed Heidelberg to significantly scale back the financing it has taken on in recent years and keep it stable in the year under review. Moreover, internal financing is only made available following a comprehensive review that takes into account the customers' business model and credit rating. Sales financing commitments are regularly reviewed using internal rating processes. These (like the Basel standards) comprise both debtor-specific and transaction-specific components. Heidelberg operates a policy of risk provisioning that is appropriate for the business model in sales financing. Appropriate risk provisions are recognized early on for discernible risks.

The risks from sales financing are currently considered to be medium.

Procurement risks

Heidelberg is dependent on ensuring that its suppliers and service providers can deliver the required quality at all times. Risk management is therefore a fixed component of our supplier management. Heidelberg works closely with selected systems suppliers on a contractual basis and reduces risks relating to supplier defaults and late deliveries of components or low-quality components. It also works continuously to optimize its supply methods and procurement processes with key suppliers to ensure the reliable supply of parts and components of the highest quality. As Heidelberg generates around two-thirds of its sales outside the euro area, the option of global procurement is constantly being examined and expanded. In the year under review, the currency component was again taken into account as a risk-reducing factor for procurement and included in purchase decisions.

Wherever it benefits Heidelberg, we pursue a dual vendor strategy to reduce unilateral dependencies. As part of Heidelberg's operational excellence strategy, the bundling of procurement activities was continued further in the year under review.

The strained supply situation with longer delivery times for individual components meant that the procurement risk was higher than in the previous year.

Procurement risks are considered to be medium.

Production risks

Production disruptions or downtime, not to mention disruptions in transport and logistics, are a fundamental high risk that Heidelberg counters by implementing very high technical and safety standards. Nevertheless, the risk of a business interruption at the production sites cannot be entirely ruled out. Such interruptions could result from external factors that are beyond Heidelberg's control, such as natural disasters.

The probability of occurrence of these risks is rated as very low on account of the (safety) precautions taken (e.g. works fire department). Furthermore, specific risks are covered by insurance policies with typical sums insured.

Production risks are therefore considered to be low.

Sales partnership risks

Heidelberg relies on global strategic partnerships to offer its customers a broad range of solutions – also tailored to the performance of their own products. It is constantly working to intensify its cooperation with sales partners, especially in the areas of Consumables and Postpress. There is a risk that sales partnerships could be terminated, thereby adversely affecting Heidelberg's business performance.

This risk is considered to be low.

Information security risks

The digitization of all segments means Heidelberg could increasingly suffer damage if, for example, the availability of systems or the confidentiality of sensitive information were violated or restricted. This would have a direct impact on business operations (for example, the non-availability of products and services) and lead to a business interruption. An indirect consequence could also be a loss of image for Heidelberg, though this cannot be quantified. In addition to a sharp rise in the threat emanating from increasingly professional cybercrime and the greater quantity of sensitive information in connection with the subscription model, the regulatory requirements for information security are also on the rise, due in part to the EU General Data Protection Regulation that became effective in May 2018.

Comprehensive protective measures have been taken preventively to guarantee the availability and confidentiality of systems and data. These include technical protection measures such as virus protection and firewall systems, access controls, data backups and data encryption. Systems, procedures and the organization are regularly checked for possible risks and adapted if necessary. The IT infrastructure continued to undergo its overhaul in the year under review, further improving both performance and system security. Furthermore, high demands are made on IT security management when selecting IT service providers.

The information security risk for Heidelberg is considered to be high overall.

HR risks and opportunities

Heidelberg's success is substantially influenced by qualified and motivated employees and management. It therefore invests both in maintaining the capabilities of its own employees and management and in improving its attractiveness to new employees in order to meet the challenges of forthcoming digitization and demographic change. Heidelberg has responded to the changes entailed by an aging workforce by improving its preventive healthcare. As a result of past challenges and those yet to come, it cannot be ruled out that negative financial or non-financial effects (loss of key personnel, image, attractiveness as an employer) could arise for Heidelberg.

This risk is considered to be medium.

Financial risks and opportunities

Currency and interest rate risks and opportunities

As an internationally operating company, Heidelberg conducts business in various currencies, which can lead to risks and opportunities due to exchange rate changes. The risks are identified centrally and suitable strategies and measures are derived to counteract them. Some of these measures are derivative financial instruments, specifically forward exchange transactions and currency options. Details on these instruments and on the impact of hedging transactions can be found in note 31 of the notes to the consolidated financial statements. The functional separation of trading, settlement and risk controlling and compliance with the Minimum Requirements for Risk Management (MaRisk) formulated by the German Federal Financial Supervisory Authority (BaFin) are regularly reviewed by Internal Audit. Currency risks are managed in the medium and long term and operationally, whether through appropriate hedges or by increasing procurement volumes in foreign currency (natural hedging).

Changes in exchange rates can have a positive or negative effect on earnings and can also affect equity directly.

There are interest rate risks for floating-rate liabilities as changes in the underlying market interest rate can affect their interest. Fluctuations in interest rates can have either a positive or a negative effect on earnings. If possible, interest rate risks are limited by suitable interest rate swaps.

Currency risks are currently considered to be medium overall; interest rate risks are considered to be low.

Risks and opportunities from pension obligations

Pension obligations to employees under defined benefit pension plans are calculated on the basis of externally produced actuarial reports. In particular, the amount of pension obligations is dependent on the interest rate used to discount future pension payments. As this is based on the returns from corporate bonds with good credit ratings, market fluctuations in these therefore influence the amount of pension obligations. Changes in other parameters, such as rising inflation rates and higher life expectancy, also influence the amount of pension and payment obligations. Opportunities or risks can arise from this depending on the change in these parameters.

Heidelberg's pension obligations are, partly completely or pro rata, covered by plan assets managed in trust, and are reported net in the balance sheet. The future funding requirements for pension payments from operating activities are reduced by payments from plan assets. Plan assets consist of interest-bearing securities, equities, real estate and other investment classes and are continuously monitored and managed in line with risk and earnings considerations. The broad diversification of assets helps to further reduce risk.

Remeasurement effects from pension obligations and plan assets are offset directly against equity, taking deferred taxes into account. The occurrence of pension risks (as a result of a reduction in the interest rate in particular or even unexpected developments on the capital market) could have a direct negative effect on equity and the equity ratio.

This risk from pension obligations is currently considered to be medium.

In a favorable capital market environment, an increase in the interest rate used to discount future pension payments and the development of plan assets offer the opportunity that the provisions for pensions and similar obligations decrease and that equity increases due to actuarial gains.

Risks and opportunities from taxation

Heidelberg conducts business worldwide on the basis of an implemented transfer pricing system and is subject to the local tax laws applicable in the respective countries and to multilateral and bilateral tax agreements. Changes in the underlying legal provisions and the application of law or changes to the business model can have consequences for Heidelberg's tax positions.

Tax risk is considered to be medium overall.

Liquidity

To ensure the Company's solvency in order to settle its liabilities in the correct amount as they mature, liquidity is constantly monitored and the necessary minimum liquidity is maintained. The potential funding needs of affiliates and the resulting potential liquidity risks are pinpointed at an early stage with the help of monthly rolling liquidity planning. A broad diversification of financing sources, the planning of financing requirements and the procurement of funds are also intended to ensure financing in the longer term.

Given the cash and cash equivalents available and the current financing structure, liquidity risk is currently considered to be low.

Refinancing risk

Heidelberg is dependent on being able to refinance financial liabilities that become due, to meet existing financing commitments and to finance additional funding requirements for the development of its business activities. If reliable financing were not ensured, the willingness to pay would be at risk. Heidelberg has a stable financing base with a broadly diversified financing structure (banks, capital market and other financing commitments) and a balanced, long-term maturity profile as far as 2023. Furthermore, Heidelberg has demonstrated in the past that it can reduce its gearing through internal financing thanks to successful asset and net working capital management.

The details of the financing structure are described in the "Financial Position" section on pages 32 and 33. Notes 28 and 37 to the consolidated financial statements explain in more detail that financing is linked to standard financial covenants. If the results of operations and financial position were to deteriorate to such a degree that it were no longer possible to guarantee compliance with these financial covenants and if, at the same time, it were not possible to modify the financial covenants, this would have an adverse financial impact on the Group. There are currently no indications of such a development.

The refinancing risk is considered to be low.

Rating

The capital market uses ratings from agencies to assist lenders in assessing the risk of default by a borrower or financial instrument. Heidelberg is currently rated by Moody's and Standard & Poor's. Its rating from Moody's has been B2 with outlook stable since June 2017. Its rating from Standard & Poor's has been B with outlook stable since February 2013. There is a risk that the rating agencies could downgrade Heidelberg's credit rating if the relevant performance indicators (such as its dynamic gearing ratio) deteriorate and the financing costs for new financing therefore increase or this becomes more difficult.

Given the economic performance of Heidelberg, this risk is currently considered to be low.

Legal and compliance risks

As part of its general business operations, Heidelberg is involved in judicial and extra-judicial legal disputes whose outcome cannot be predicted with certainty. The principal legal disputes relate to product liability cases.

In addition, there are legal disputes regarding warranty cases in connection with sales of machinery that could also lead to rescission. In addition to legal risks there are also antitrust risks, though their probability of occurrence is considered to be very low. Provisions are recognized accordingly for risks resulting from legal disputes, provided utilization is likely and the probable amount of the provision required can be reliably estimated. Heidelberg reduces legal risks from individual agreements by utilizing standardized master agreements wherever possible. Heidelberg's interests in the area of patents and licenses are protected in a targeted manner. Systematic controls of compliance with our comprehensive guidelines are performed in order to further minimize risk. In addition, our service providers, suppliers and other business partners are obliged to comply with the Heidelberg Code of Conduct. This Code of Conduct, which reflects the ten guiding principles of the UN Global Compact, was fully revised in 2017. Heidelberg has also commissioned a Group-wide ombudsman in order to ensure that continuous communication with employees and third parties is further established as part of the Group's compliance culture. The Heidelberg Group has always been committed to upholding the privacy rights of its employees, shareholders, customers, suppliers and other business partners as a matter of principle. As part of the implementation of the more stringent requirements of the European General Data Protection Regulation (GDPR) that came into force on May 25, 2018, Heidelberger Druckmaschinen Aktiengesellschaft has strengthened the Heidelberg Group's data protection organization further, particularly for its European companies, in order to allow it to identify and control potential risks arising from these heightened data protection requirements. This includes the implementation and continuous enhancement of a data protection management system and the establishment of various GDPR-compliant processes.

Legal and compliance risks are currently considered to be medium.

General statement on risks and opportunities

There are currently no discernible risks to the Heidelberg Group as a going concern. This applies both to business activities already implemented and to operations that Heidelberg is planning or has already introduced.

In the assessment of the risk situation and the determination of the overall risk, individual risks were looked at not just in isolation, but in terms of their interdependencies as well. Opportunities are not netted. The overall risk situation of the Heidelberg Group is elevated compared to the previous year.

In addition to the political risks (in particular protectionist trade policy and the possible curbing of global economic momentum due to retaliatory measures), which are considered to be high, the launch of new products is subject to technical risks during the development phase and risks regarding the assessment of the sales market during the launch phase.

A high risk of failing to meet our earnings targets essentially lies in the possibility that the cautious expectations for economic development in key sales markets (Europe – in particular Germany – and the US and China) will prove to be even weaker. A weaker than expected performance by these countries could have a negative impact on sales and margins in the HDT segment in particular. Despite this risk assessment, it is assumed that the share of the print volume produced using the sheetfed offset printing method will remain stable globally.

Additionally, the provider-side barriers to market entry in sheetfed offset printing are high, meaning that no significant competition from new providers is expected.

Secondly, the precise transportation of paper sheets at high speeds remains a core competency of Heidelberg and we are therefore an ideal partner for providers of new technologies. Partnerships allow Heidelberg to bundle the innovative strength of partners with its own in order to respond more quickly to current market conditions. Furthermore, the Group has a strong global sales and service network. Heidelberg considers itself to be strategically well positioned, not just in sheetfed offset printing processes, but also in digital printing processes, which are seeing global increases in the print volumes produced.

Before making investments in a new business area, potential risks and opportunities are weighed on the basis of business plans.

The Management Board and the Supervisory Board deal with risks that could arise from organization, management or planned changes. For further information, please see our detailed "Corporate Governance Declaration" on the Internet.

Opportunities for Heidelberg lie in particular in the strategic measures as described in detail in the “Strategy” section on pages 18 to 21. This includes the continued transformation from being a technology-oriented company to a more customer-oriented one with a focus on expansion in the growth areas of digital, packaging, service and software with a continuous improvement in cost structures.

With new digital printing presses developed as part of cooperations and the Company’s own research and development activities, Heidelberg anticipates the opportunity to establish a strong position in the area of high-performance digital printing. Thanks to Heidelberg’s global service and logistics network and the integration of independent providers into this network, there is also growth potential in the less cyclical lifecycle business.

Above and beyond this, a major opportunity for Heidelberg lies in the possibility of more positive economic performance in the print and media industry than is currently forecast. In the BRIC nations there is a possibility that economic growth will be higher than anticipated. An economic recovery in the advanced economies could lead to a rise in the investment volume there as well. A shift in exchange rates in Heidelberg’s favor would also have a positive effect on sales and earnings planning. There are opportunities – and risks – in several countries that social and political changes, government intervention, customs regulations and changes in legislation could influence our business development.

Internal control and risk management system for the Group accounting process in accordance with section 289 (4) and section 315 (4) HGB

Accidental or deliberate accounting errors could theoretically result in a view of the net assets, financial position and results of operations that does not correspond to reality. Heidelberg systematically counters this risk – and other risks that could arise from it – with its own internal control system (ICS). The principles, procedures and measures of the ICS are based on the framework for internal control systems of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Heidelberg Group thus ensures that management decisions are implemented effectively, that control systems work efficiently, that laws and internal regulations are observed and that accounting is done properly. Using systematic controls and set processes in particular that also require audits based on random sampling, the Company takes every conceivable measure to prevent errors in the consolidated financial statements and in the Group management report.

Central consolidated accounting responsibilities such as the consolidation of the financial figures and the review of recognized goodwill are undertaken by central accounting on behalf of the entire Group. Corporate accounting also regularly monitors whether the accounts are properly maintained and if the Group-wide Heidelberg Accounting Rules are adhered to, thereby ensuring that the financial information complies with regulatory requirements. In addition, our Internal Audit team, which has access to all data, examines individual areas and affiliates throughout the Group on the basis of random sampling. In doing so, it examines, among other things, whether the internal control system has been implemented in this regard or whether transactions have been controlled, and whether the principles of the separation of functions and dual control are adhered to in all areas. The latter is mandatory, for example, for every order that is placed, for every invoice that is issued, and for every investment decision that is made. Compliance with all other internal guidelines and directives that have an impact on accounting operations is also monitored.

Risks are also reduced by a number of automated controls. Authorization concepts have been implemented in the Group’s IT systems; if a unit is examined by the internal auditors, these authorization models and their implementation are also reviewed. Automated controls and plausibility checks ensure the completeness and accuracy of data inputs, and in some cases data are validated on a fully automated basis and discrepancies are brought to light.

All segments and regions report their financial data for consolidation to the Group in accordance with a reporting calendar that applies uniformly throughout the Group. Consolidation controls are carried out in addition to controls of whether tax calculations are appropriate and whether tax-related items that are included in the annual financial statements have been properly recognized. Overall, these procedures ensure that reporting on the business activities of the Group is consistent worldwide and in accordance with approved accounting guidelines. The effectiveness of the internal accounting control system is also regularly monitored by our Internal Audit team.

OUTLOOK

Expected Conditions

Many economic indicators suggest a slowdown in global economic momentum, and not least a decline in foreign trade. Accordingly, the global economy is expected to increase by just 2.6 percent this year and next year. This economic slowdown is affecting the industrialized nations and the emerging economies alike.

As the fiscal impetus in the US ends and monetary policy becomes less expansive, investment activity is likely to slow, with economic growth forecast at just 2.4 percent in 2019 and 2.1 percent in 2020.

Weaker foreign demand has curbed growth in the euro zone tangibly, particularly in Germany. Companies are delaying investments in response to the trade disputes between the US on the one hand and China and the EU on the other, as well as the uncertainty concerning Brexit. Accordingly, the German government has lowered its growth forecast for 2019 from the original figure of 1.8 percent in its autumn report, first to 1.0 percent and now to just 0.5 percent.

The Japanese economy will continue to show little in the way of momentum, with growth remaining at 2018 levels at 0.7 percent this year and 0.5 percent next year.

The emerging economies are likely to see slightly slower economic development in the forecast period than in the last two years. Among other things, this is due to China, even though the Chinese government has announced expansive economic policy measures and made it clear that it will resist any pronounced economic weakness. Economists expect the growth rate in China to decline to 6.3 percent in 2019 and 6.0 percent in 2020. Despite this slowdown, China will remain a key driver of global economic growth in the future.

The downside risks for the world economy are considerable. One of the reasons is the high degree of economic policy uncertainty. The unresolved trade conflicts could place an additional burden on the world economy, resulting in a tangible slowdown in macroeconomic development. In Europe, there are additional risks due to the fact that a no-deal Brexit still cannot be ruled out. However, there are also risks in the financial environment, as debt has risen significantly in recent years both in the advanced economies and a number of emerging economies. At the same time, asset prices (equities, government bonds and real estate) have risen to all-time highs in many countries on the back of expansive monetary policy.

These economic conditions and the considerable downside risks will have a substantial impact on the propensity to invest in the mechanical engineering industry. After adjustment for inflation, the VDMA forecast for growth in machine production in Germany is therefore only around 1 percent. The majority of mechanical engineering companies are cautiously optimistic with regard to the US, Chinese and German markets, whereas they view the other EU markets with relative skepticism.

Future Prospects

The economic and political conditions presented on the markets relevant to Heidelberg, and the expected development of the printing industry, serve as premises for the forecast planning for the financial year 2019/2020 and beyond. The first-time application of IFRS 16 “Leases” will lead to reclassifications within the income statement and the statement of cash flows. Lease obligations will also be reported in the statement of financial position (see note 2, pages 81 and 82).

Corporate development continues to focus on the reorientation of the Group that was initiated in the past two financial years with the slogan “Heidelberg goes digital!” and the strategic pillars of digital transformation and expansion of technology leadership (see “Strategy” chapter, pages 18 to 21). This is intended to facilitate sustainable profitable growth in the medium to long term and enable the achievement of value appreciation for all of the Company’s stakeholders.

Cautious outlook for 2019/2020: Sales and profitability forecast at prior-year level

As the global economic slowdown at the start of the financial year was reflected in a reduction in momentum in terms of orders for new machinery and the latest annual forecast by the industry association VDMA was more pessimistic in light of the growing uncertainty on the world markets due to trade disputes – in particular the trade dispute between the US and China – and Brexit, Heidelberg is entering the new financial year 2019/2020 with caution and anticipates revenue on a par with the reporting year's level. This forecast is based on comparatively stable development in the key exchange rates to the euro and the assumption that the UK will leave the European Union with a withdrawal agreement.

With regard to the operating result, taking into account the expected effects of IFRS 16, Heidelberg is aiming for an EBITDA margin excluding restructuring result of 7.5 to 8.0 percent: Operating profitability is thus expected to be at the level of the reporting year after adjustment for the anticipated effects of IFRS 16. These figures take into account the additional staff costs resulting from the most recent collective bargaining agreement, the cost of series start-up in digital printing and the lower capitalization of development costs. Taking into account the expected effects of IFRS 16, the Heidelberg Digital Technology segment is expected to achieve an EBITDA margin excluding restructuring result of 3.5 to 4.0 percent; an EBITDA margin excluding restructuring result of 13.5 to 14.0 percent is envisaged for the Heidelberg Lifecycle Solutions segment. The Heidelberg Financial Services segment is expected to continue to make a positive contribution to EBITDA even after taking into account the anticipated effects of IFRS 16.

As in the previous years, the 2019/2020 financial year will see restructuring expenses for transformation activities and the optimization of processes and structures as part of operational excellence. We will also continue to use partial retirement programs to improve our demographic structures. As in the previous year, Heidelberg expects these expenses to amount to around € 20 million in the new financial year. In terms of the financial result, the positive effects of the partial repayment of the high yield bond in the past year will be more than offset by IFRS 16 and the temporary increase in net working capital. Based on the expected stable development in sales and the operating result, the net result after taxes is also forecast to remain stable – and presumably not significantly affected by IFRS 16 – at the level of the year under review.

On the basis of the stable and long-term financial framework and the forecast development of profitability, leverage is expected to remain below the communicated target of 2 even with the higher level of net debt following the application of IFRS 16. This means Heidelberg will still have the financial flexibility to invest in its digital transformation, finance acquisitions and press ahead with the Company's strategic development in the future.

Medium-term growth targets delayed by economic slowdown

Despite the growing weakness of the world economy toward the end of the financial year, Heidelberg is forecasting a stable performance in its core business and growth in its digital subscription model. As economic conditions mean companies are more reluctant to invest in new technologies, however, the ramp-up in the area of digital printing can be expected to be more conservative than originally planned. Postpress sales will grow at a slower rate as the antitrust authorities blocked the acquisition of MBO. In addition, the downturn in trade in consumables is likely to be greater than expected. Heidelberg is therefore anticipating a delay in its medium-term growth targets and a slower rise in sales than previously planned. However, the share of contract business that is resilient to cyclical trends will increase significantly compared to current levels.

When it comes to financing additional investments in digital business models, products and services, the Company is therefore continuing to focus on more efficient structures and is systematically pressing ahead with its asset and net working capital management in order to counteract the reluctance among customers to invest in light of the more difficult economic conditions. The funds freed up will be used to vigorously pursue the transformation and keep net debt low.

The fundamental medium-term to long-term market potential of the growing digitization of the printing industry, subscription services and digital packaging printing remains substantial. This reinforces us in our desire to press ahead with the transformation of the Group. The expansion of digital business models, and the significantly higher share of recurring contract sales as a result, will make us less susceptible to economic fluctuations in the future.

LEGAL DISCLOSURES

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

¬ In the previous year: Review and redesign of multi-year variable compensation and adjustment of the obligation for personal investment in shares

The Supervisory Board discussed the appropriateness of Management Board compensation and the structure of the compensation system, as scheduled, during the year under review. This was done amongst other things in connection with the agreement and review of agreements on objectives with Management Board members. With the introduction of the compensation system in place since financial year 2012/2013, the procedure and benchmarks for measuring the variable compensation elements were defined and, in respect of the multi-year variable compensation elements, adjusted to reflect the requirements of the revolving credit facility and its financial covenants. In financial year 2017/2018, the multi-year variable compensation was reviewed and redesigned. The aim was to increase variability by redesigning expected values, but also to reinforce the idea of shareholder value. These changes also influence the compensation system as a whole. Specifically:

The OVERALL STRUCTURE AND AMOUNT OF COMPENSATION OF THE MANAGEMENT BOARD are determined at the recommendation of the Personnel Matters Committee by the Supervisory Board of Heidelberger Druckmaschinen Aktiengesellschaft and reviewed at regular intervals. In each case, Management Board compensation (not including fringe benefits or service cost) amounts to a maximum of 370 percent of fixed annual compensation, divided into 100 percent for fixed annual compensation and a maximum of 270 percent for the variable compensation elements, i.e. a maximum of 90 percent for one-year variable compensation and 180 percent for multi-year variable compensation.

The COMPENSATION OF THE MANAGEMENT BOARD consists of fixed annual compensation paid in equal installments at the end of each month, one-year variable compensation and multi-year variable compensation, which is calculated on the achievement of certain three-year objectives using defined parameters. Additionally, there are fringe benefits and company pension benefits.

The ONE-YEAR VARIABLE COMPENSATION is dependent on the Group’s success in the respective financial year, the benchmarks for which are currently defined as EBIT and free cash flow, each according to IFRS. In addition, each member of the Management Board receives a personal, performance-based bonus that is determined by the Supervisory Board at the recommendation of the Personnel Matters Committee, taking into account their particular duties and responsibilities in addition to any individual objectives agreed. If objectives are achieved in full, the personal annual bonus can amount to up to 30 percent of the fixed annual compensation; the Company bonus can also account for up to 30 percent or if objectives are exceeded 60 percent of the fixed annual compensation. With respect to their personal annual bonuses for the year under review, the Supervisory Board and the Management Board had again agreed to give priority to the annual financial objectives. Until further notice – starting with financial year 2012/2013 – the 30 percent of the personal bonus will be added on to the Company bonus subordinate to the financial objectives on which it is based. The one-year variable compensation is paid out at the end of the month in which the Annual General Meeting resolves on the appropriation of the net result.

The MULTI-YEAR VARIABLE COMPENSATION was reviewed and redesigned in the previous year. Since the previous year, the multi-year variable compensation is determined according to two benchmarks: earnings before taxes according to the IFRS consolidated income statement (EBT) and total shareholder return (TSR). The targets for these two benchmarks, the respective thresholds and the maximum overfulfillment, are all defined at the beginning of the relevant three-year period (performance period). Half the multi-year variable compensation is attributable to each benchmark, i.e. 45 percent of the fixed annual compensation in the event of 100 percent fulfillment of the targets for each of the relevant benchmarks. Overfulfillment of a benchmark is recognized and can at most result in a doubling of the attributable multi-year variable target compensation. Accordingly, multi-year variable compensation can amount to 90 percent of the fixed annual compensation for each benchmark and to 180 percent of the fixed annual compensation in total. Both benchmarks are associated with an objective fulfillment threshold that must be reached in order for the multi-year variable compensation

[1)] This remuneration report also forms part of the corporate governance report for the benchmark in question to be paid out. However, overfulfillment of a benchmark can only increase the multi-year variable compensation if the other benchmark reaches at least the threshold. The first benchmark (Group earnings before taxes) is based on the five-year planning adopted by the Supervisory Board. The attributable multi-year variable compensation is determined after the end of the performance period by comparing the actual earnings before taxes of the three financial years within the performance period according to the IFRS income statement with the expected earnings before taxes for these three financial years. The averages of the actual and the expected earnings before taxes are compared in order to calculate and identify the actual achievement of objectives. The basis for target measurement for the second benchmark (total shareholder return) is the long-term expected return (Heidelberg share price increases) during the performance period (period of three financial years). The baseline value for each performance period is determined at the beginning of the first financial year of the performance period. For this purpose, the arithmetical average price (closing prices) of the Company's share in XETRA trading at the Frankfurt Stock Exchange over the 60 trading days immediately preceding the start of the three-year performance period is measured. The fixed baseline value is then compared with the arithmetical average price (closing prices) of the share over the 60 trading days immediately preceding the end of the performance period. If the Company pays dividends to the shareholders during the performance period, these dividends are translated in terms of the share price immediately preceding the end of the performance period. The achievement of objectives is checked and ascertained at the end of each three-year period. The multi-year variable compensation is paid out at the end of the month in which the Annual General Meeting – after the end of the final financial year of the three-year period – resolves on the appropriation of the net result.

For both one-year variable compensation and multi-year variable compensation, achievement of the relevant threshold results in a payout amounting to 25 percent of the sum that would be payable in the event of 100 percent objective fulfillment. If the objective attainment lies between the threshold and the defined objective, the payout is determined by linear interpolation. If overfulfillment is to be recognized, the amount of the payout is either determined as a percentage according to the degree of overfulfillment or – if a maximum recognizable value for overfulfillment has been defined – by linear interpolation between the objective and the maximum recognizable value.

In the event of a member joining or leaving within an ongoing performance period, that member has a pro rata temporis claim to any multi-year variable compensation determined after the end of the performance period. In the event of a member leaving, pro rata temporis multi-year variable compensation is calculated for the performance periods still ongoing at this time on the basis of the determination of goals as of the exit date, which is then frozen.

Personal investment by Management Board members: During the period of appointment to the Management Board, each Management Board member must use the one-year and multi-year variable compensation to establish and hold a portfolio of shares in the Company in the value of their current fixed annual compensation. Shares in the Company already held by the respective Management Board member are counted towards this value. There is no obligation to acquire shares using other compensation or private wealth. The Company is entitled to invest 10 percent of the one-year variable compensation and 10 percent of the multi-year variable compensation (before deduction of taxes and contributions) in the form of shares in the Company. A bank or financial service provider is commissioned to acquire the shares; the Company bears the costs of processing and custody. The Company's entitlement to invest variable compensation to build the share investment portfolio in the form of shares ends when the respective Management Board member leaves office. The respective Management Board member may only sell shares from the personal investment share portfolio during their term in office if the minimum value of the fixed annual compensation is complied with and statutory or regulatory restrictions do not prohibit the sale.

There is a special rule for the three-year period 2017/2018 to 2019/2020. The amount resulting according to the previous rule from the objective already set for the first portion of the multi-year variable compensation of financial year 2017/2018 (2017/2018 tranche) and the related evaluation with regard to the (proportional) target compensation of no more than 30 percent of the fixed annual compensation is, in the event of the agreed achievement of objectives, counted towards this new rule and paid out after the end of the three-year period in financial year 2019/2020.

Benefits granted to individual members of the Management Board [1]

Figures in € thousands	Rainer Hundsdörfer Chief Executive Officer and Chief Human Resources Officer				Dirk Kaliebe Chief Financial Officer and Head of Financial Services			
	2017/2018 Objective	**2018/2019 Objective**	2018/2019 (Min)	2018/2019 (Max)	2017/2018 Objective	**2018/2019 Objective**	2018/2019 (Min)	2018/2019 (Max)
Fixed compensation [2]	650	660	660	660	402	408	408	408
Fringe benefits	26	26	26	26	18	16	16	16
Total	676	686	686	686	420	424	424	424
One-year variable compensation	585	594	0	594	362	367	0	367
Multi-year variable compensation	526	456	0	1,170	325	282	0	723
2017/2018 tranche [3]	526 [4]	–	–	–	325 [4]	–	–	–
2018/2019 tranche [3]		456 [5]	0	1,170	–	282 [5]	0	723
Total fixed and variable compensation elements	1,787	1,736	686	2,450	1,107	1,073	424	1,514
Service cost	228	234	234	234	141	144	144	144
Total compensation	2,015	1,970	920	2,684	1,248	1,217	568	1,658

Figures in € thousands	Prof. Dr. Ulrich Hermann Member of the Board Head of Lifecycle Solutions				Stephan Plenz Member of the Board Head of Digital Technology			
	2017/2018 Objective	**2018/2019 Objective**	2018/2019 (Min)	2018/2019 (Max)	2017/2018 Objective	**2018/2019 Objective**	2018/2019 (Min)	2018/2019 (Max)
Fixed compensation [2]	400	408	408	408	402	408	408	408
Fringe benefits	25	25	25	25	17	14	14	14
Total	425	433	433	433	419	422	422	422
One-year variable compensation	360	367	0	367	362	367	0	367
Multi-year variable compensation	324	281	0	720	325	282	0	723
2017/2018 tranche [3]	324 [4]	–	–	–	325 [4]	–	–	–
2018/2019 tranche [3]	–	281 [5]	0	720	–	282 [5]	0	723
Total fixed and variable compensation elements	1,109	1,081	433	1,520	1,106	1,071	422	1,512
Service cost	140	144	144	144	141	144	144	144
Total compensation	1,249	1,225	577	1,664	1,247	1,215	566	1,656

[1] In accordance with section 4.2.5 (3) of the German Corporate Governance Code in the version published on April 24, 2017
[2] From October 1, 2018, the monthly fixed compensation of members of the Management Board was increased by 3 percentage points each and, furthermore, from the 2018/2019 financial year, the fixed annual salary of Prof. Dr. Ulrich Hermann was adjusted to match that of Dirk Kaliebe and Stephan Plenz
[3] Term: 3 years
[4] In financial year 2017/2018, this includes the fair value as of the grant date of the multi-year share-based cash compensation as follows: Rainer Hundsdörfer: € 234 thousand; Dirk Kaliebe: € 144 thousand; Prof. Dr. Ulrich Hermann: € 144 thousand; Stephan Plenz: € 144 thousand
[5] In financial year 2018/2019, this includes the fair value as of the grant date of the multi-year share-based cash compensation as follows: Rainer Hundsdörfer: € 163 thousand; Dirk Kaliebe: € 101 thousand; Prof. Dr. Ulrich Hermann: € 101 thousand; Stephan Plenz: € 101 thousand

Allocation [1]

Figures in € thousands	**Rainer Hundsdörfer** Chief Executive Officer and Chief Human Resources Officer		**Dirk Kaliebe** Chief Financial Officer and Head of Financial Services		**Prof. Dr. Ulrich Hermann** Member of the Board Head of Lifecycle Solutions		**Stephan Plenz** Member of the Board Head of Digital Technology	
	2017/2018	**2018/2019**	2017/2018	**2018/2019**	2017/2018	**2018/2019**	2017/2018	**2018/2019**
Fixed compensation [2]	650	647	402	400	400	400	402	400
Fringe benefits	26	26	18	16	25	25	17	14
Total	676	673	420	416	425	425	419	414
One-year variable compensation	585	594	362	367	360	367	362	367
Multi-year variable compensation	–	467	356	362	–	288	356	362
2015/2016 tranche [3]	–	–	356	–	–	–	356	–
2016/2017 tranche [3]	–	467	–	362	–	288	–	362
Total fixed and variable compensation components	1,261	1,734	1,138	1,145	785	1,080	1,137	1,143
Service cost [4]	228	234	141	144	140	144	141	144
Total compensation	1,489	1,968	1,279	1,289	925	1,224	1,278	1,287
of which: agreed personal investment	59	106	72	73	36	66	72	73

[1] Compensation paid or yet to be paid to the members of the Management Board for the respective financial year
[2] The remuneration waived by members of the Management Board in the 2018/2019 financial year amounted to € 36 thousand in total. From October 1, 2018 the monthly fixed compensation of members of the Management Board was increased by 3 percentage points each and, furthermore, from the 2018/2019 financial year, the fixed annual salary of Prof. Dr. Ulrich Hermann was adjusted to match that of Dirk Kaliebe and Stephan Plenz
[3] Term: 3 years. For 2016/2017 tranche: Calculated pro rata temporis from November 14, 2016 for Rainer Hundsdörfer and Prof. Dr. Ulrich Hermann
[4] Not yet allocated in the financial year

The objective agreements for the multi-year variable compensation (three-year period) entered into at the beginning of financial year 2016/2017 (2016/2017 tranche) are still based on the previous rule and are accordingly ascertained and paid out on this basis. As a result, the multi-year variable compensation is scheduled to be ascertained and paid out on the basis of the previous rule for the last time at the end of financial year 2018/2019 – with the exception of the above transitional rule.

As such, the one-year variable compensation and the multi-year variable compensation alike provide an additional long-term performance incentive, increasingly gearing the compensation structure towards sustainable business development.

Rainer Hundsdörfer, Dirk Kaliebe, Prof. Ulrich Hermann and Stephan Plenz invested the portions of the one-year variable compensation paid for financial year 2017/2018 and Dirk Kaliebe and Stephan Plenz the corresponding portions of the multi-year variable compensation for financial years 2015/2016, 2016/2017 and 2017/2018 (2015/2016 tranche) in shares of Heidelberger Druckmaschinen Aktiengesellschaft on August 8, 2018, in accordance with Article 19 of the Market Abuse Regulation (EU) No. 596/2014; the investment was reported to the German Federal Financial Supervisory Authority by all Management Board members and published on the Heidelberger Druckmaschinen Aktiengesellschaft website on August 9, 2018.

In the year under review, FRINGE BENEFITS primarily consist of the value of the private use of a company car to be determined according to fiscal guidelines.

There were no BENEFITS TO FORMER MEMBERS OF THE MANAGEMENT BOARD, as no members of the Management Board left in the reporting year.

Compensation of the individual members of the Management Board (HGB)

Figures in € thousands		Non-performance-related elements		Performance-related elements	Long-term incentive components	Total compensation
		Fixed compensation [1]	Fringe benefits	One-year variable compensation	Multi-year [2] variable compensation	
Rainer Hundsdörfer	2017/2018	650	26	585	429	1,690
	2018/2019	647	26	594	361	1,628
Dirk Kaliebe	2017/2018	402	18	362	385	1,167
	2018/2019	400	16	367	223	1,006
Prof. Dr. Ulrich Hermann	2017/2018	400	25	360	264	1,049
	2018/2019	400	25	367	223	1,015
Stephan Plenz	2017/2018	402	17	362	385	1,166
	2018/2019	400	14	367	223	1,004
Total	2017/2018	1,854	86	1,669	1,463	5,072
	2018/2019	1,847	81	1,695	1,030	4,653

[1] The remuneration waived by members of the Management Board in the 2018/2019 financial year amounted to € 36 thousand in total. From October 1, 2018 the monthly fixed compensation of members of the Management Board was increased by 3 percentage points each and, furthermore, from the 2018/2019 financial year, the fixed annual salary of Prof. Dr. Ulrich Hermann was adjusted to match that of Dirk Kaliebe and Stephan Plenz

[2] In financial year 2017/2018, this includes the fair value as of the grant date of the multi-year share-based cash compensation as follows: Rainer Hundsdörfer: € 234 thousand; Dirk Kaliebe: € 144 thousand; Prof. Dr. Ulrich Hermann: € 144 thousand; Stephan Plenz: € 144 thousand
In financial year 2018/2019, this includes the fair value as of the grant date of the multi-year share-based cash compensation as follows: Rainer Hundsdörfer: € 163 thousand; Dirk Kaliebe: € 101 thousand; Prof. Dr. Ulrich Hermann: € 101 thousand; Stephan Plenz: € 101 thousand
The total income for the 2018/2019 financial year of € 356 thousand (previous year: total expense of € 437 thousand) breaks down as follows: Rainer Hundsdörfer: € 125 thousand (previous year: expense of € 153 thousand), Dirk Kaliebe: € 77 thousand (previous year: expense of € 95 thousand), Prof. Dr. Ulrich Hermann: € 77 thousand (previous year: expense of € 94 thousand) and Stephan Plenz: € 77 thousand (previous year: expense of € 95 thousand)

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

In the reporting year, the contract with Rainer Hundsdörfer (Chief Executive Officer and Chief Human Resources Officer) was extended by three years and that with Prof. Dr. Ulrich Hermann by five years; Dirk Kaliebe and Stephan Plenz have each been appointed as ordinary members of the Management Board for a period of three years. The pension agreement provides for a defined contribution for pension benefits that is essentially consistent with the defined contribution plan for executive staff. On July 1 of each year, the Company pays a corresponding contribution based on the relevant fixed compensation retroactively for the previous financial year into an investment fund. The fixed pension contribution is 35 percent of the corresponding fixed compensation.

The pension agreements for all members of the Management Board stipulate that the amount paid can rise depending on the earnings situations of the Company. The exact amount of the pension also depends on the investment success of the fund. The pension can be drawn as an early pension from the age of 60. In the event of a member of the Management Board leaving the Company, the pension will be paid from the age of 65 or 60 respectively, principally as a non-recurring payment of pension capital. In addition, the agreements also provide for disability and surviving dependents' benefits (60 percent of the disability payment or the pension) contingent on the amount of the last fixed compensation. In deviation from the defined contribution plan for executive staff, the percentage in the event of a disability pension is based on the length of service on the Company's Management Board, with attributable time up to the age of 65 and a maximum pension percentage of 60 percent. If the contract of employment expires prior to the start of benefit payments, the claim to the accrued pension funds at that point in time remains valid. The other pension benefits (disability and surviving dependents' benefits) earned in accordance with section 2 of the German Company Pension Act (BetrAVG) remain valid on a pro rata temporis basis. In a departure from section 1b BetrAVG, the benefits of Rainer Hundsdörfer and Prof. Ulrich Hermann are vested immediately. Moreover, the statutory vesting periods have been met for Dirk Kaliebe and Stephan Plenz.

In terms of **EARLY TERMINATION BENEFITS**, all service agreements provide for the following uniform regulations in the event of the effective revocation of a Management Board member's appointment or a justifiable resignation by a member of the Management Board: The service agreement ends after the statutory notice period in accordance with section 622 (1), (2) of the German Civil Code (BGB). In event of the effective revocation of a Management Board member's appointment, the member receives a severance payment at the time of termination of the service agreement in the amount of his or her previous total compensation under the service agreement for two years, but not exceeding the amount of the compensation for the originally agreed remainder of the service agreement. An entitlement to multi-year variable compensation determined, established and thus already vested at the date of departure is unaffected by the severance and transitional regulations and is paid immediately after departure or, with regard to the new multi-year variable compensation, as soon as the annual financial statements of the financial year in question have been prepared, but no later than the end of the first quarter of the financial year following the departure. This does not affect the right to extraordinary termination for cause in accordance with section 626 BGB. The severance payment is paid in quarterly installments in line with the originally agreed residual term, but in not more than eight quarterly installments. Other compensation received by a then former member of the Management Board, which this former member has agreed to disclose to the Company, must be offset in accordance with sections 326 (2) sentence 2 and 615 (2) BGB mutatis mutandis during the originally agreed residual term. If a member of the Management Board becomes unable to work due to disability, the benefits stipulated in the respective pension agreement will be paid. If no decision on reappointment is made by at least nine months before the end of the term in office and the Management Board member is not reappointed thereafter, the Management Board member receives a severance payment in the amount of the fixed annual compensation (transitional payment). The entitlement to this fixed annual compensation arises at the time of termination of the service agreement. It does not arise if, when the decision on reappointment is made or by the time of termination of the service agreement, there is good cause for which the Management Board member is responsible that would give the Company a right to termination in accordance with section 626 BGB. The above rule applies mutatis mutandis to the payment and eligibility of other compensation.

Pension of the individual members of the Management Board [1)]

Figures in € thousands		Accrued pension funds as of the end of the reporting period	Pension contribution during the reporting year [2)]	Defined benefit obligation	Service cost
Rainer Hundsdörfer	2017/2018	315	228	317	228
	2018/2019	552	231	558	234
Dirk Kaliebe	2017/2018	1,611	141	1,862	141
	2018/2019	1,799	143	2,068	144
Prof. Dr. Ulrich Hermann	2017/2018	194	140	224	140
	2018/2019	340	143	393	144
Stephan Plenz	2017/2018	1,525	141	1,750	141
	2018/2019	1,711	143	1,947	144

1) The pension entitlement that can be achieved by the age of 65 (Rainer Hundsdörfer; Dirk Kaliebe; Prof. Dr. Ulrich Hermann and Stephan Plenz) is dependent on personal compensation development, the respective EBIT and the return achieved, and hence cannot be determined precisely in advance. If the pension option is utilized and the current assumptions continue to apply, the retirement pension resulting from the accrued pension funds is expected to be as follows: Rainer Hundsdörfer: approx. 7 percent, Dirk Kaliebe: approx. 36 percent, Prof. Dr. Ulrich Hermann: approx. 21 percent and Stephan Plenz: approx. 34 percent of the respective last fixed compensation

2) For Rainer Hundsdörfer, Dirk Kaliebe, Prof. Dr. Ulrich Hermann and Stephan Plenz, the pension contribution for the reporting year is calculated on the basis of the pensionable income on March 31, without taking into account the earnings-based contribution not yet determined. The waiver of remuneration in the reporting year has no effect on pensionable fixed annual salary

The compensation of the members of the **SUPERVISORY BOARD** is governed by the Articles of Association and determined by the Annual General Meeting.

Each member of the Supervisory Board receives fixed annual compensation of € 40,000.00. The Chairman of the Supervisory Board receives three times this amount, the Deputy Chairman twice this amount. The members of the Management Committee, the Audit Committee, and the Committee on Arranging Personnel Matters of the Management Board receive additional compensation for work on these committees. Each committee member receives compensation of € 1,500.00 per meeting for participation in a meeting of these committees. The Chairman of the Audit Committee receives compensation of € 4,500.00 per meeting; the Chairman of the Management Committee and the Chairman of the Committee on Arranging Personnel Matters of the Management Board receive compensation of € 2,500.00 per meeting. The members of the Supervisory Board also receive an attendance fee of € 500.00 per meeting for attending a meeting of the Supervisory Board or one of its committees. Furthermore, the expenses incurred by members of the Supervisory Board and value added tax thereon will be reimbursed. In order to boost the Supervisory Board's role as a controlling body, compensation does not include a variable, performance-based component. The Supervisory Board currently consists of 12 members.

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

Compensation of the Supervisory Board (excluding VAT)

Figures in €	2017/2018				**2018/2019**			
	Fixed annual compensation	Attendance fees	Committee compensation	Total	Fixed annual compensation	Attendance fees	Committee compensation	Total
Dr. Siegfried Jaschinski [1]	120,000	5,000	7,500	132,500	120,000	6,000	16,500	142,500
Ralph Arns [2]	40,000	2,000	0	42,000	70,000	4,500	6,000	80,500
Rainer Wagner [3) 4]	80,000	5,000	12,000	97,000	26,666	2,500	6,000	35,166
Joachim Dencker [5]	0	0	0	0	30,000	2,500	0	32,500
Gerald Dörr [5]	0	0	0	0	30,000	2,500	3,000	35,500
Mirko Geiger	40,000	5,000	7,500	52,500	40,000	6,000	7,500	53,500
Karen Heumann	40,000	2,500	3,000	45,500	40,000	3,000	4,500	47,500
Oliver Jung [6]	36,666	2,500	0	39,166	40,000	4,500	3,000	47,500
Kirsten Lange	40,000	4,500	6,000	50,500	40,000	6,000	7,500	53,500
Dr. Herbert Meyer [4]	40,000	5,000	22,500	67,500	13,333	2,500	13,500	29,333
Petra Otte [5]	0	0	0	0	30,000	2,000	0	32,000
Ferdinand Rüesch [5]	0	0	0	0	34,633 [7]	3,000	3,000	40,633
Beate Schmitt	40,000	2,000	4,500	46,500	40,000	3,500	6,000	49,500
Prof. Dr.-Ing. Günther Schuh	92,611 [8]	2,500	1,500	96,611	59,422 [8]	2,500	0	61,922
Christoph Woesler [4]	40,000	2,000	0	42,000	13,333	1,000	0	14,333
Roman Zitzelsberger [4]	40,000	2,000	0	42,000	13,333	1,000	0	14,333
Total	649,277	40,000	64,500	753,777	640,720	53,000	76,500	770,220

1) Chairman of the Supervisory Board
2) Deputy Chairman of the Supervisory Board from July 25, 2018
3) Deputy Chairman of the Supervisory Board until July 25, 2018
4) Member of the Supervisory Board until July 25, 2018
5) Member of the Supervisory Board since July 25, 2018
6) Member of the Supervisory Board since May 23, 2017
7) of which: fixed compensation for membership in the Board of Directors of a foreign subsidiary: € 4,633
8) of which: fixed compensation for membership in the Board of Directors of a foreign subsidiary: € 19,422 (previous year: € 52,611)

Takeover Disclosures in Accordance with Section 315a (1) of the German Commercial Code

In accordance with section 315a (1) sentence 1 nos. 1 to 9 of the German Commercial Code (HGB), we address all points that could be relevant in the event of a public takeover bid for Heidelberg in the Group management report:

As of March 31, 2019, the **ISSUED CAPITAL** (share capital) of Heidelberger Druckmaschinen Aktiengesellschaft amounted to € 779,466,887.68 and was divided into 304,479,253 no-par value bearer shares that are not subject to any restriction on transferability. As of the end of the reporting period, the Company held 142,919 treasury shares, from which no rights arise for the Company in accordance with section 71b of the German Stock Corporation Act (AktG).

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

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

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

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

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

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

On July 24, 2014, the Annual General Meeting authorized the Management Board, with the approval of the Supervisory Board, to issue bearer or registered warrants and/or convertible bonds, profit-sharing rights or participating bonds, or a combination of these instruments (collectively referred to as "bonds") up to a total nominal amount of € 58,625,953.28, dated or undated, on one or several occasions by July 23, 2019, and to grant or impose on the bearers or creditors of option warrants or option profit-sharing rights or option participating bonds option rights or obligations, or to grant or impose on the bearers or creditors of convertible bonds, convertible profit-sharing rights or convertible participating bonds conversion rights or obligations to bearer shares of the Company with a pro rata amount of share capital of originally up to € 58,625,953.28 in total, in accordance with the further conditions of these bonds. Shareholders' preemptive subscription rights can be disapplied in accordance with the further conditions of this authorization. For this purpose, the share capital of Heidelberger Druckmaschinen Aktiengesellschaft was originally contingently increased by up to € 58,625,953.28, divided into 22,900,763 bearer shares. On July 24, 2015, the Annual General Meeting resolved the cancellation of Contingent Capital 2014 to the extent that it is not intended to serve rights under the 2015 convertible bond. The share capital of Heidelberger Druckmaschinen Aktiengesellschaft is now contingently increased by up to € 48,230,453.76, divided into 18,840,021 bearer shares (**CONTINGENT CAPITAL 2014**), for this purpose; details of Contingent Capital 2014 can be found in Article 3 (3) of the Articles of Association.

On July 24, 2015, the Annual General Meeting authorized the Management Board, with the approval of the Supervisory Board, to issue warrants, convertible bonds and/or participating bonds as well as profit-sharing rights including combinations of these instruments (collectively also referred to as "bonds") up to a total nominal amount of € 200,000,000.00 dated or undated, on one or several occasions by July 23, 2020, and to grant or impose on the bearers or creditors of option warrants or option profit-sharing rights or option participating bonds, option rights or obligations, or to grant or impose on the bearers or creditors of convertible bonds, convertible profit-sharing rights or convertible participating bonds conversion rights or obligations to up to 51,487,555 bearer shares of the Company with a pro rata amount of share capital of up to € 131,808,140.80 in total, in accordance with the further conditions of these bonds. Shareholders' preemptive subscription rights can be disapplied in accordance with the further conditions of this authorization. The share capital of Heidelberger Druckmaschinen Aktiengesellschaft was contingently increased by up to € 131,808,140.80, divided into 51,487,555 bearer shares (**CONTINGENT CAPITAL 2015**), for this purpose; details of Contingent Capital 2015 can be found in Article 3(4) of the Articles of Association.

In accordance with the resolution of the Annual General Meeting on July 24, 2015, the Management Board was authorized, with the approval of the Supervisory Board, to increase the share capital of the Company by up to € 131,808,140.80 on one or more occasions by issuing up to 51,487,555 new shares against cash or non-cash contributions by July 23, 2020 (**AUTHORIZED CAPITAL 2015**). The Management Board was authorized, with the approval of the Supervisory Board, to determine the further content of share rights and the conditions for the issue of shares. Details on Authorized Capital 2015 can be found in Article 3(5) of the Articles of Association. The cash capital increase with Masterwork Machinery S.à r.l., Luxembourg, Luxembourg, which became effective on March 22, 2019, meant that the share capital increased by € 65,904,069.12; accordingly, Authorized Capital 2015 was reduced from € 131,808,140.80 to € 65,904,071.68.

The credit facility signed on March 25, 2011 and extended until June 2023 by way of an agreement with several banks in March 2018, a bilateral loan agreement with the European Investment Bank dated March 31, 2016 and a development loan agreed with a syndicate of banks with refinancing by the KfW dated October 20, 2016 and a bilateral loan agreement with a German Landesbank dated May 23, 2017, contain, in the versions applicable at the end of the reporting period, standard **CHANGE OF CONTROL CLAUSES** that grant the contracting parties additional rights to information and termination in the event of a change in the Company's control or majority ownership structure.

The terms of the convertible bond that was placed on March 25, 2015 and issued on March 30, 2015 also include a change of control clause. If there is a change of control as described in the bond terms, the bondholders can demand early repayment within a defined period. Heidelberg would then be obliged to pay a change of control exercise price to the bondholders who demanded early repayment. This exercise price corresponds to the notional amount of the bond adjusted using a mathematical technique described in greater detail in the bond terms. The terms of the bond that was placed on April 17, 2015 and issued on May 5, 2015 include a change of control clause that requires Heidelberger Druckmaschinen Aktiengesellschaft to buy back the respective debt instruments (or parts thereof) from bondholders on demand if certain conditions named in that clause materialize. In this case, the buyback price would be 101 percent of the total nominal amount of the respective debt instruments plus interest accrued but not yet paid.

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

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

Non-Financial Report

The separate combined non-financial report in accordance with sections 315b and 315c in conjunction with sections 289b to 289e HGB for the 2018/2019 financial year is permanently available on our website www.heidelberg.com under “Investor Relations”, “Reports and Presentations”.

Disclosures on Treasury Shares

The disclosures on treasury shares according to section 160 (1) no. 2 AktG can be found in note 25 to the consolidated financial statements.

Corporate Governance Declaration

The Corporate Governance Declaration in accordance with section 289f HGB and section 315d HGB has been made permanently available at www.heidelberg.com under Company > About Us > Corporate Governance.

Important note

This Annual Report contains forward-looking statements based on assumptions and estimates by the management of Heidelberger Druckmaschinen Aktiengesellschaft. Even though the management is of the opinion that these assumptions and estimates are accurate, the actual future development and results may deviate substantially from these forward-looking statements due to various factors, such as changes in the overall economic situation, exchange and interest rates, and changes within the print media industry. Heidelberger Druckmaschinen Aktiengesellschaft provides no guarantee and assumes no liability for future development and results deviating from the assumptions and estimates made in this Annual Report. Heidelberg neither intends nor assumes any separate obligation to update the assumptions and estimates made in this Annual Report to reflect events or developments occurring after the publication of this Annual Report.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Financial section 2018/2019

Consolidated income statement 2018/2019

Figures in € thousands	Note	1-Apr-2017 to 31-Mar-2018	**1-Apr-2018 to 31-Mar-2019**
Net sales [1]	8	2,420,154	2,490,492
Change in inventories		42,903	31,459
Other own work capitalized		44,347	33,799
Total operating performance		**2,507,404**	**2,555,750**
Other operating income	9	83,790	82,433
Cost of materials	10	1,127,502	1,160,582
Staff costs	11	885,525	890,982
Depreciation and amortization	12	68,972	79,816
Other operating expenses	13	422,078	425,764
Result of operating activities [2]		**87,117**	**81,039**
Financial income	15	3,461	5,995
Financial expenses	16	51,438	54,896
Financial result	14	**–47,977**	**–48,901**
Net result before taxes		**39,140**	**32,138**
Taxes on income	17	25,575	11,263
Net result after taxes		**13,565**	**20,875**
Basic earnings per share according to IAS 33 (in € per share)	34	**0.05**	**0.07**
Diluted earnings per share according to IAS 33 (in € per share)	34	**0.05**	**0.07**

[1] Thereof € 3,889 thousand (previous year: € 4,138 thousand) relates to interest income from sales financing and finance leases calculated using the effective interest rate method.
[2] Result of operating activities excluding restructuring result: € 100,839 thousand (April 1, 2017 to March 31, 2018: € 103,432 thousand)

Restructuring result (€ – 19,800 thousand; April 1, 2017 to March 31, 2018: € – 16,315 thousand) = restructuring income (€ 6,825 thousand; April 1, 2017 to March 31, 2018: € 2,091 thousand) less restructuring expenses (€ – 26,625 thousand; April 1, 2017 to March 31, 2018: € – 18,406 thousand)

Consolidated statement of comprehensive income 2018/2019

Figures in € thousands	Note	1-Apr-2017 to 31-Mar-2018	**1-Apr-2018 to 31-Mar-2019**
Net result after taxes		**13,565**	**20,875**
Other comprehensive income not reclassified to the income statement			
Remeasurement of defined benefit pension plans and similar obligations		– 30,851	– 49,857
Deferred income taxes	22	– 979	2,333
		– 31,830	**– 47,524**
Other comprehensive income which may subsequently be reclassified to the income statement			
Currency translation			
Change in other comprehensive income		– 36,344	17,587
Change in profit or loss		–	–
		– 36,344	17,587
Fair value of other financial assets			
Change outside of profit or loss		– 99	7
Change in profit or loss		–	–
		– 99	7
Cash flow hedges			
Change outside of profit or loss		5,566	– 1,346
Change in profit or loss		– 6,427	2,541
		– 861	1,195
Deferred income taxes	22	– 252	– 182
		– 37,556	**18,607**
Total other comprehensive income		– 69,386	– 28,917
Total comprehensive income		**– 55,821**	**– 8,042**

Consolidated statement of financial position as of March 31, 2019

Assets

Figures in € thousands	Note	31-Mar-2018	31-Mar-2019
Non-current assets			
Intangible assets	18	263,158	271,271
Property, plant and equipment	19	525,926	559,664
Investment property	19	9,216	7,705
Financial assets	20	12,186	7,103
Receivables from sales financing	21	37,621	30,361
Other receivables and other assets [1]	21	25,324	8,040
Income tax assets		79	90
Deferred tax assets	22	65,736	76,057
		939,246	960,291
Current assets			
Inventories	23	622,434	684,857
Receivables from sales financing	21	27,990	29,475
Trade receivables	21	369,808	359,706
Other receivables and other assets [2]	21	87,162	71,381
Income tax assets		7,418	8,097
Cash and cash equivalents	24	201,607	215,015
		1,316,419	1,368,531
Total assets		**2,255,665**	**2,328,822**

[1] Of which financial assets € 2,988 thousand (previous year: € 17,928 thousand) and non-financial assets € 5,052 thousand (previous year: € 7,396 thousand)
[2] Of which financial assets € 34,001 thousand (previous year: € 42,180 thousand) and non-financial assets € 37,380 thousand (previous year: € 44,982 thousand)

Consolidated statement of financial position as of March 31, 2019

Equity and liabilities

Figures in € thousands	Note	31-Mar-2018	**31-Mar-2019**
Equity	25		
Issued capital		713,198	779,102
Capital reserves, retained earnings and other reserves		– 385,849	– 400,580
Net result after taxes		13,565	20,875
		340,914	399,397
Non-current liabilities			
Provisions for pensions and similar obligations	26	523,445	582,159
Other provisions	27	141,744	98,923
Financial liabilities	28	402,989	366,441
Other liabilities [3]	30	31,752	43,288
Deferred tax liabilities	22	5,817	4,618
		1,105,747	1,095,429
Current liabilities			
Other provisions	27	212,388	198,844
Financial liabilities	28	35,031	98,568
Trade payables	29	237,454	245,389
Income tax liabilities		3,320	3,911
Other liabilities [4]	30	320,811	287,284
		809,004	833,996
Total equity and liabilities		**2,255,665**	**2,328,822**

[3] Of which financial liabilities € 4,209 thousand (previous year: € 435 thousand) and non-financial liabilities € 39,079 thousand (previous year: € 31,317 thousand). Non-financial liabilities include contractual liabilities of € 30,606 thousand (previous year: € 0 thousand); please refer to note 30 for further details.

[4] Of which financial liabilities € 91,821 thousand (previous year: € 94,505 thousand) and non-financial liabilities € 195,463 thousand (previous year: € 226,306 thousand). Non-financial liabilities include contractual liabilities of € 156,348 thousand (previous year: € 0 thousand); please refer to note 30 for further details.

Statement of changes in consolidated equity as of March 31, 2019 [1)]

Figures in € thousands	Issued capital	Capital reserves	Retained earnings
April 1, 2017	658,676	29,411	– 270,745
Capital increase (partial conversion of convertible bond)	54,522	1,257	0
Profit carryforward	0	0	36,236
Total comprehensive income	0	0	– 31,830
Consolidation adjustments / other changes	0	0	869
March 31, 2018	**713,198**	**30,668**	**– 265,470**
April 1, 2018	713,198	30,668	– 265,470
Change in accounting policies [2)]	–	–	– 2,339
April 1, 2018 – adjusted [2)]	713,198	30,668	– 267,809
Capital increase [3)]	65,904	2,557	0
Profit carryforward	0	0	13,565
Total comprehensive income	0	0	– 47,524
Consolidation adjustments / other changes	0	0	62
March 31, 2019	**779,102**	**33,225**	**– 301,706**

[1)] For further details please refer to note 25.
[2)] First-time adoption of IFRS 9; previous year's figures have not been restated. For first-time adoption of IFRS 9 and IFRS 15 see note 2
[3)] After deduction of transaction costs of € 532 thousand

		Other retained earnings	**Total other retained earnings**	**Total capital reserves, retained earnings and other retained earnings**	**Net result after taxes**	**Total**
Currency translation	Fair value of other financial assets	Fair value of cash flow hedges				
−112,289	1,101	−2,303	−113,491	−354,825	36,236	340,087
0	0	0	0	1,257	0	55,779
0	0	0	0	36,236	−36,236	0
−36,344	−1,563	351	−37,556	−69,386	13,565	−55,821
0	0	0	0	869	–	869
−148,633	**−463**	**−1,952**	**−151,047**	**−385,849**	**13,565**	**340,914**
−148,633	−463	−1,952	−151,047	−385,849	13,565	340,914
–	341	–	341	−1,998	–	−1,998
−148,633	−122	−1,952	−150,706	−387,847	13,565	338,916
0	0	0	0	2,557	0	68,461
0	0	0	0	13,565	−13,565	0
17,587	4	1,016	18,607	−28,917	20,875	−8,042
0	0	0	0	62	0	62
−131,046	**−118**	**−936**	**−132,099**	**−400,580**	**20,875**	**399,397**

Consolidated statement of cash flows 2018/2019 [1)]

Figures in € thousands	1-Apr-2017 to 31-Mar-2018	**1-Apr-2018 to 31-Mar-2019**
Net result after taxes	13,565	20,875
Depreciation, amortization, write-downs and reversals [2)]	69,126	79,816
Change in pension provisions	6,869	7,532
Change in deferred tax assets/deferred tax liabilities/tax provisions	13,327	– 2,694
Result from disposals [2)]	1,034	– 629
Cash flow	**103,921**	**104,900**
Change in inventories	– 52,462	– 53,701
Change in sales financing	– 9,854	6,191
Change in trade receivables/payables	26,594	25,516
Change in other provisions	– 29,659	– 60,040
Change in other items of the statement of financial position	49,143	– 34,144
Other operating changes	**– 16,238**	**– 116,178**
Cash generated/used by operating activities [3)]	**87,683**	**– 11,278**
Intangible assets/property, plant and equipment/investment property		
Investments	– 114,567	– 124,887
Income from disposals	9,871	20,750
Business acquisitions/corporate sales		
Investments	– 14,007	–
Income from disposals	615	–
Financial assets		
Investments	– 15	– 89
Income from disposals	3	469
Cash used in investing activities before cash investment	**– 118,100**	**– 103,757**
Cash investment	22,674	21,933
Cash used in investing activities	**– 95,426**	**– 81,824**
Proceeds from capital increase	0	68,461
Borrowing of financial liabilities	14,323	155,956
Repayment of financial liabilities	– 18,302	– 121,601
Cash used/generated in financing activities	**– 3,979**	**102,816**
Net change in cash and cash equivalents	**– 11,722**	**9,714**
Cash and cash equivalents at the beginning of the year	**217,660**	**201,607**
Changes in the scope of consolidation	1,408	926
Currency adjustments	– 5,739	2,768
Net change in cash and cash equivalents	– 11,722	9,714
Cash and cash equivalents at the end of the year	**201,607**	**215,015**
Cash generated/used by operating activities	87,683	– 11,278
Cash used in investing activities	– 95,426	– 81,824
Free cash flow	**– 7,743**	**– 93,102**

1) For further details please refer to note 35
2) Relates to intangible assets, property, plant and equipment, investment property and financial assets
3) Includes income taxes paid and refunded of € 14,998 thousand (previous year: € 11,684 thousand) and € 3,186 thousand (previous year: € 3,197 thousand) respectively. The interest expenses and interest income amount to € 33,175 thousand (previous year: € 29,848 thousand) and € 5,812 thousand (previous year € 6,325 thousand) respectively.

Financial section 2018/2019

Notes to the consolidated financial statements for the financial year April 1, 2018 to March 31, 2019

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

Figures in € thousands	Cost						
	As of start of financial year	Change in scope of consolidation	Additions	Reclassifications[1]	Currency adjustments	Disposals	**As of end of financial year**
2017/2018							
Intangible assets							
Goodwill	126,051	3,013	–	–	– 239	–	128,825
Development costs	326,442	–	27,338	–	– 188	–	353,592
Software/other rights	114,232	9,714	3,416	77	– 996	6,611	119,832
	566,725	**12,727**	**30,754**	77	**– 1,423**	**6,611**	**602,249**
Property, plant and equipment							
Land and buildings	630,978	3,863	29,592	3,906	– 8,176	2,298	657,865
Technical equipment and machinery	563,247	455	9,275	927	– 2,331	24,458	547,115
Other equipment, operating and office equipment	668,289	726	35,066	1,638	– 7,544	34,927	663,248
Advance payments and assets under construction	10,294	9	36,923	– 4,889	– 2	383	41,952
	1,872,808	**5,053**	**110,856**	**1,582**	**– 18,053**	**62,066**	**1,910,180**
Investment property	**15,699**	**–**	**–**	**– 1,721**	**– 47**	**–**	**13,931**
2018/2019							
Intangible assets							
Goodwill	128,825	2,392	0	0	– 28	0	131,189
Development costs	353,592	0	21,836	0	118	0	375,546
Software/other rights	119,832	0	10,934	– 42	452	7,350	123,826
	602,249	**2,392**	**32,770**	**– 42**	**542**	**7,350**	**630,561**
Property, plant and equipment							
Land and buildings	657,865	0	23,979	32,567	4,140	2,112	716,439
Technical equipment and machinery	547,115	0	31,320	2,371	1,351	17,183	564,974
Other equipment, operating and office equipment	663,248	719	33,119	6,418	3,299	54,529	652,274
Advance payments and assets under construction	41,952	0	12,585	– 41,277	1	98	13,163
	1,910,180	**719**	**101,003**	**79**	**8,791**	**73,922**	**1,946,850**
Investment property	**13,931**	**0**	**0**	**0**	**– 27**	**2,428**	**11,476**

[1] Includes reclassifications to "Assets held for sale" of € 0 thousand (previous year: € 0 thousand)
[2] Including write-downs of € 7,396 thousand (previous year: € 175 thousand), see note 12

Cumulative depreciation and amortization								Carrying amounts
As of start of financial year	Change in scope of consolidation	Depreciation and amortization [2), 3)]	Reclassifications [1)]	Currency adjustments	Disposals	Reversals	**As of end of financial year**	**As of end of financial year**
1,604	–	–	–	–	–	–	1,604	127,221
239,524	–	10,044	–	–2	–	–	249,566	104,026
86,179	1,444	7,553	76	–814	6,517	–	87,921	31,911
327,307	**1,444**	**17,597**	**76**	**–816**	**6,517**	**–**	**339,091**	**263,158**
438,616	–	11,102	912	–4,560	2,240	–	443,830	214,035
432,617	–	14,827	–476	–1,920	19,692	–	425,356	121,759
524,865	18	25,316	–643	–5,340	29,148	–	515,068	148,180
0	–	–	–	–	–	–	–	41,952
1,396,098	**18**	**51,245**	**–207**	**–11,820**	**51,080**	**–**	**1,384,254**	**525,926**
4,465	**0**	**130**	**140**	**–20**	**–**	**–**	**4,715**	**9,216**
1,604	0	0	0	-3	0	–	1,601	129,588
249,566	0	20,527	0	9	0	–	270,102	105,444
87,921	0	6,525	–76	401	7,184	–	87,587	36,239
339,091	**0**	**27,052**	**–76**	**407**	**7,184**	**–**	**359,290**	**271,271**
443,830	0	11,939	–37	2,443	1,614	–	456,561	259,878
425,356	0	15,634	–115	974	13,926	–	427,923	137,051
515,068	0	25,071	258	2,402	40,097	–	502,702	149,572
0	0	0	0	0	0	–	0	13,163
1,384,254	**0**	**52,644**	**106**	**5,819**	**55,637**	**–**	**1,387,186**	**559,664**
4,715	**0**	**120**	**7**	**–12**	**1,059**	**–**	**3,771**	**7,705**

General notes

1 Basis for the preparation of the consolidated financial statements

The Heidelberg Group manufactures, sells and deals in printing presses and other print media industry products, and provides consulting and other related services. In addition, its product portfolio comprises other products as well as consulting and other services in the field of mechanical engineering, electronics and electrical engineering and the metal industry. The Group is divided into the segments Heidelberg Digital Technology, Heidelberg Lifecycle Solutions and Heidelberg Financial Services.

Heidelberger Druckmaschinen Aktiengesellschaft, based in Heidelberg, Germany, Kurfürsten-Anlage 52–60, is the parent company of the Heidelberg Group and is entered in the commercial register of the Mannheim Local Court, Germany, under register number HRB 330004. The consolidated financial statements of Heidelberger Druckmaschinen Aktiengesellschaft were prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union and in accordance with the supplemental provisions of Section 315e (1) of the Handelsgesetzbuch (HGB – German Commercial Code). The consolidated financial statements also comply with the IFRS in force and applicable in the EU as of the end of the reporting period.

Certain consolidated income statement and consolidated statement of financial position items have been combined to improve the clarity of presentation. A breakdown of these items is presented in the notes to the consolidated financial statements.

The consolidated income statement has been prepared in line with the nature of expense method.

All amounts are generally stated in € thousands. For subsidiaries located in countries outside the euro zone, the annual financial statements prepared in local currency are translated into euro (see note 5).

These consolidated financial statements relate to financial year 2018/2019 (April 1, 2018, to March 31, 2019). They were approved for publication by the Management Board of Heidelberger Druckmaschinen Aktiengesellschaft on May 23, 2019.

2 Adoption of amended or new standards

The Heidelberg Group applied all standards that were mandatory in the reporting year.

The International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRS IC) have approved the following changes to existing standards, which are to be applied for the first time in financial year 2018/2019.

Standards	Publication by the IASB/IFRS IC	Date of adoption [1]	Published in Official Journal of the EU	Effects
Amendments to standards				
Amendments to IAS 40: Transfers of Investment Property	8-Dec-2016	1-Jan-2018	15-Mar-2018	None
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	20-Jun-2016	1-Jan-2018	27-Feb-2018	None
Amendments to IFRS 4: Applying IFRS 9 “Financial Instruments” with IFRS 4 “Insurance Contracts”	12-Sep-2016	1-Jan-2018	9-Nov-2017	None
Annual Improvements to IFRS Standards 2014 – 2016 Cycle	8-Dec-2016	1-Jan-2017 and 1-Jan-2018	8-Feb-2018	No material effects
New standards				
IFRS 9: Financial Instruments	24-Jul-2014	1-Jan-2018	29-Nov-2016	Please refer to remarks below this table
IFRS 15: Revenue from Contracts with Customers	28-May-2014, 11-Sep-2015 and 12-Apr-2016	1-Jan-2018	29-Oct-2016	Please refer to remarks below this table
New interpretations				
IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration	8-Dec-2016	1-Jan-2018	3-Apr-2018	None

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

New accounting provisions

The IASB and the IFRS IC approved and amended other standards and interpretations, whose application is not yet mandatory in financial year 2018/2019 or which have not yet been endorsed by the European Union (EU). Heidelberg is not currently planning to apply these standards at an early date.

Standards	Publication by the IASB / IFRS IC	Effective date [1]	Published in Official Journal of the EU	Content	Expected effects
Amendments to standards					
Amendment to IAS 1 and IAS 8: Definition of material	31-Oct-2018	1-Jan-2020	Outstanding	The amendments contain clarifications on the definition of “material”.	Currently being examined
Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	7-Feb-2018	1-Jan-2019	14-Mar-2019	The amendments include the stipulation that the current service cost and the net interest expense for the period after an amendment, curtailment or settlement of a defined benefit plan must be determined using the current actuarial assumptions that were used for the necessary remeasurement of the net liability (of the asset).	No material effects
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures	12-Oct-2017	1-Jan-2019	11-Feb-2019	The amendments clarify that long-term interests in associates and joint ventures to which the equity method is not applied must be recognized and measured according to IFRS 9.	None
Amendments to IFRS 3: Business Combinations: Definition of a business	22-Oct-2018	1-Jan-2020	Outstanding	The amendments contain clarifications for the criteria used to determine whether a business or a group of assets has been acquired.	Currently being examined
Amendments to IFRS 9: Prepayment Features with Negative Compensation	12-Oct-2017	1-Jan-2019	26-Mar-2018	The amendments enable measurement at amortized cost or fair value through other comprehensive income for prepayable financial assets for which the terminating party receives reasonable additional compensation.	None
Annual Improvements to IFRS® Standards 2015 – 2017 Cycle	12-Dec-2017	1-Jan-2019	15-Mar-2019	Minor and non-urgent improvements are made to IFRS as part of the IASB’s annual improvement project. These relate to the standards IFRS 3, IFRS 11, IAS 12 and IAS 23.	None
Amendments to References to the Conceptual Framework in IFRS Standards	29-Mar-2018	1-Jan-2020	Outstanding	In March 2018, the IASB published a revised version of its Conceptual Framework. As individual standards and interpretations refer directly to the guidelines in the Conceptual Framework, these references were updated according to the revised version of the Conceptual Framework.	None

Standards	Publication by the IASB / IFRS IC	Effective date [1]	Published in Official Journal of the EU	Content	Expected effects
New standards					
IFRS 16: Leases	13-Jan-2016	1-Jan-2019	9-Nov-2017	IFRS 16 replaces the previous standard IAS 17. The changes mainly relate to accounting by lessees, who will have to recognize assets for rights of use obtained and liabilities for payment obligations assumed under all leases in their statements of financial position. There are recognition exemptions for leased assets of a low value and for short-term leases.	Please refer to remarks below this table
IFRS 17: Insurance Contracts	18-May-2017	1-Jan-2021	Outstanding	IFRS 17 replaces the previous standard IFRS 4. The standard provides three variants for the future accounting treatment of insurance contracts. On initial recognition, insurance contracts are measured at their settlement amount plus the service margin.	Currently being examined
New interpretations					
IFRIC Interpretation 23: Uncertainty over Income Tax Treatments	7-Jun-2017	1-Jan-2019	24-Oct-2018	The interpretation includes provisions on the recognition and measurement of uncertainties in income taxes and thus closes a loophole with regard to this issue in IAS 12.	No material effects

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

IFRS 9: ›Financial Instruments‹

As a result of the mandatory introduction of IFRS 9: Financial Instruments, new provisions apply to the classification and measurement of financial assets, there is a new impairment model for financial assets and revised regulations for hedge accounting in particular. The new classification requirements result in the recognition of financial assets predominantly in the "at amortized cost" category at Heidelberg. On the basis of the new impairment model (expected loss model), expected losses from financial assets are expensed earlier than before. Furthermore, note 21 and note 31 contain extensive new disclosures, including in particular on expected credit losses and hedge accounting. Heidelberg applies the modified retrospective method as a transitional method for first-time adoption. Accordingly, the previous year's figures were not adjusted; the effects of first-time adoption were recognized cumulatively in retained earnings as of April 1, 2018.

As of April 1, 2018, the new classification and measurement rules resulted in the transition of a fixed-interest investment reported under loans from the IAS 39 category "Financial assets available for sale" to the IFRS 9 category "financial assets at fair value through profit or loss" in the amount of € 20,644 thousand and an increase in the carrying amount of other receivables and other assets of € 1,444 thousand. The application of the simplified approach to the determination of impairment losses reduced the carrying amount of trade receivables by € 3,474 thousand and that of receivables from sales financing by € 593 thousand and increased the carrying amount of deferred tax assets by € 625 thousand. There are no transition effects with regard to hedge accounting.

The adoption of IFRS 9 for the first time on 1 April 2018 reduced retained earnings by € 2,339 thousand; this included a reclassification from other reserves to retained earnings of € – 341 thousand resulting from the reclassification of the fixed-interest investment reported under loans. The effects of the application of IFRS 9 on gains and losses in the year under review were of minor significance overall.

The reconciliation of the closing balance of impairment losses in accordance with IAS 39 to the opening balance of impairment losses in accordance with IFRS 9 is as follows:

	Cumulative impairment losses in accordance with IAS 39 as of March 31, 2018	Change in impairment losses as a result of the first-time adoption of IFRS 9	Cumulative impairment losses in accordance with IFRS 9 as of April 1, 2019
Receivables from sales financing	6,698	593	7,291
Trade receivables	14,049	3,474	17,523
	20,747	**4,067**	**24,814**

The measurement categories for financial assets under IAS 39 as of March 31, 2018 are reconciled to the measurement categories under IFRS 9 as of April 1, 2018 as follows:

	IFRS 9 category [1]	**IFRS 9-category** [2]	**Carrying amount as of 31-Mar-2018**	**Carrying amount as of 1-Apr-2018**
Financial assets				
Shares in affiliated companies	n. a.	n. a.	4,945	4,945
Other investments	n. a.	n. a.	3,388	3,388
Securities	AfS	FVOCI	3,853	3,853
Receivables from sales financing				
Receivables from sales financing not including finance leases	LaR	AC	64,336	63,743
Receivables from finance leases	n. a.	n. a.	1,275	1,275
Trade receivables	LaR	AC	369,808	366,334
Other receivables and other assets				
Derivative financial instruments	n. a.	n. a.	2,885	2,885
Miscellaneous financial assets	LaR	AC	36,579	36,579
Miscellaneous financial assets	AfS	FVTPL	20,644	20,644
Miscellaneous other assets			52,378	53,822
Cash and cash equivalents	LaR	AC	201,607	201,607

[1] Notes on abbreviations for IAS 39 measurement categories:
AfS: available-for-sale financial assets
LaR: loans and receivables
n. a.: no IAS 39 measurement category
[2] Notes on abbreviations for IFRS 9 measurement categories:
FVOCI: financial assets at fair value through other comprehensive income
AC: financial assets/liabilities at amortized cost
FVTPL: financial assets at fair value through profit or loss
n. a.: no IFRS 9 measurement category

IFRS 15: ›Revenue from Contracts with Customers‹

As a result of the mandatory introduction of IFRS 15: "Revenue from Contracts with Customers", deferred revenue of € 186,954 thousand from contracts with customers, which essentially relates to advance payments for future maintenance and services and was previously recognized as prepaid expenses and advance payments on orders, is reported separately as contract liabilities under other liabilities.

Furthermore, note 8 and note 36 contain additional qualitative and quantitative disclosures, such as the cumulative amount of the performance obligations of all relevant contracts with customers not yet fulfilled at the end of the reporting period. Overall, however, the first-time adoption of IFRS 15 will not have any material impact on the financial position or financial performance of the Heidelberg Group. Heidelberg applies the modified retrospective method as a transitional method for the first-time adoption of IFRS 15; the comparative figures for prior-year periods were therefore not restated. The introduction of the new standard also did not result in any adjustment to retained earnings.

IFRS 16: ›Leases‹

The new provisions of IFRS 16: Leases have changed accounting for leases significantly. At Heidelberg, this essentially concerns leases for buildings, its vehicle fleet and its IT equipment.

Heidelberg is applying the modified retrospective method for the adoption of IFRS 16; the comparative figures for the 2018/2019 financial year have therefore not been restated. The options available were exercised as follows on adoption:

- for leases previously accounted for as operating leases, the right-of-use asset is typically measured in the amount of the lease liability adjusted for advance or deferred lease payments. There was no impairment review. To a small extent, the carrying amount of the right-of-use asset was calculated as if IFRS 16 had been applied since the inception of the lease;
- leases ending no later than March 31, 2020 are recognized as short-term leases regardless of their original term;
- initial direct costs are excluded from the measurement of the right-of-use asset;
- the information available as of the adoption date is used to determine the term of existing leases with an option to extend or terminate.

Heidelberg exercises the practical expedient of not recognizing right-of-use assets or lease liabilities in the statement of financial position for short-term or low-value assets. The expense arising from these leases is recognized on a straight-line basis over the term of the lease. For other leases previously classified as operating leases in accordance with IAS 17, the respective lease liability is measured at the present value of the remaining lease payments, discounted using the corresponding currency- and maturity-dependent incremental borrowing rate at the date of adoption. If a lease agreement also contains non-leasing components, these are not recognized in accordance with IFRS 16.

As of April 1, 2019, the adoption of IFRS 16 is expected to result in an increase in non-current assets of around € 55 million and around € 55 million in lease liabilities, with a simultaneous small reduction in retained earnings.

There will be shifts in the income statement between the result of operating activities (EBIT) and the financial result as, instead of operating lease expenses, write-downs of right-of-use assets of provisionally around € 15 million and the interest cost of discounting lease liabilities of provisionally around € 2 million will have to be recognized in the future.

The change in the presentation of lease expenses from operating leases will also result in a shift from the cash flow from financing activities to the cash flow from operating activities of around € 16 million as a significant portion of lease payments will be reported as repayments of lease liabilities in cash flow from financing activities in the future. The interest portion will still be reported in the cash flow from operating activities.

3 Scope of consolidation

The consolidated financial statements of Heidelberger Druckmaschinen Aktiengesellschaft include a total of 74 (previous year: 72) domestic and foreign companies controlled by Heidelberger Druckmaschinen Aktiengesellschaft within the meaning of IFRS 10. Of these companies, 62 (previous year: 61) are located outside Germany.

	2017/2018	**2018/2019**
April 1	70	72
Additions	3	2
Disposals (including mergers)	1	0
March 31	72	74

Control within the meaning of IFRS 10 exists when an investor controls the material activities of the investee, has exposure to variable returns from its involvement with the investee and the ability to utilize its control to influence the amount of returns from the investee. Inclusion in the consolidated financial statements occurs at the time that control is established. Subsidiaries that are of minor importance are not included. These subsidiaries are of minor significance if the total of the equity, total assets, sales and net profit or loss of the subsidiaries not included amounts to only an insignificant portion of the Group figure.

The list of all shareholdings of Heidelberger Druckmaschinen Aktiengesellschaft, which is a component of the notes to the consolidated financial statements, can be found in the annex to these notes (see pages 146 to 149).

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

First-time inclusion in consolidation:

- Cerm N.V., Oostkamp, Belgium, was included in consolidation effective April 1, 2018.
- Heidelberg Postpress Beteiligungen GmbH, Wiesloch, Germany, which was founded in the 2018/2019 financial year, was included in consolidation effective January 1, 2019.

4 Principles of consolidation

In accordance with IFRS 3, all business combinations are recognized using the purchase method in the form of the full revaluation method.

On first-time consolidation of acquired companies, the identifiable assets, liabilities and contingent liabilities are measured at fair value as of the date of acquisition. If the purchase price exceeds the fair value of the identifiable assets less liabilities and contingent liabilities, this is recognized as goodwill. Negative goodwill arising on an acquisition at less than market value is recognized in profit or loss after a repeat assessment of the measurement performed.

Intra-Group sales, expenses and income, receivables, liabilities and contingent liabilities are eliminated. Intra-Group transactions are calculated both on the basis of market prices and on the basis of arm's length transfer prices. Assets from commercial transactions among consolidated companies included in inventories are adjusted to eliminate intercompany profits and losses. In consolidation processes affecting profit or loss, income tax effects are taken into account and the corresponding deferred taxes are recognized.

5 Currency translation

In the individual financial statements of the consolidated companies, which are prepared in local currencies, monetary items in foreign currencies (cash and cash equivalents, receivables, liabilities) are measured at the exchange rate as of the end of the reporting period and exchange rate effects are recognized in profit or loss. Non-monetary items denominated in foreign currencies are posted at their historic exchange rates.

The financial statements of the companies included in consolidation that are prepared in foreign currency are translated on the basis of the functional currency concept (IAS 21) in accordance with the modified closing rate method. As our subsidiaries financially, economically and organizationally effect their transactions on an independent basis, the functional currency is usually the same as each subsidiary's respective local currency. Assets and liabilities are therefore translated at the closing rates, the equity – except income and expenses directly recognized in equity – at the historical rates, and expenses and income at the average exchange rates for the year. The difference resulting from the foreign currency translation is offset against other reserves outside profit and loss.

Currency differences arising as against the previous year's translation in the Heidelberg Group are also offset against other reserves outside profit and loss.

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

The main exchange rates used in currency translation are as follows:

	Average rates for the year		Reporting date rates	
	2017/2018 € 1 =	**2018/2019** **€ 1 =**	31-Mar-2018 € 1 =	**31-Mar-2019** **€ 1 =**
AUD	1.5210	1.5878	1.6036	1.5821
CAD	1.5092	1.5196	1.5895	1.5000
CHF	1.1404	1.1428	1.1779	1.1181
CNY	7.7614	7.7771	7.7468	7.5397
GBP	0.8815	0.8827	0.8749	0.8583
HKD	9.2030	9.0582	9.6696	8.8195
JPY	130.3858	128.1900	131.1500	124.4500
KRW	1,302.7775	1,285.3517	1,310.8900	1,276.4600
USD	1.1781	1.1550	1.2321	1.1235

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

6 General accounting policies

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

General principles

In the opinion of the IASB, the consolidated financial statements present a true and fair view and a fair presentation (overriding principle) if the qualitative criteria of the presentation of accounts are met and the individual IFRS guidelines are complied with. Consequently, to achieve fair presentation, preparers cannot deviate from the individual regulations.

The consolidated financial statements were prepared based on the assumption of a going concern.

Uniform accounting policies

The consolidated financial statements are prepared on the basis of accounting policies that are applied uniformly throughout the Group. The consolidated financial statements are prepared in line with the principle of historical cost, with the exception of certain items of the statement of financial position, which are reported at fair value.

Consistency of accounting policies

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

Revenue recognition

Revenue from the SALE OF MACHINERY is recognized when the buyer has obtained control of the machinery sold. This is typically on delivery of the machinery or after its installation, if the installation accounts for a material share of the performance obligation. Neither a continuing managerial involvement nor effective control over the machinery sold remain. In the rare case of bill-and-hold agreements, revenue from the sale of machinery is recognized on invoicing and storage at the agreed storage location if all the other relevant IFRS 15 criteria have been met. When selling machinery, customer payments are typically divided into an advance payment on receipt of order confirmation, an advance payment before delivery and a final payment after invoicing. When selling consumables and spare parts, control is typically transferred, and revenue recognized, on delivery to the customer.

Revenue from SERVICES is recognized when the services are rendered or when the customer has obtained control of the services. Sales from long-term service contracts are generally distributed on a straight-line basis. As expenses are incurred in line with the percentage of completion, the revenue deferred for long-term service contracts is recognized in proportion to the expected development in costs. Given the large number of long-term service contracts that there are, straight-line distribution represents a sufficiently accurate estimate of the expected development in costs. A long-term service contract typically also entails a warranty extension. Heidelberg's associated obligation to offer services beyond the statutory warranty period constitutes a separate performance obligation.

Contract liabilities typically arise in connection with the sale of sheetfed offset presses on account of the advance payment usually required and, for service and maintenance work, on account of the one-time payment when the contract is signed.

Revenue is reported net of discounts. Transaction prices are agreed on a case-by-case basis due to the large number of machinery configurations and equipment variants that customers can select individually. If a contract includes variable consideration, revenue from the sale of machinery is typically estimated at the most probable amount. There is variable consideration for consumables, whereby the volume usually fluctuates depending on the capacity utilization of the machinery.

For multi-component contracts, such as contracts for the sale of new printing presses and services, the transaction price is allocated to the various performance obligations on the basis of relative stand-alone selling prices.

A financing component included in the transaction price is only deferred applying the practical expedient of IFRS 15 if the period until the consideration is received from the customer is longer than one year and the amount to be deferred is material. Applying the practical expedient of IFRS 15, transaction prices for unfulfilled service obligations arising from services billed at a fixed hourly rate or for contracts with an original term of less than one year are not disclosed.

Income from OPERATING AND FINANCE LEASES is recognized based on the provisions of IAS 17.

Intangible assets
With the exception of goodwill, all intangible assets have a limited useful life and are therefore amortized on a straight-line basis over their expected useful life. In accordance with the option provided under IAS 38, intangible assets are measured at amortized cost. In accordance with IFRS 3 in conjunction with IAS 36, goodwill is tested for impairment on an annual basis and also if there is any evidence to suggest a loss of value. Purchased intangible assets are capitalized at cost. Internally generated intangible assets are capitalized to the extent that the criteria for recognition in IAS 38 are met. Manufacturing costs include all directly attributable costs.

Research and development costs
Development costs for newly developed products are capitalized at cost to the extent that expenses are directly attributable and if both the technical feasibility and the marketing of the newly developed products are assured (IAS 38). There must also be a sufficient degree of probability that the development activity will lead to future inflows of benefits. Capitalized development costs include all direct costs and overheads that are directly attributable to the development process. If capitalized development projects meet the criteria of qualifying assets, borrowing costs are capitalized as part of cost in line with IAS 23. The corresponding interest expense is calculated using the effective interest method. Capitalized development costs are amortized on the basis of the estimated period during which sales may be expected.

In accordance with IAS 38, research costs cannot be capitalized and are therefore recognized in profit or loss directly in the consolidated income statement.

Property, plant and equipment
Property, plant and equipment, including that leased in operating leases, are measured at cost less cumulative straight-line depreciation and cumulative impairment in line with the option provided under IAS 16.

In addition to direct costs, the cost also includes appropriate portions of material and production overheads.

Borrowing costs that can be assigned directly to qualifying assets are capitalized as a part of cost in line with IAS 23.

Costs of repairs to property, plant and equipment that do not result in an expansion or substantial improvement of the respective asset are recognized in profit or loss.

Investment propert
Investment property (IAS 40: Investment Property) is recognized at cost less cumulative straight-line depreciation and cumulative impairment in line with the option provided under IAS 40. The fair value of investment property is disclosed in the notes to the consolidated financial statements. This value is calculated by non-Group, independent experts in line with internationally acknowledged valuation methods; otherwise it is derived from the current market price of comparable real estate.

Leases
Under finance leases, economic ownership is attributed to lessees in those cases in which they bear substantially all the risks and opportunities of ownership of the asset (IAS 17). To the extent that economic ownership is attributable to the Heidelberg Group as the lessee, they are capitalized from the commencement of the lease term at the lower of fair value or the present value of the minimum lease payments. Depreciation is recognized using the straight-line method on the basis of the shorter of the economic life or the term of the lease.

If economic ownership is not assigned to the Heidelberg Group as the lessee and the leases in question are therefore operating leases, the lease installments are recognized in profit or loss in the consolidated income statement on a straight-line basis over the term of the lease. The operating leases in which we operate as the lessee predominantly relate to leased buildings. Some of the building leases contain prolongation options.

Depreciation and amortization

Amortization of intangible assets and depreciation of property, plant and equipment and investment property is calculated primarily on the basis of the following useful lives, which are applied uniformly throughout the Group (in years):

	2017/2018	**2018/2019**
Development costs	3 to 12	3 to 12
Software/other rights	3 to 9	3 to 31
Buildings	25 to 50	25 to 50
Technical equipment and machinery	12 to 31	12 to 31
Other equipment, operating and office equipment	4 to 26	4 to 26
Investment property	25 to 50	25 to 50

Impairment of non-financial assets

Intangible assets and items of property, plant and equipment are impaired if the recoverable amount of the asset is lower than its carrying amount. The recoverable amount for an individual asset must be estimated if there is any indication that this asset could be impaired. There is a separate rule if an intangible asset (including capitalized development costs) or an item of property, plant and equipment is part of a cash-generating unit. If an asset is part of a cash-generating unit, impairment is determined on the basis of the recoverable amount of this unit. This is the rule for property, plant and equipment; the cash-generating units are the same as the segments (see note 36).

The recoverable amount is the higher of the fair value less costs to sell and the value in use. If goodwill has been assigned to a cash-generating unit and its carrying amount exceeds the recoverable amount, the goodwill is first impaired by the amount of the difference. Any additional impairment requirements are recognized by way of the pro rata reduction of the carrying amounts of the other assets of the cash-generating unit.

If the reason for earlier impairment ceases to exist, the impairment on intangible assets and items of property, plant and equipment is reversed. However, the carrying amount increased by reversal may not exceed amortized cost. No impairment on goodwill is reversed.

Inventories

Inventories are carried at the lower of cost and net realizable value. Carrying amounts are calculated using the weighted average cost method.

Costs include production-related full costs determined on the basis of normal capacity utilization.

In particular, the cost of products includes directly attributable direct costs (such as production materials and wages used in construction) and fixed and variable production overheads (such as materials and manufacturing overheads), including an appropriate depreciation on manufacturing equipment. Particular account is taken of costs that are charged to specific production cost centers.

The risks of holding inventories arising from reduced usability are taken into account by appropriate write-downs. These write-downs are recognized on the basis of the future production program or actual consumption. Individual periods are used for different inventory items, which are monitored and adjusted based on appropriate criteria. Measurement takes into account lower realizable net selling prices at the end of the reporting period. If the reasons for a lower valuation no longer apply to inventories that have formerly been written down and the net selling price has therefore risen, the reversal of the write-down is recognized as a reduction of the cost of materials.

Financial instruments

Basic information

A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments are recognized when Heidelberg becomes party to a contract for the financial instrument. If the trade date and settlement date differ for standard purchases or sales, financial instruments are recognized at the settlement date. First-time measurement of financial assets and liabilities is at fair value. The carrying amount of financial instruments not measured at fair value through profit or loss includes the directly attributable transaction costs. Subsequent measurement of financial instruments is in line with the measurement categories defined in IFRS 9: Financial Instruments. Under IFRS 9, on first-time recognition financial assets and liabilities can be designated as financial instruments in the fair value through profit and loss category. Heidelberg did not exercise this option.

Financial assets and liabilities are reported without being offset. They are only offset when there is an enforceable legal right to do so at the end of the reporting period and the entity intends to settle them on a net basis. The recognized carrying amount of current and variable-interest non-current financial assets and liabilities is an appropriate estimate of the fair value.

The Heidelberg Group is exposed to default risks to the extent that partners do not fulfill their contractual obligations. Default risk essentially relates to receivables from sales financing and trade receivables. For receivables from sales financing, there are risks of default on receivables due to industry, customer, residual value and country risks. However, receivables are monitored and managed very closely by internal receivables management.

Default risks from derivative financial instruments are regularly managed and continuously monitored for deteriorations in credit rating.

An impaired credit rating and therefore a significant increase in credit risk are assumed when payments are more than 30 days past due. Receivables past due by more than 180 days are written down in full as it must be assumed that they will be defaulted on. Default always occurs when the debtor is no longer able to settle its liabilities in full. For receivables from sales financing, default is also assumed if Heidelberg cancels customer financing prematurely due to non-payment, when collateral is repossessed or if the customer becomes insolvent. Credit security measures are also continued for fully impaired receivables. The amounts received are recognized in profit or loss.
For outstanding receivables, it is checked on an ongoing basis whether enforcement measures still have a chance of being successful. In the reporting year, as in the previous year, there were no write-downs on significant receivables from sales financing for which enforcement measures are still ongoing.

If the contractual cash flows from receivables from sales financing are renegotiated or otherwise amended and no further payments are expected to be past due in the short term, write-downs are reversed and the receivables are remeasured in accordance with the expected credit losses. Amounts past due are monitored regularly.

Financial assets are measured at amortized cost if they are held in a business model with the objective of generating contractual cash flows and the contractual cash flows are solely payments of principal and interest. Impairment on financial assets at amortized cost is either recognized directly in profit or loss by reducing the carrying amount of the financial asset or by using an allowance account. The way in which the impairment is shown is dependent on the estimated probability of the risk of default. The carrying amount of uncollectible receivables is derecognized. If the amount of impairment is objectively reduced in subsequent reporting periods due to an event occurring after recognition of the impairment, the impairment recognized is reversed accordingly in income.

Financial assets are measured at fair value through other comprehensive income if they are held in a business model with the objective of generating contractual cash flows and to sell financial assets, and if the contractual cash flows are solely payments of principal and interest. Impairment on financial assets at fair value through other comprehensive income is recognized in the consolidated income statement as the difference between cost (net of any principal repayments or amortization) and current fair value, less any impairment previously recognized in profit or loss. Reversals of impairment losses on equity instruments are not recognized in profit or loss. If the amount of impairment on debt instruments is objectively reduced in subsequent reporting periods due to an event occurring after recognition of the impairment, the impairment recognized is reversed accordingly in income.

All other financial assets are measured at fair value through profit or loss.

In accordance with IFRS 9, in addition to the specific allowances for impairment losses to be recognized, the expected credit losses from financial assets measured at amortized cost or fair value through other comprehensive income must be measured on the basis of the new expected loss model. The calculation of the expected loss is dependent on whether there is a significant increase in credit risk. If the credit risk of the financial asset has not increased significantly since initial recognition of the financial asset, the impairment loss is measured on the basis of the 12-month expected credit losses.

Expected credit losses for receivables from sales financing are calculated on the basis of the credit risk assessment for each individual receivable. This calculation takes into account all receivables not already impaired.

The key inputs are the internally calculated individual probability of default for the receivable and the expected loss given default. Forward-looking information includes estimates of the expected development of the macroeconomic environment and demand on the relevant market derived from the internal customer risk assessment in order to draw conclusions about the customer's future sales and earnings performance. Impairment is recognized on the receivable if its credit risk has increased significantly since initial recognition. Receivables from sales financing are not impaired if the value of the collateral held exceeds the amount of the receivable given default.

For trade receivables, in line with the simplified approach chosen to calculate impairment in accordance with IFRS 9, the lifetime expected credit losses are recognized from initial recognition of the receivables. The trade receivables portfolio is clustered by country and number of days past due to calculate the expected credit losses. Historical loss experience is used to calculate a impairment matrix which is adjusted by a forward-looking factor that reflects the expected development of country risk. The theoretically maximum remaining risk of default of financial assets is the same as their recognized carrying amounts. Impairment is recognized in the amount of the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. Trade receivables are not impaired if the value of the collateral held exceeds the amount of the receivable given default.

Financial assets are derecognized when the contractual rights to cash flows end or substantially all the risks and rewards of ownership are transferred to another party. Financial liabilities are derecognized when the contractual obligation is discharged or legally canceled. If financial liabilities are extinguished in full or in part via the issue of equity instruments by the obligor in accordance with IFRIC 19, the difference between the carrying amount of the liability repaid and the fair value of the equity instruments issued is recognized in profit or loss. The costs attributable to the issue of equity instruments are deducted directly from equity (IAS 32).

The net gains and losses essentially include changes in the fair value and exchange rate effects recognized in net operating income and the financial result and interest income and expense from financial instruments recognized in the financial result. Changes in fair value also include the effects of financial assets available for sale recognized outside profit or loss.

For information on risk management please refer to note 31 and to the Risk and Opportunity Report in the Group management report.

Financial assets

Both financial and non-financial assets are reported under financial assets, which include shares in subsidiaries, other investments and securities.

Securities are predominantly classified as financial assets at fair value through other comprehensive income by exercising the option provided by IFRS 9 for financial investments in equity instruments as they are not primarily for short-term profit maximization. On the basis of IFRS 9, these financial instruments are measured at fair value through other comprehensive income taking deferred taxes into account and are not subsequently reclassified to profit or loss. Securities are measured at their stock market prices. If this value cannot be reliably determined, securities are measured at cost.

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

Shares in affiliated companies and other equity investments are measured at cost.

The carrying amounts of shares in affiliated companies, other equity investments and securities measured at cost are tested for impairment as of the end of each reporting period; impairment losses are recognized in profit or loss.

Acquisitions and disposals of equity investments are based on business policy considerations.

Loans

Loans are credit that we extend and are classified as financial assets at amortized cost under IFRS 9.

Non-current non-interest-bearing and low-interest-bearing loans are carried at net present value. Measurement in subsequent periods is at amortized cost using the effective interest rate method. After initial recognition, financial assets at fair value through profit or loss are measured at fair value; unrealized gains and losses are recognized through profit or loss.

Receivables from sales financing

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

Finance leases include leased installations considered as sales under non-current financing. In line with IAS 17, these receivables are carried at the net investment value, i. e. discounted future minimum lease payments plus any unguaranteed residual values. Lease payments are broken down into repayments and interest income, and interest income is recognized in the consolidated income statement over the term of the leases reflecting a constant periodic rate of return.

Receivables from sales financing are assigned to the IFRS 9 category "measured at amortized cost" and carried at fair value. Measurement in subsequent periods is at amortized cost using the effective interest rate method.

Trade receivables

First-time recognition of trade receivables is at fair value plus directly attributable transaction costs. In subsequent periods they are measured at amortized cost using the effective interest rate method.

Receivables and other assets

The receivables and other assets item includes both nonfinancial assets and financial assets including derivative financial instruments. With the exception of derivative financial instruments, financial assets are assigned to the "measured at amortized cost" category under IFRS 9. Nonfinancial assets are measured in line with the respective applicable standard.

Cash and cash equivalents

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

Financial liabilities

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

In accordance with IFRS 9, primary liabilities are stated at fair value. Directly attributable transaction costs are included for financial liabilities not carried at fair value through profit or loss. Measurement in subsequent periods is at amortized cost using the effective interest rate method. Liabilities from finance leases are recognized in the amount of the present value of the minimum lease payments. Financial guarantees are recognized at the higher of the amount calculated in line with IAS 37 and the initial amount carried as a liability less any amortization. They are reported under other provisions.

Derivative financial instruments

Derivative financial instruments in the Heidelberg Group comprise hedging instruments used to manage interest rate and exchange rate fluctuations.

These instruments serve to reduce income volatility. The Group does not enter into trading positions, i. e. derivatives without an underlying hedged item. We currently use over-the-counter (OTC) instruments. These currently comprise forward exchange transactions and interest rate swaps.

The scope of hedging by financial derivatives comprises recognized, onerous and highly probable hedged items.

In accordance with IFRS 9, derivatives meet the recognition criteria for assets and liabilities, as a result of which they must be capitalized (other assets) or expensed (other liabilities) at fair value. First-time recognition is as of the settlement date.

Under IFRS 9, the distinction between a fair value hedge and a cash flow hedge is of fundamental importance for hedge accounting.

The aim of a fair value hedge is to offset the changes in fair value of assets and liabilities with opposing changes in the fair value of the designated hedging instrument. Any profit or loss resulting from the change in fair value of the designated hedging instrument is recognized directly in the consolidated income statement. From the inception of the hedge, changes in the fair value of the hedged item attributable to the hedged risk are also recognized in profit or loss.

A cash flow hedge serves to hedge the changes in cash flows that typically arise in connection with floating rate assets or liabilities recognized in the consolidated statement of financial position, foreign currency onerous contracts or planned future transactions. The gains and losses of the fair value of derivatives designated as a hedging instrument are recognized outside profit or loss until the respective hedged item becomes effective.

Hedges that do not satisfy the documentation requirements of IFRS 9 for hedge accounting or whose underlying hedged items no longer exist are classified as at fair value through profit or loss.

Hybrid financial instruments

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

Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated in accordance with the liability method (IAS 12). Under this method, deferred taxes are recognized for all temporary differences between IFRS carrying amounts and the tax carrying amounts of the individual companies or Group companies and on corresponding consolidation adjustments. In addition, deferred tax assets for future benefits from tax loss carryforwards are also taken into account. Deferred tax assets for accounting differences and for tax loss carryforwards are recognized in the amount for which it is probable that taxable income will be available, i. e. for which utilization seems reasonably assured. Deferred taxes are measured on the basis of the income tax rates of the respective countries. A tax rate of 28.28 percent (previous year: 28.15 percent) is used to calculate domestic deferred taxes. In addition to the corporation tax of 15 percent and the solidarity surcharge of 5.5 percent, the average trade tax rate was also taken into account.

In accordance with the provisions of IAS 12, neither deferred tax assets nor liabilities have been discounted. Deferred tax assets were offset against deferred tax liabilities when required according to the provisions of IAS 12.

In line with this, offsetting must be effected if there is a legally enforceable right to offset the actual taxes and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority and originate from the same company or in the same group of controlled companies.

Provisions for pensions and similar obligations

The pensions and similar obligations comprise the obligations of the Group to establish provisions under both defined benefit plans and defined contribution plans.

In the case of defined benefit plans, the pension obligations are calculated using the projected unit credit method (IAS 19). Under this method, expert actuarial reports are commissioned each year. The discount rate used for the present values of defined benefit obligations is based on the yields of high-quality corporate bonds with matching maturities and currencies and ratings of AA on the basis of the information provided by Bloomberg. This discount rate is also used to determine the net interest on the net liability/asset from defined benefit plans. Mortality and retirement rates are calculated in Germany according to the new 2018 G Heubeck mortality tables (privious year: 2005 G Heubeck mortality tables) and, outside Germany, according to comparable foreign mortality tables. Plan assets carried at fair value are offset against defined benefit obligations. Current service cost and any past service cost is recognized immediately and reported under staff costs; the net interest expense, as the net total of interest expenses on benefit obligations and interest income on plan assets, is reported in the financial result. Gains or losses resulting from changed expectations with regard to life expectancy, future pension and salary increases and the discount rate from the actual developments during the period are recognized outside profit or loss directly in other comprehensive income in the statement of comprehensive income. Recognition of the gains or losses from remeasurements reported in other comprehensive income in profit or loss in later periods is not permitted. The difference between the (interest) income on plan assets calculated at the start of the period and the actual return on plan assets determined at the end of the period is also recognized outside profit or loss in other comprehensive income.

In the case of defined contribution plans, compulsory contributions are offset directly as an expense. No provisions for pension obligations are recognized, as in these cases the Company does not have any obligation beyond that to pay premiums.

Other provisions

Other provisions, including tax provisions (for current taxes) are recognized when a past event gives rise to a current obligation, utilization is more likely than not and its amount can be reliably estimated. This means that the probability must exceed 50 percent. They are measured either at the most likely settlement amount or, if probabilities are equal, at the expected settlement amount. Provisions are only recognized for legal or constructive obligations in respect of third parties. Provisions are measured at full production cost, taking into consideration possible cost increases. Provisions for restructuring measures are recognized to the extent that the criteria of IAS 37 are met.

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

Cash-settled share-based payment

From the 2017/2018 financial year, in the context of the multi-year variable remuneration of the Management Board, share-based, cash-settled payment has been granted on the basis of the total shareholder return performance indicator. This is then paid out at the end of the respective three-year performance period.

In accordance with IFRS 2, this remuneration component is measured on the basis of fair value using a Monte Carlo simulation. Given a three-year vesting period, the respective fair value is recalculated as of the end of each reporting period and as of the settlement date, and recognized in staff costs starting from the year granted.

Advance payments received

Advance payments received from customers are recognized under liabilities.

Government grants

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

Contingent liabilities

Contingent liabilities are potential obligations that relate to past events and whose existence will not be confirmed until one or more uncertain future events occur. These future events, however, lie outside the sphere of influence of the Heidelberg Group. Furthermore, current obligations can represent contingent liabilities if the outflow of resources is not sufficiently probable to recognize a respective provision or if the amount of the obligation cannot be reliably estimated. The carrying amount of contingent liabilities is equal to the best possible estimate of the settlement amount resulting from the liability.

7 Estimates and judgments

When preparing consolidated financial statements, certain assumptions and estimates are made that have an effect on the amount and reporting of assets and liabilities, information on contingent assets and liabilities at the end of the reporting period and on income and expense reported in the period under review. The preparer of consolidated financial statements has a degree of discretion here.

The following are the key issues affected by assumptions and estimates:

- assessing the recoverability of goodwill,
- the measurement of other intangible assets and of items of property, plant and equipment,
- assessing impairment of trade receivables and receivables from sales financing,
- recognition and measurement of other provisions,
- recognition and measurement of provisions for pensions and similar obligations.

In the impairment test for goodwill, the recoverable amount of the cash-generating unit is determined as the higher of its fair value less the cost to sell and its value in use. The fair value here reflects the best estimate of the price independent market participants would receive under standard market conditions for the sale of the cash-generating units at the end of the reporting period. The value in use is the present value of the estimated future cash flows expected from the cash-generating unit. A change in determining factors may change the fair value or the value in use and could result in the recognition of an impairment loss.

The goodwill impairment test is based on the parameters listed in note 18. As in the previous year, increasing the discount rate before taxes by one percentage point to 7.4 percent (previous year: 7.5 percent) for the cash-generating unit Heidelberg Digital Technology and 7.7 percent (previous year: 7.6 percent) for the cash-generating unit Heidelberg Lifecycle Solutions (previous year: Digital Business and Services) would not result in any impairment requirements. The same applies to a reduction in the growth factor used to calculate the perpetual annuity by one percentage point either way and 5 percent for the reduction in the result of operating activities.

The useful lives used throughout the Group for intangible assets – with the exception of goodwill – and for items of property, plant and equipment are subject to management assessments. In addition, the impairment test determines the recoverable amount of the asset or cash-generating unit to which the asset is attributed as the higher of fair value less costs to sell and value in use. The fair value here reflects the best estimate of the amount for which an independent third party would acquire the asset at the end of the reporting period. The value in use is the present value of the estimated future cash flows that can be anticipated from the continued use of the asset or cash-generating unit. A change in determining factors may change the fair value or the value in use, and could result in the recognition or reversal of an impairment loss.

Credit and default risks arise for trade receivables and receivables from sales financing to the extent that customers do not meet their payment obligations and assets are lost as a result. The necessary write-downs (see also note 6, "Financial instruments") are calculated on a forward-looking basis taking into account the credit rating of the respective customer, any collateral and experience of historical default rates. In particular, forward-looking factors include information on the expected development of credit ratings by country (trade receivables) and estimates of the expected development of the macroeconomic environment and demand on the relevant market derived from the internal customer risk assessment (receivables from sales financing). The customer's actual default may differ from the expected default on account of the underlying factors.

The amount and probability of utilization are estimated in the recognition and measurement of other provisions. They are measured either at the most likely settlement amount or, if probabilities are equal, at the expected settlement amount. The amount of the actual utilization can deviate from estimates. Please refer to note 26 for information on the sensitivity analysis regarding provisions for pensions and similar obligations.

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

Notes to the consolidated income statement

8 Net sales

In addition to income from the sale of machinery of € 1,502,716 thousand (previous year: € 1,445,515 thousand), income from the sale of consumables and spare parts of € 658,905 thousand (previous year: € 662,184 thousand) and income from services of € 316,424 thousand (previous year: € 300,848 thousand), sales also includes income from commission, finance and operating leases of € 8,557 thousand (previous year: € 7,470 thousand) and interest income from sales financing and finance leases calculated using the effective interest method of € 3,889 thousand (previous year: € 4,138 thousand). Heidelberg's business activities are divided into the Heidelberg Digital Technology segment, comprising sheetfed offset, label printing, post-press and digital printing business, and the Heidelberg Lifecycle Solutions segment, which bundles Service and Consumables business, Software Solutions business and Heidelberg Platforms business with offerings outside the print media industry. Sales of machinery essentially comprise the sheetfed offset, label printing, post-press and digital printing business. The Heidelberg Financial Services segment comprises sales financing business.

Net sales of € 2,490,492 thousand (previous year: € 2,420,154 thousand) comprise revenue from contracts with customers in accordance with IFRS 15 of € 2,478,045 thousand (previous year: € 2,408,547 thousand) and other net sales of € 12,447 thousand (previous year: € 11,607 thousand).

Of the performance obligations not yet fulfilled as of the end of the reporting period (see note 30), € 115,199 thousand relate to machinery not yet delivered and € 71,755 thousand to maintenance and services not yet performed. Fulfillment of the former performance obligations is essentially expected within the next twelve months while fulfillment of the latter performance obligations is essentially expected within a short to medium-term period.

Further information on sales can be found in the segment report and the report on the regions in the Group management report. The breakdown of sales by segment and by region is shown in note 36.

9 Other operating income

	2017/2018	**2018/2019**
Reversal of other provisions and accruals	28,461	35,094
Hedging/exchange rate gains	14,015	7,690
Income from operating facilities	7,687	6,224
Recoveries on loans and other assets previously written down	3,315	4,520
Income from disposals of intangible assets, property, plant and equipment and investment property	804	1,999
Other income	29,508	26,906
	83,790	**82,433**

The items ›Reversal of provisions/accruals‹ and ›Other income‹ also include restructuring income totaling € 4,260 thousand (previous year: € 2,091 thousand) and € 2,565 thousand (previous year: € 0 thousand) respectively. In the reporting period, this resulted among others from the reversal of provisions for HR measures essentially recognized in connection with portfolio and capacity adjustments in the previous year of € 3,369 thousand (previous year: € 818 thousand).

The "Other income" item contains a large number of individual items.

10 Cost of materials

	2017/2018	**2018/2019**
Cost of raw materials, consumables and supplies, and of goods purchased and held for resale	1,004,878	1,033,018
Cost of purchased services	121,700	126,506
Interest expense of Heidelberg Financial Services	924	1,058
	1,127,502	**1,160,582**

The ratio of the cost of materials to total operating performance is 45.4 percent (previous year: 45.0 percent).

11 Staff costs and number of employees

	2017/2018	**2018/2019**
Wages and salaries	742,362	742,596
Cost of/income from pension scheme	17,431	20,218
Other social security contributions and expenses	125,732	128,168
	885,525	**890,982**

The item ›Wages and salaries‹ also includes restructuring expenses totaling € 24,007 thousand (previous year: € 16,908 thousand). In the reporting period, these primarily related to expenses in connection with the adjustment of personnel capacities at the Company sites in Germany of € 19,948 thousand (previous year: € 13,477 thousand).

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

	Average		As of	
	2017/2018	**2018/2019**	31-Mar-2018	**31-Mar-2019**
Europe, Middle East and Africa	8,519	8,580	8,585	8,578
Asia/Pacific	1,683	1,653	1,677	1,639
Eastern Europe	493	485	491	494
North America	721	707	712	708
South America	94	102	98	103
	11,510	11,527	11,563	11,522
Trainees	345	348	311	329
	11,855	**11,875**	**11,874**	**11,851**

[1] Not including interns, graduating students, dormant employees and employees in the exemption phase of partial retirement

12 Depreciation and amortization

Depreciation and amortization including impairment of € 79,816 thousand (previous year: € 68,972 thousand), also including restructuring expenses of € 661 thousand (previous year: € 641 thousand), relate to intangible assets of € 27,052 thousand (previous year: € 17,597 thousand), property, plant and equipment of € 52,644 thousand (previous year: € 51,245 thousand) and investment property of € 120 thousand (previous year: € 130 thousand).

Impairment of € 7,396 thousand (previous year: € 175 thousand) essentially relates to capitalized development costs allocated to Heidelberg Digital Technology segment.

13 Other operating expenses

	2017/2018	**2018/2019**
Other deliveries and services not included in the cost of materials	137,337	144,184
Special direct sales expenses including freight charges	88,922	103,088
Travel expenses	39,534	39,956
Rent and leases	39,352	31,913
Bad debt allowances and impairment on other assets	9,143	12,993
Insurance expense	9,847	10,345
Costs of car fleet (excluding leases)	5,767	6,058
Hedging/exchange rate losses	13,259	5,937
Additions to provisions and accruals relating to several types of expense	8,377	3,452
Other overheads	70,540	67,838
	422,078	**425,764**

The item ›Additions to provisions and accruals relating to several types of expense‹ also includes restructuring expenses totaling € 1,957 thousand (previous year: € 857 thousand).

14 Financial result

	2017/2018	**2018/2019**
Financial income	3,461	5,995
Financial expenses	51,438	54,896
Financial result	**– 47,977**	**– 48,901**

15 Financial income

	2017/2018	**2018/2019**
Interest and similar income	2,885	3,238
Income from financial assets/loans/securities	576	2,757
Financial income	**3,461**	**5,995**

›Income from financial assets/loans/securities‹ includes dividends of € 64 thousand from securities at fair value through other comprehensive income in the reporting period.

16 Financial expenses

	2017/2018	2018/2019
Interest and similar expenses	48,593	51,780
of which: net interest cost of pensions	(10,675)	(10,186)
Expenses for financial assets/loans/securities	2,845	3,116
Financial expenses	**51,438**	**54,896**

Interest and similar expenses primarily include expenses in connection with the convertible bond, the corporate bond, the credit facility, the development loan and for a loan taken over in connection with the sale of the research and development center in Heidelberg (see note 28). The net interest expense for pensions is the net total of interest expenses on defined benefit obligations (DBO) and (interest) income on plan assets.

The cost of financial assets/loans/securities includes write-downs of € 236 thousand (previous year: € 193 thousand).

17 Taxes on income

Taxes on income are broken down as follows:

	2017/2018	2018/2019
Current taxes	4,025	15,903
of which Germany	(2,015)	(4,285)
of which abroad	(2,010)	(11,618)
Deferred taxes	21,550	–4,640
of which Germany	(–408)	(–1,513)
of which abroad	(21,958)	(–3,127)
	25,575	**11263**

As in the previous year, the adoption of amended or new standards did not result in any additional tax expenses or tax income.

Taxes on income comprise German corporate tax (15 percent) plus the solidarity surcharge (5.5 percent), trade tax (12.45 percent; previous year: 12.32 percent) and comparable taxes of the foreign subsidiaries. The nominal total German tax rate is 28.28 percent for the financial year (previous year: 28.15 percent).

No deferred tax liabilities were recognized for temporary differences on shares in subsidiaries of € 164,588 thousand (previous year: € 181,564 thousand) as it is unlikely that these differences will reverse in the foreseeable future or the corresponding effects are not subject to taxation. Any recognition of deferred taxes would be based on the respective applicable tax rates in line with local taxation on distributed dividends.

Deferred tax expenses resulting from the write-down and deferred tax income from the reversal of a previous write-down of deferred tax assets on temporary differences in the reporting year amounted to € 175 thousand (previous year: € 0 thousand) and € 3,733 thousand (previous year: € 1,992 thousand) respectively. As a result of the US tax reform, the US tax group reported deferred tax expenses of € 25,120 thousand in the previous year, while the cut in the US federal corporate income tax rate from 35 percent to 21 percent did not affect cash.

Total tax loss carryforwards for which no deferred tax assets were recognized amount to € 1,291,922 thousand (previous year: € 1,284,018 thousand). Of these, € 9,818 thousand can be used by 2021 (previous year: € 0 thousand by 2020), € 3 thousand by 2022 (previous year: € 12,534 thousand by 2021) € 6 thousand by 2023 (previous year: € 3 thousand by 2022), € 574 thousand by 2024 (previous year: € 428 thousand by 2023) and € 1,281,521 by 2025 and later (previous year: € 1,271,053 by 2024 and later).

For interest carryforwards amounting to € 91,345 thousand (previous year: € 78,712 thousand) no deferred tax assets were recognized.

Deferred tax assets are only recognized for tax loss carryforwards and interest carryforwards if their realization is guaranteed in the near future. Write-downs of deferred tax assets for loss carryforwards recognized in previous years were recognized in the amount of € 206 thousand in the year under review (previous year: € 1,802 thousand). Deferred tax assets totaling € 5,339 thousand (previous year: € 5,468 thousand) were recognized in the reporting year on tax loss carryforwards not previously recognized. In the reporting year deferred tax assets on current tax losses in the amount of € 9,414 thousand (previous year: € 897 thousand) were recognized in profit or loss.

The reversals of deferred tax assets on temporary differences and tax loss carryforwards not yet recognized essentially relate to foreign sales companies. The reversal is essentially due to the economic recovery of the sales company.

Deferred tax assets of € 46,882 thousand (previous year: € 7,786 thousand) were capitalized at companies that generated a tax loss in the reporting year or in the prior financial year, as on the basis of tax planning it is assumed that positive taxable income will be available in the foreseeable future.

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

Unutilized tax credit for which no deferred tax assets have been recognized in the consolidated statement of financial position do not exist (previous year: € 3,801 thousand).

Current taxes were reduced in the reporting year by € 415 thousand (previous year: € 1,675 thousand) as a result of deferred tax assets for tax loss carryforwards that had not previously been taken into account. In the reporting period, current income taxes included net prior-period income of € 1,936 thousand (previous year: € 5,788 thousand).

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

	2017/2018	**2018/2019**
Net result before taxes	39,140	32,138
Theoretical tax rate in percent	28,15	28,28
Theoretical tax income/expense	**11,018**	**9,088**
Change in theoretical tax income/expense due to:		
Differing tax rate	21,123	– 3,255
Tax loss carryforwards [1]	4,729	8,093
Reduction due to tax-free income	– 4,494	– 6,503
Tax increase due to non-deductible expenses	10,034	9,132
Change in tax provisions/taxes attributable to previous years/impairment or reversal of deferred tax assets on temporary differences	– 16,808	– 5,214
Other	– 27	– 78
Taxes on income	**25,575**	**11,263**
Tax rate in percent	**65,34**	**35,05**

[1] Amortization and reversals of tax loss carryforwards, utilization of non-recognized tax loss carryforwards and non-recognition of current losses and interest carryforwards

Notes to the consolidated statement of financial position

18 Intangible assets

GOODWILL includes amounts arising from the takeover of businesses (asset deals) and from the acquisition of shares in companies (share deals). For the purpose of impairment testing, assets are allocated to cash-generating units. These are the same as the segments (see note 36). The carrying amounts of the goodwill associated with the cash-generating units Heidelberg Digital Technology and Heidelberg Lifecycle Solutions (previous year: Heidelberg Digital Business and Services) total € 63,192 thousand (previous year: € 60,816 thousand) and € 66,396 thousand (previous year: € 66,405 thousand) respectively.

According to IAS 36, as part of the impairment test the recoverable amount of the cash-generating units is determined based on the higher of the fair value less costs to sell and the value in use. The fair value here reflects the best estimate of the price independent market participants would receive under standard market conditions for the sale of the cash-generating units at the end of the reporting period. The value in use is the present value of the estimated future cash flows expected from the cash-generating unit. The calculation of the value in use by Heidelberg on the basis of the discounted cash flow method is based on the planning authorized by the Management Board, which in turn is based on medium-term planning for the result of operating activities for a period of five (previous year: five) financial years. This planning process is based on past experience, external information sources and expectations of future market development. Key assumptions on which the calculation of the value in use by the management is based include forecasts in the planning period of the development of sale prices, the EBITDA margin, sales growth, market prices for raw materials, the Company's investment activities and the costs of capital. A constant growth rate of 1 percent and unchanging investment activity are assumed after the end of the planning period to show expected inflation.

As a result, and as in the previous year, there were no impairment requirements for the Heidelberg Digital Technology, Heidelberg Lifecycle Solutions (previous year: Digital Business and Services) or Heidelberg Financial Services cash-generating units.

The calculated cash flows were discounted on the basis of market data using weighted average costs of capital (WACC) before taxes of 6.4 percent (previous year: 6.5 percent) for the Heidelberg Digital Technology cash-generating unit and of 6.7 percent (previous year: 6.6 percent) for the Heidelberg Lifecycle Solutions (previous year: Heidelberg Digital Business and Services) cash-generating unit.

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

Capitalized DEVELOPMENT COSTS mainly relate to the development of machinery in the digital printing sector in the Heidelberg Digital Technology and the Heidelberg Lifecycle Solutions segments. Non-capitalized development costs from all segments – including research expenses – amount to € 105,181 thousand in the reporting year (previous year: € 93,485 thousand).

19 Property, plant and equipment and investment property

The carrying amounts of assets capitalized in non-current assets from finance leases in which we are the lessee are € 1,047 thousand (previous year: € 769 thousand) for land and buildings and € 2,398 thousand (previous year: € 3,146 thousand) for other equipment, operating and office equipment. The latter are vehicles and IT equipment.

The carrying amounts of assets capitalized in non-current assets from operating leases in which we are the lessor are € 29,050 thousand (previous year: € 9,075 thousand). These assets are reported under technical equipment and machinery. These assets are printing presses leased to customers. The gross carrying amounts were € 41,030 thousand (previous year: € 19,803 thousand) and cumulative depreciation amounted to € 11,980 thousand (previous year: € 10,728 thousand). Depreciation of € 3,873 thousand (previous year: € 3,485 thousand) was recognized in the reporting year. Future lease income of € 19,894 thousand (previous year: € 10,217 thousand) is anticipated from operating leases. Payments with maturities of up to one year, between one and five years and more than five years amount to € 5,549 thousand (previous year: € 2,700 thousand), € 14,180 thousand (previous year: € 7,517 thousand) and € 164 thousand (previous year: € 0 thousand) respectively.

In connection with the refinancing of the Heidelberg Group (see note 28), property, plant and equipment and investment property were pledged as collateral by way of assignment and the appointment of a collective land charge. The carrying amounts of this collateral as of the end of the reporting period were € 404,323 thousand (previous year: € 381,798 thousand) and € 5,080 thousand (previous year: € 5,097 thousand).

The carrying amounts of property, plant and equipment that are partially unused or are no longer used are of minor significance.

For property, plant and equipment leased to customers of the Heidelberg Group in finance leases, corresponding receivables have been capitalized in the amount of the discounted future minimum lease payments. Leased items are therefore not reported under non-current assets.

The fair value of investment property (IAS 40: Investment Property) corresponds to the second level in the measurement hierarchy according to IFRS 13 and is € 10,712 thousand (previous year: € 12,352 thousand). Investment property with a fair value of € 3,498 thousand (previous year: € 5,191 thousand) was measured by non-Group independent experts in line with internationally acknowledged valuation methods. The other fair values were derived from current market prices of comparable real estate.

As in the previous year, only immaterial current income or expenses were incurred in connection with investment property in the reporting year.

20 Financial assets

Financial assets include shares in subsidiaries totaling € 663 thousand (previous year: € 4,945 thousand), other investments of € 3,378 thousand (previous year: € 3,388 thousand) and securities of € 3,062 thousand (previous year: € 3,853 thousand). Please see note 31 for information on securities and their fair value. SABAL GmbH & Co. Objekt FEZ Heidelberg KG, Munich, Germany (previous year: structured entity), is no longer included in consolidation due to the accrual effective September 30, 2018 that followed the acquisition of the research and development center in Heidelberg on the basis of company law measures and the subsequent disposal in the year under review.

21 Receivables and other assets

			31-Mar-2018			**31-Mar-2019**
	Current	Non-current	Total	Current	Non-current	**Total**
Receivables from sales financing	**27,990**	**37,621**	**65,611**	**29,475**	**30,361**	**59,836**
Trade receivables	**369,808**	**–**	**369,808**	**359,706**	**0**	**359,706**
Other receivables and other assets						
Other tax assets	22,727	4	22,731	12,150	4	12,154
Loans	10,199	16,857	27,056	129	1,630	1,759
Derivative financial instruments	2,885	–	2,885	3,155	–	3,155
Deferred income	11,710	625	12,335	11,147	691	11,838
Other assets	39,641	7,838	47,479	44,800	5,715	50,515
	87,162	**25,324**	**112,486**	**71,381**	**8,040**	**79,421**

Receivables from sales financing (not including lease receivables from finance leases) and trade receivables result from contracts with customers and amounted to € 430,077 thousand as of April 1, 2018 and € 418,133 thousand as of March 31, 2019.

In the reporting year, plan assets of € 1,659 thousand (previous year: € 1,900 thousand) are included in current other assets (see note 26).

In connection with the refinancing of the Heidelberg Group (see note 28), trade receivables, receivables from sales financing and other receivables and other assets were assigned as collateral by way of undisclosed assignment. The carrying amounts of this collateral as of the end of the reporting period were € 63,506 thousand (previous year: € 89,869 thousand), € 1,677 thousand (previous year: € 1,146 thousand) and € 0 thousand (previous year: € 0 thousand) respectively.

Receivables from sales financing

RECEIVABLES FROM SALES FINANCING are shown in the following table:

Contract currency	Carrying amount 31-Mar-2018 in € thousands	Remaining term in years	Effective interest rate in percent	Carrying amount **31-Mar-2019** in € thousands	Remaining term in years	Effective interest rate in percent
EUR	35.195	up to 8	up to 14	29,120	up to 7	up to 14
KRW	19.179	up to 7	up to 9	16,543	up to 7	up to 9
USD	525	up to 4	up to 12	6,106	up to 3	up to 12
AUD	3,293	up to 6	up to 9	4,138	up to 6	up to 10
Various	7.419			3,929		
	65.611			**59,836**		

The effective interest rates correspond to the agreed nominal interest rates.

The fair value of receivables from sales financing essentially corresponds to the reported carrying amounts. This fair value is based upon expected cash flows and interest rates with matching maturities taking into account the customer-specific credit rating.

The derived market value of the collateral held for receivables from sales financing was € 54,116 thousand (previous year: € 57,135 thousand) as of the end of the reporting period. This collateral is essentially reservations of title, with the amount of security varying from region to region.

Impairment on receivables from sales financing developed as follows in the reporting year:

	2018/2019		
	Stage 1 – 12-month expected credit losses	Stage 2 – Lifetime expected credit losses	Stage 3 – Lifetime expected credit losses
As of the start of the financial year (IAS 39)	0	–	6,698
IFRS 9 adjustments	593	–	0
As of the start of the financial year (IFRS 9)	593	–	6,698
Additions	232	–	1,161
Utilization	–	–	– 199
Reversals	– 132	–	– 1,404
Change in scope of consolidation, currency adjustments, other changes	– 38	–	39
As of the end of the financial year	**655**	**–**	**6,295**

There were no significant modifications to receivables from sales financing in the reporting year.

Receivables from sales financing still subject to enforcement measures of € 31 thousand were written off in the reporting year.

As of the end of the reporting period, the gross carrying amounts are allocated to the credit risk classes as follows:

	2018/2019		
Gross carrying amounts	Stage 1 – 12-month expected credit losses	Stage 2 – Lifetime expected credit losses	Stage 3 – Lifetime expected credit losses
Low risk	20,155	–	578
Medium risk	26,916	–	2,673
High risk	5,930	–	10,535
Total	**53,001**	**–**	**13,786**

Receivables from sales financing include lease receivables from finance leases in which in particular our financing companies act as lessors. The present value of outstanding lease payments (carrying amount) is € 1,409 thousand (previous year: € 1,275 thousand). As in the previous year, there is no cumulative impairment on these lease receivables.

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

Trade receivables

In accordance with the simplified approach for calculating impairment losses on trade receivables, the following impairment matrix was used to calculate the expected loss on receivables not impaired as of March 31, 2019:

	Default ratio	Gross carrying amount	Expected loss
Receivables neither past due nor impaired	0.3 %	259,252	773
Receivables past due but not impaired			
less than 30 days	1.44 %	40,337	579
between 30 and 60 days	3.83 %	18,245	699
between 60 and 90 days	5.62 %	10,008	562
between 90 and 180 days	5.69 %	8,660	493
more than 180 days	10.05 %	7,696	717
Total		**344,198**	**3,823**

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

The expected credit losses on trade receivables with a gross carrying amount of € 344,198 thousand as of the end of the reporting period are calculated on a collective basis.

The derived market value of the collateral held for receivables from machinery sales was € 178,889 thousand (previous year: € 189,885 thousand) as of the end of the reporting period. This collateral is essentially reservations of title, with the amount of security varying from region to region.

The total impairment loss in the period for trade receivables was € 7.042 thousand (previous year: € 6,505 thousand). Of this, impairment amounts booked to allowance accounts developed as follows in the reporting year:

	2018/2019	
	Expected losses	Impairment
As of the start of the financial year (IAS 39)	0	14,049
IFRS 9 adjustments	3,474	0
As of the start of the financial year (IFRS 9)	3,474	14,049
Additions	1,732	4,469
Utilization	0	−2,058
Reversals	−1,258	−1,804
Change in scope of consolidation, currency adjustments, other changes	−125	−391
As of the end of the financial year	**3,823**	**14,265**

There were no significant modifications to trade receivables in the year under review.

Some of the trade receivables written off in the year under review are still subject to enforcement measures.

There were no significant concentrations of risk in trade receivables in the reporting year.

Other receivables and other assets

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

Specific allowances for impairment losses of € 4,663 thousand (previous year: € 4,470 thousand) and € 8,531 thousand (previous year: € 4,533 thousand) relate to loans (gross carrying amount: € 6,422 thousand; previous year: € 31,526 thousand) and other financial assets (gross carrying amount: € 40,605 thousand; previous year: € 34,700 thousand) respectively.

Of the impairment recognized on loans in the previous year, € 34 thousand (previous year: € 79 thousand) was utilized and € 0 thousand (previous year: € 0 thousand) was reversed. Additions to impairment losses of € 126 thousand were required (previous year: € 0 thousand). Of the impairment recognized on other financial assets in the previous year, € 440 thousand (previous year: € 23 thousand) was utilized and € 121 thousand (previous year: € 0 thousand) was reversed. Additions of € 4,422 thousand were required (previous year: € 309 thousand).

€ 1,152 thousand (previous year: € 1,157 thousand) of unimpaired loans and other financial assets were past due by more than 180 days.

Derivative financial instruments essentially include asset cash flow hedges of € 883 thousand (previous year: € 1,369 thousand) and asset fair value hedges of € 2,272 thousand (previous year: € 1,516 thousand).

22 Deferred tax assets and deferred tax liabilities

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

	31-Mar-2018		**31-Mar-2019**	
	Assets	Liabilities	Assets	Liabilities
Tax loss carry-forwards	23,064	–	34,864	–
Assets:				
Intangible assets/ property, plant and equipment/ investment property/ financial assets	2,889	8,500	2,755	6,809
Inventories, receivables and other assets	8,634	1,779	13,244	2,089
Securities	4	–	83	1
Liabilities:				
Provisions	21,891	616	16,568	62
Liabilities	14,580	248	13,533	647
Gross amount	71,062	11,143	81,047	9,608
Offsetting	5,326	5,326	4,990	4,990
Carrying amount	**65,736**	**5,817**	**76,057**	**4,618**

Deferred tax assets include non-current deferred taxes of € 50,729 thousand (previous year: € 40,553 thousand). Deferred tax liabilities include non-current deferred taxes of € 3,524 thousand (previous year: € 4,706 thousand).

As a result of currency translation, deferred tax assets increased by € 4,141 thousand (previous year: decreased by € 9,604 thousand) in the reporting year. Owing to the change in the consolidated group, deferred tax assets increased by € 588 thousand (previous year: decreased by € 1,715 thousand).

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

	2017/2018			**2018/2019**		
	Before income taxes	Income taxes	After income taxes	Before income taxes	Income taxes	After income taxes
Remeasurement of defined benefit pension plans and similar obligations	– 30,851	– 979	– 31,830	– 49,857	2,333	– 47,524
Currency translation	– 36,344	–	– 36,344	17,587	–	17,587
Fair value of other finacial assets	– 99	– 1,464	– 1,563	7	– 3	4
Cash flow hedges	– 861	1,212	351	1,195	– 179	1,016
Total other comprehensive income	**– 68,155**	**– 1,231**	**– 69,386**	– 31,068	2,151	– 28,917

23 Inventories

	31-Mar-2018	**31-Mar-2019**
Raw materials and supplies	108,276	115,282
Work and services in progress	285,471	317,755
Finished goods and goods for resale	225,552	246,139
Advance payments	3,135	5,681
	622,434	**684,857**

In order to adjust inventories to the net realizable value, impairment of € 3,256 thousand was recognized in the year under review (previous year: € 1,502 thousand). The reason for the write-down to the lower net realizable value is primarily the decreased likelihood of market success for a small portion of our inventories. Remarketed equipment was repossessed as collateral owing to the insolvency of customers. In the year under review, remarketed equipment of € 0 thousand (previous year: € 0 thousand) was reported under finished goods and goods held for resale. The repossession of this collateral resulted in cash and cash equivalents of € 0 thousand (previous year: € 3,451 thousand) at German companies in the reporting period.

The carrying amount of the inventories pledged as collateral in connection with the refinancing of the Heidelberg Group (see note 28) was € 409,288 thousand (previous year: € 386,570 thousand).

24 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and bank balances; their carrying amount is to be taken as an appropriate estimate of the fair value. Restrictions on disposal of cash and cash equivalents due to foreign exchange restrictions amount to € 30,891 thousand (previous year: € 32,810 thousand). Bank balances are exclusively held for short-term cash management purposes.

25 Equity

Share capital/number of shares outstanding/treasury stock

The shares are bearer shares and grant a pro rata amount of € 2.56 in the fully paid-in share capital of Heidelberger Druckmaschinen Aktiengesellschaft.

The share capital of Heidelberger Druckmaschinen Aktiengesellschaft amounts to € 779,466,887.68 and is divided into 304,479,253 shares. Please see the information on the cash capital increase under "Authorized capital" for details of the issue of new shares from Authorized Capital 2015 in the reporting year.

As of March 31, 2019, the Company holds 142,919 shares, as in the previous year. The amount of these shares allocated to share capital is € 366 thousand, as in the previous year, with a notional share of share capital of 0.05 percent as of March 31, 2019 (previous year: 0.05 percent).

The shares were acquired in March 2007. The pro rata cost of the acquisition was € 4,848 thousand. Additional pro rata transaction fees amounted to € 5 thousand. The pro rata cost of the acquisition was therefore € 4,853 thousand. These shares can only be utilized to reduce the capital of Heidelberger Druckmaschinen Aktiengesellschaft or for employee share participation programs and other forms of share distribution to the employees of the Company or a subsidiary or be offered for purchase to individuals who are or were employed by Heidelberger Druckmaschinen Aktiengesellschaft or one of its associates.

Contingent capital

Contingent Capital 2014

On July 24, 2014, the Annual General Meeting authorized the Management Board, with the approval of the Supervisory Board, to issue bearer or registered warrants or convertible bonds, profit-sharing rights or participating bonds, or a combination of these instruments (collectively referred to as "bonds") up to a total nominal amount of € 58,625,953.28, dated or undated, on one or several occasions by July 23, 2019, and to grant or impose on the bearers or creditors of option warrants or option profit-sharing rights or option participating bonds option rights or obligations, or to grant or impose on the bearers or creditors of convertible bonds, convertible profit-sharing rights or convertible participating bonds conversion rights or obligations to bearer shares of the Company with a pro rata amount of share capital of originally up to € 58,625,953.28 in total, in accordance with the further conditions of these bonds. Shareholders' pre-emption rights can be disapplied in accordance with the further conditions of this authorization. For this purpose, the share capital of Heidelberger Druckmaschinen Aktiengesellschaft was contingently increased originally by up to € 58,625,953.28, divided into 22,900,763 shares (CONTINGENT CAPITAL 2014).

On March 30, 2015, Heidelberger Druckmaschinen Aktiengesellschaft issued an unsecured, unsubordinated convertible bond with an option for conversion into shares in Heidelberger Druckmaschinen Aktiengesellschaft (convertible bond). This convertible bond has an issue volume of € 58,600,000.00, a term of seven years (maturity date: March 30, 2022) and a coupon of 5.25 percent per annum, which is distributed at the end of every quarter.

From April 20, 2018, Heidelberger Druckmaschinen Aktiengesellschaft is entitled to repay the convertible bond ahead of schedule in full at the nominal value plus accrued interest. This requires that the share price multiplied by the applicable conversion ratio on 20 of the 30 consecutive trading days on the Frankfurt Stock Exchange before the announcement of the date of the early repayment exceeds 130 percent of the nominal value as of each of these 20 trading days. Each holder of the convertible bond 2015 is entitled to demand the repayment of all or some of his/her bonds for which the conversion right was not exercised and for which early repayment was announced by Heidelberger Druckmaschinen Aktiengesellschaft as of March 30, 2020 at the set nominal amount plus interest incurred by March 30, 2020 (exclusively).

On July 24, 2015, the Annual General Meeting resolved the cancellation of Contingent Capital 2014 to the extent that it is not intended to serve rights under the convertible bond. The share capital of Heidelberger Druckmaschinen Aktiengesellschaft has now been contingently increased by up to € 48,230,453.76, divided into 18,840,021 shares, through Contingent Capital 2014; details on Contingent Capital 2014 can be found in Article 3 (3) of the Articles of Association. The resolution became effective on entry in the commercial register of the Mannheim Local Court on October 2, 2015.

Contingent Capital 2015

On July 24, 2015, the Annual General Meeting authorized the Management Board, with the approval of the Supervisory Board, to issue warrants, convertible bonds or participating bonds as well as profit-sharing rights including combinations of these instruments (collectively also referred to as “bonds”) up to a total nominal amount of € 200,000,000.00 dated or undated, on one or several occasions by July 23, 2020, and to grant or impose on the bearers or creditors of option warrants or option profit-sharing rights or option participating bond, option rights or obligations, or to grant or impose on the bearers or creditors of convertible bonds, convertible profit-sharing rights or convertible participating bonds conversion rights or obligations to up to 51,487,555 bearer shares of the Company with a pro rata amount of share capital of up to € 131,808,140.80 in total, in accordance with the further conditions of these bonds. Shareholders’ pre-emption rights can be disapplied in accordance with the further conditions of this authorization. The share capital of Heidelberger Druckmaschinen Aktiengesellschaft was contingently increased by up to € 131,808,140.80, divided into 51,487,555 shares, for this purpose (CONTINGENT CAPITAL 2015); details on Contingent Capital 2015 can be found in Article 3 (4) of the Articles of Association.

Authorized capital

In accordance with the resolution of the Annual General Meeting on July 24, 2015, the Management Board was authorized, with the approval of the Supervisory Board, to increase the share capital of the Company by up to € 131,808,140.80 on one or more occasions by issuing up to 51,487,555 new shares against cash or non-cash contributions by July 23, 2020 (AUTHORIZED CAPITAL 2015). The Management Board was authorized, with the approval of the Supervisory Board, to determine the further content of share rights and the conditions for the issue of shares. The authorization became effective on entry in the commercial register of the Mannheim Local Court on October 2, 2015.

With the approval of a committee formed by the Supervisory Board for these purposes and acting in place of the Supervisory Board, on March 12, 2019 the Management Board resolved to partially utilize Authorized Capital 2015 and to increase the company’s share capital by issuing 25,743,777 new bearer shares against cash contributions with shareholders’ pre-emption rights disapplied. This corresponds to an increase of the existing share capital of around 9.2 percent. The issue price was € 2.68 per new share. The issue proceeds of € 68,993 thousand were reduced by issue costs of € 532 thousand. Masterwork Machinery S.à r.l., Luxembourg, Luxembourg, was exclusively permitted to subscribe to and acquire the new shares. Masterwork Machinery S.à r.l. is a wholly owned subsidiary of Masterwork Group Co., Ltd., Tianjin, China. The capital increase became effective on being entered in the commercial register of the Mannheim Local Court on March 22, 2019..The share capital was thus increased by € 65,904,069.12 to € 779,466,887.68 (March 31, 2018: € 713,562,818.56) and is now divided into 304,479,253 (March 31, 2018: 278,735,476) shares.

Accordingly, Authorized Capital 2015 was reduced from € 131,808,140.80 to € 65,904,071.68 (March 31, 2018: € 131,808,140.80); information on Authorized Capital 2015 can be found in Article 3(5) of the Articles of Association.

Capital reserves

The capital reserves essentially include amounts from the capital increase in accordance with Section 272 (2) 1 of the Handelsgesetzbuch (HGB – German Commercial Code), from the non-cash capital increase in the context of the Gallus transaction in financial year 2014/2015, from the cash capital increase that took effect in March 2019, from simplified capital reductions in accordance with Section 237 (5) of the Aktiengesetz (AktG – German Stock Corporation Act) and expenses from the issuance of option rights to employees in line with IFRS 2: Share-based Payment and the difference between the issue proceeds and the fair value of the liability component from the bonds (see "Contingent capital").

Retained earnings

The retained earnings include earnings generated by consolidated subsidiaries in previous years, the effects of consolidation and the effects of the remeasurement of net liabilities (assets) under defined benefit pension plans.

Other retained earnings

The other retained earnings include exchange rate effects and IFRS 9 fair value changes outside profit or loss.

Appropriation of the net result of Heidelberger Druckmaschinen Aktiengesellschaft

The HGB net loss of € 44,530,411.29 generated in the 2017/2018 financial year was fully offset by withdrawal from other retained earnings in the previous year.

The net accumulated loss for the 2018/2019 financial year of € 88,309,436.22 will be carried forward to new account..

26 Provisions for pensions and similar obligations

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

Notes on significant pension commitments

HEIDELBERGER DRUCKMASCHINEN AKTIENGESELLSCHAFT (BASED IN HEIDELBERG, GERMANY), HEIDELBERGER DRUCKMASCHINEN VERTRIEB DEUTSCHLAND GMBH, HEIDELBERG POSTPRESS DEUTSCHLAND GMBH and HEIDELBERG MANUFACTURING DEUTSCHLAND GMBH (EACH BASED IN WIESLOCH, GERMANY) accounted for € 958 million (previous year: € 938 million) of the present value of the defined benefit obligation (DBO) and € 437 million (previous year: € 461 million) of plan assets.

Until financial year 2014/2015, benefit commitments essentially comprised retirement, disability and surviving dependents benefits (widows', widowers' and orphans' pension) plus an age bonus and death benefits. The amount of retirement and disability pensions was based on the pension group to which the employee is assigned on the basis of his/her pensionable income and the eligible years of service. In the event of disability this also takes into account creditable additional periods of coverage. Pensionable years of service are all years of service spent by the employee at the Company, starting from the age of 20, until the pension begins.

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

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

By way of agreement with the Group Works Council of February 27, 2015, Heidelberger Druckmaschinen Aktiengesellschaft and Heidelberger Druckmaschinen Vertrieb Deutschland GmbH introduced a new pension system effective from January 1, 2015, with greater incentives for private retirement provision. This agreement changed the defined benefit plan described above to a defined contribution plan, which also still includes retirement, disability and surviving dependents benefits (widows', widowers' and orphans' benefits). The new general works agreement applies to future pensions for active employees at Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberger Druckmaschinen Vertrieb Deutschland GmbH and Heidelberg Manufacturing Deutschland GmbH, which was spun off with effect from April 1, 2015. The pension components vested in accordance with the old system were transferred in the form that a corresponding initial component was credited to the pension account of the respective employee as of April 1, 2015, for the pension commitments as of March 31, 2015 (transfer date). The amount of this initial component is based on the monthly pension achieved by March 31, 2015, multiplied by a flat-rate capitalization factor. The annual pension contribution is determined based on the employee's completed years of service on the basis of the respective eligible remuneration. In addition, for each active employee with a deferred compensation plan, the employer will provide a further annual contribution to the employee's pension account based on his/her supplementary benefit contribution and amounting to a quarter of the cumulative deferred compensation amount of the employee per financial year and capped at a maximum amount. The pension credit is paid out in twelve annual installments, or optionally the employee can choose 14 annual installments with an increased initial installment. Alternatively, the employee can access his/her pension credit as a pension for life and, under certain conditions, have this paid out as a one-time capital payment. The installment/annuity payment option of 60 percent/40 percent constitutes a further actuarial assumption for calculation of the present value of the defined benefit obligation in Germany.

As part of a contractual trust arrangement (CTA) at Heidelberger Druckmaschinen Aktiengesellschaft and Heidelberger Druckmaschinen Vertrieb Deutschland GmbH set up in March 2006, assets were transferred to a trustee, Heidelberg Pension-Trust e.V., Heidelberg, which is legally independent from the Company. The respective trust agreement establishes a management trust between the respective company and the trustee and a security trust between the trustee and the beneficiaries (dual trust). The purpose of the CTA is to finance all pension obligations. The respective plan assets are managed by the trustee in accordance with the respective trust agreement.

As of March 1, 2006 a defined contribution plan was introduced for key executives. This provides for interest on contributions based on salary and EBIT at rates based on the respective maximum permissible interest rate for life assurance companies in Germany and the investment of the CTA's assets. This plan provides for a capital payout with the option of conversion into a pension for life. Furthermore, this group of persons has the option of deferred compensation to increase the employer-funded benefit scheme.

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

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

The **HEIDELBERG GROUP PENSION SCHEME** in the UK comprises a defined benefit and a defined contribution plan. The Heidelberg Pension Scheme accounts for € 256 million (previous year: € 242 million) of the present value of the defined benefit obligation (DBO) and € 230 million (previous year: € 230 million) of plan assets. The defined benefit portion is based on final salary with a guaranteed pension level. The pension level is dependent on the length of employment and the respective salary before retiring. Pension payments are adjusted based on the development of the retail price index. This plan is subject to the statutory funding objective under the UK Pension Act 2004. The necessary financing is performed at least every three years by way of so-called technical assessments. These determine whether the statutory funding objective has been complied with. The defined benefit plan is managed by a trustee, the board of which is elected partly by the Company and partly by the members of the plan. The trustee is responsible for obtaining the assessment, the pension payments and investing the plan assets; if necessary these functions are transferred to professional advisors. The last assessment of technical funding took place as of March 31, 2018 and – on the basis of the assumptions at this date determined by the trustee – identified a technical funding deficit of GBP 13.0 million. On the basis of this, the agreement reached in July 2013 between Heidelberg and the trustee for annual payments over ten years of GBP 2.47 million, commencing in July 2013 until 31 January 2024, will continue.

The **PENSION FUNDS OF THE SWISS COMPANIES**, which manage pension assets as foundations independent of the Company and are subject to Swiss legislation on occupational pensions, accounted for € 145 million (previous year: € 139 million) of the present value of the defined benefit obligation (DBO) and € 143 million (previous year: € 138 million) of plan assets. These obligations are based on retirement, disability and surviving dependents benefits. The retirement benefits are usually a pension. This is determined based on the individual pension credit saved by the employee by the time of retirement and the regulatory conversion rates. However, at the discretion of the employee, pension credit can also be drawn in the form of a lump sum payment. Disability and surviving dependents benefits are calculated from the pension credit projected at regulatory retirement age or are defined as a percentage of the pay insured. For each insured employee, the Swiss companies pay an annual employer's contribution to the respective pension fund. The amount of this is determined in the respective pension regulations as a percentage of the pay insured and can be adjusted by the pension fund board of trustees, which consists of equal numbers of employer and employee representatives. In the event of a severe deficit the pension fund board of trustees can resolve to impose recapitalization contributions, if there are no other measures to remedy the deficit. In such event, the Swiss companies would be legally required to pay at least as much as the respective employee contributions.

The **HEIDELBERG AUSTRALIA SUPERANNUATION FUND** in Australia comprises defined benefit and defined contribution plans. The Heidelberg Australia Superannuation Fund accounts for € 8 million (previous year: € 7 million) of the present value of the defined benefit obligation (DBO) and € 9 million (previous year: € 9 million) of plan assets. The defined benefit component is based on the average final salary and the length of employment. As their pension benefit, some entitled members of this plan receive the higher of the respective defined benefit obligation and an obligation accrued during the qualifying period based on the individual contributions by the employee and corresponding capital gains; entitlement to this is dependent on when employees joined the plan. The Heidelberg Australia Superannuation Fund is subject to the statutory minimum benefit obligation as per the superannuation guarantee legislation, which provides for a gradual increase in minimum obligations from July 1, 2013. It is managed by an independent trustee, the board of which is equally appointed by the Company and elected by the members of the plan. The trustee is required to act in the best interests of the plan members.

Notes on risks

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

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

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

However, it should be noted that both the defined benefit obligations and the plan assets fluctuate over time. This gives rise to the risk of a growing plan deficit. Depending on the statutory regulations in the respective countries, there is a legal obligation to reduce this deficit by contributing additional funding.

Fluctuations can arise in the measurement of defined benefit obligations in that the underlying actuarial assumptions, such as discounting rates, the development of pensions and salaries or life expectancy, are subject to adjustments that can materially influence the amount of defined benefit obligations. The return on plan assets is assumed to be equal to the discount rates used to determine the defined benefit obligations, based on corporate bonds with AA credit ratings. If the actual return on plan assets is less than the discounting rates applied the net liability under defined benefit plans increases. However, given the equity backing ratio it is assumed that the actual return can contribute to greater volatility in the fair value of plan assets in the medium and long term. Possible inflation risks, which could lead to a rise in defined benefit obligations, exist to the extent that some plans are based on final salary.

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

The information on pensions is structured as follows:

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

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

	31-Mar-2018	**31-Mar-2019**
Provisions for pensions and similar obligations	523,445	582,159
Assets from defined benefit pension plans	1,900	1,659
Net carrying amounts at the end of the financial year	**521,545**	**580,500**

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

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

	Funded benefit obligations	Unfunded benefit obligations	Present value of the defined benefit obligations	Fair value of plan assets	Total
As of April 1, 2017	**1,291,749**	**69,396**	**1,361,145**	**–875,325**	**485,820**
Current service cost	7,120	2,429	9,549	0	9,549
Interest expense (+)/income (–)	27,960	1,193	29,153	–18,478	10,675
Past service cost/gains (–)/losses (+) from settlements and curtailments	–625	–78	–703	0	–703
Remeasurements:	35,624	2,498	38,122	–7,271	30,851
Gains (–)/losses (+) from changes in demographic assumptions	–118	356	238		238
Gains (–)/losses (+) from changes in financial assumptions	41,291	2,456	43,747		43,747
Gains (–)/losses (+) from experience-based adjustments	–5,549	–314	–5,863		–5,863
Difference between interest income recognized in profit or loss and actual income from plan assets	–	–	–	–7,271	–7,271
Currency translation differences	–20,760	–1,583	–22,343	20,394	–1,949
Contributions:	3,619	227	3,846	–7,548	–3,702
Employers	–	–	–	–5,469	–5,469
Pension plan participants	3,619	227	3,846	–2,079	1,767
Payments made	–49,354	–2,118	–51,472	42,512	–8,960
Changes in the scope of consolidation, other changes	334	–370	–36	0	–36
As of March 31, 2018	**1,295,667**	**71,594**	**1,367,261**	**–845,716**	**521,545**

	Funded benefit obligations	Unfunded benefit obligations	Present value of the defined benefit obligations	Fair value of plan assets	**Total**
As of April 1, 2018	**1,295,667**	**71,594**	**1,367,261**	**– 845,716**	**521,545**
Current service cost	7,332	1,995	9,327	0	9,327
Interest expense (+)/income (–)	26,047	1,030	27,077	– 16,891	10,186
Past service cost/gains (–)/losses (+) from settlements and curtailments [1]	2,042	0	2,042	0	2,042
Remeasurements:	42,011	1,225	43,236	6,621	49,857
Gains (–)/losses (+) from changes in demographic assumptions	6,115	65	6,180	–	6,180
Gains (–)/losses (+) from changes in financial assumptions	31,970	1,083	33,053	–	33,053
Gains (–)/losses (+) from experience-based adjustments	3,926	77	4,003	–	4,003
Difference between interest income recognized in profit or loss and actual income from plan assets	–	–	–	6,621	6,621
Currency translation differences	12,429	897	13,326	– 11,790	1,536
Contributions:	3,729	259	3,988	– 7,212	– 3,224
Employers	–	–	–	– 5,162	– 5,162
Pension plan participants	3,729	259	3,988	– 2,050	1,938
Payments made	– 53,599	– 4,014	– 57,613	46,820	– 10,793
Changes in the scope of consolidation, other changes	1,805	– 1,731	74	– 50	24
As of March 31, 2019	**1,337,463**	**71,255**	**1,408,718**	**– 828,218**	**580,500**

[1] This mainly includes expenses for benefits resulting from the recent legal requirement in the UK to equalize the Guaranteed Minimum Pensions between men and woman.

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

In percent	2017/2018		2018/2019	
	Domestic	Foreign	Domestic	Foreign
Discount rate	2.10	1.84	2.00	1.73
Expected future salary increases	2.75	0.51	2.75	0.49
Expected future pension increases	1.60	1.60	1.60	1.90

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

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

	31-Mar-2018		of which:	31-Mar-2019		of which:
		with a market price quoted on an active market	without a market price quoted on an active market		with a market price quoted on an active market	without a market price quoted on an active market
Cash and cash equivalents	23,837	23,775	62	12,593	12,524	69
Equity instruments	149,534	148,117	1,417	156,431	156,040	391
Debt instruments	280,908	273,735	7,173	298,055	285,170	12,885
Real estate	18,912	–	18,912	19,701	–	19,701
Derivatives	669	– 634	1,303	– 1,014	126	– 1,140
Securities funds	319,125	269,615	49,510	292,871	229,599	63,272
Qualifying insurance policies	28,903	–	28,903	28,405	–	28,405
Other	23,828	23,828	–	21,176	21,176	–
	845,716	**738,436**	**107,280**	**828,218**	**704,635**	**123,583**

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

4) The cost of defined contribution plans amounted to € 50,299 thousand (previous year: € 49,592 thousand) in the reporting year and essentially included contributions to statutory pension insurance.

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

	31-Mar-2018	Change in %	**31-Mar-2019**	Change in %
Present value of the essential defined benefit obligations [1]	1,325,993		1,380,491	
Present value of the essential defined benefit obligations assuming that				
the discount rate was				
0.50 percentage points higher	1,228,255	−7.4	1,266,816	−8.2
0.50 percentage points lower	1,436,627	8.3	1,479,510	7.2
the expected future salary increase was				
0.25 percentage points higher	1,326,456	0.0	1,367,086	−1.0
0.25 percentage points lower	1,325,533	0.0	1,366,203	−1.0
the expected future pension increase was				
0.25 percentage points higher	1,362,663	2.8	1,403,573	1.7
0.25 percentage points lower	1,294,660	−2.4	1,335,170	−3.3
Increase in life expectancy per entitled beneficiary [2]	1,382,929	4.3	1,426,084	3.3

[1] Present value of defined benefit obligations calculated on the basis of the "Actuarial assumptions" table
[2] To simulate this increased life expectancy, the biometric probabilities for "age x" in the generation and periodic tables were replaced by the corresponding figures for "age x - 1" in each case (age shift)

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

6) The forecast contributions to plan assets are expected to amount to € 8 million in financial year 2019/2020 (previous year: € 8 million). With regard to the material defined benefit obligations, undiscounted pension payments amounting to € 44 million (previous year: € 43 million) are anticipated for financial year 2019/2020. The weighted average duration of the material defined benefit obligations is 16 years (previous year: 16 years).

27 Other provisions

	31-Mar-2018			31-Mar-2019		
	Current	Non-current	Total	Current	Non-current	**Total**
Tax provisions	7,453	51,519	**58,972**	6,209	55,245	**61,454**
Other provisions						
Staff obligations	54,004	29,993	83,997	55,807	14,290	70,097
Sales obligations	65,232	5,877	71,109	62,068	5,582	67,650
Other	85,699	54,355	140,054	74,760	23,806	98,566
	204,935	90,225	**295,160**	192,635	43,678	**236,313**
	212,388	141,744	**354,132**	198,844	98,923	**297,767**

	As of 1-Apr-2018	Change in scope of consolidation, currency adjustments, reclassification	Utilization	Reversal	Addition	**As of 31-Mar-2019**
Tax provisions	**58,972**	536	2,870	2,524	7,340	**61,454**
Other provisions						
Staff obligations	83,997	1,209	40,445	19,196	44,532	70,097
Sales obligations	71,109	–5,123	25,350	20,049	47,063	67,650
Other	140,054	5,106	73,156	14,450	41,012	98,566
	295,160	1,192	138,951	53,695	132,607	**236,313**
	354,132	1,728	141,821	56,219	139,947	**297,767**

Additions include accrued interest and the effects of the change in discount rates of € 1,767 thousand (previous year: € 2,408 thousand). These relate to expenses of € 241 thousand (previous year: € 326 thousand) for staff obligations, € 17 thousand (previous year: € 19 thousand) for sales obligations and expenses of € 1,509 thousand (previous year: € 2,063 thousand) for miscellaneous other provisions.

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

STAFF PROVISIONS essentially relate to bonuses (€ 31,883 thousand; previous year: € 49,426 thousand) and the cost of early retirement payments and partial retirement programs (€ 11,778 thousand; previous year: € 8,256 thousand).

SALES PROVISIONS mainly relate to warranties, reciprocal liability and buyback obligations (€ 41,359 thousand; previous year: € 42,180 thousand). The provisions for warranty obligations and obligations to provide subsequent performance and product liability serve to cover risks that are either not insured or which go beyond insurable risks. Utilization of these provisions in Germany is predominantly expected over a short-to medium-term horizon. The reciprocal liability and buyback obligations of € 574 thousand (previous year: € 1,859 thousand) relate entirely to financial guarantees generally issued to finance partners of our customers for sales financing. The maximum risk of default of these financial guarantees that can result in cash outflows in the subsequent financial year is € 16,985 thousand (previous year: € 17,832 thousand). Utilization of the provisions for reciprocal liability and buyback obligations is predominantly expected over a short-to medium-term horizon. In connection with the finance guarantees for sales financing, there are claims against third parties for the transfer of machinery. Outstanding claims were not capitalized.

MISCELLANEOUS OTHER PROVISIONS include provisions for onerous contracts of € 649 thousand (previous year: € 44,599 thousand) and provisions for legal disputes of € 19,479 thousand (previous year: € 14,629 thousand). The decline in the first-mentioned provisions is attributable to the earlier termination of a lease for a building. Furthermore, there are provisions of € 59,810 thousand (previous year: € 60,681 thousand) relating to portfolio and capacity adjustments and measures to optimize our management and organizational structure.

Utilization of these provisions is primarily expected over a short-to medium-term horizon.

As part of general business operations, Heidelberg is involved in judicial and extra-judicial legal disputes in different jurisdictions whose outcome cannot be predicted with certainty. For example, legal disputes may arise in connection with product liability cases and warranties. Provisions are recognized for risks resulting from legal disputes that are not already covered by insurance, provided utilization is likely and the probable amount of the provision required can be reliably estimated. The assumptions required for this mean that the recognition and measurement of provisions for legal disputes is subject to uncertainty.

The provisions recognized as of the end of the reporting period for legal disputes predominantly relate to the categories described below.

The major legal disputes relate to product liability cases in connection with machinery whose production has already been discontinued and that were produced and sold by the former Linotype-Hell Aktiengesellschaft and its legal successors. In addition, there are legal disputes regarding warranty cases in connection with sales of machinery that could also lead to rescission. Provisions have been recognized at an appropriate amount for these; their amount is monitored on an ongoing basis and adjusted as necessary.

28 Financial liabilities

				31-Mar-2018				**31-Mar-2019**
	Up to 1 year	Between 1 and 5 years	More than 5 years	Total	Up to 1 year	Between 1 and 5 years	More than 5 years	**Total**
Corporate bond [1]	6,208	198,112	–	204,320	4,533	145,776	0	150,309
Amounts due to banks [1]	22,563	111,464	35,864	169,891	30,333	209,877	8,995	249,205
Convertible bond [1]	786	55,104	–	55,890	57,574	–	–	57,574
From finance leases	2,203	2,445	–	4,648	2,053	1,793	–	3,846
Other	3,271	–	–	3,271	4,075	–	–	4,075
	35,031	367,125	35,864	**438,020**	98,568	357,446	8,995	**465,009**

[1] Including deferred interest

Financial liabilities developed as follows:

	As of 1-Apr-2018	Cash changes		Non-cash changes			**As of 31-Mar-2019**
		Free cash flow	From financing activities	Change in scope of consolidation	Currency adjustments	Other	
Corporate bond	204,320	– 16,829	– 53,563	–	–	16,381	150,309
Amounts due to banks	169,891	– 11,986	89,808	215	18	1,259	249,205
Convertible bonds	55,890	– 3,076	–	–	–	4,760	57,574
From finance leases	4,648	–	– 2,682	–	232	1,648	3,846
Other	3,271	–	792	–	12	–	4,075
	438,020	– 31,891	34,355	215	262	24,048	**465,009**

Corporate bond

On May 5, 2015, Heidelberger Druckmaschinen Aktiengesellschaft issued an unsecured corporate bond of € 205 million with a maturity of seven years and a coupon of 8.00 percent (corporate bond). Around € 55 million of the 2015 corporate bond was redeemed from cash in July 2018.

The fair value of the corporate bond on the basis of the stock exchange listing is € 154,725 thousand (previous year: € 214,503 thousand) compared to the carrying amount of € 150,309 thousand (previous year: € 204,320 thousand). The fair values correspond to level 1 of the measurement hierarchy set out in IFRS 13, as only quoted prices observed on active markets are used in measurement.

Convertible bond

On March 30, 2015, Heidelberger Druckmaschinen Aktiengesellschaft issued an unsecured, unsubordinated convertible bond with an option for conversion into shares in Heidelberger Druckmaschinen Aktiengesellschaft (convertible bond). This convertible bond has a volume of € 58.6 million and is convertible into approximately 18.84 million no-par shares. The convertible bond was issued in denominations of € 100,000. It has a term of seven years, was issued at 100 percent of the nominal value and is 100 percent repayable. The coupon is 5.25 percent p.a. and is distributed at the end of every quarter. The initial exercise price per underlying share is € 3.1104 at an initial conversion ratio of 32,150.2058.

From April 20, 2018, Heidelberger Druckmaschinen Aktiengesellschaft is entitled to repay the convertible bond ahead of schedule in full at the nominal value plus accrued interest. This requires that the share price multiplied by the applicable conversion ratio on 20 of the 30 consecutive trading days on the Frankfurt Stock Exchange before the announcement of the date of the early repayment exceeds 130 percent of the nominal value as of each of these 20 trading days. Each holder of the convertible bond is entitled to demand the repayment of all or some of his/her bonds for which the conversion right was not exercised and for which early repayment was announced by Heidelberger Druckmaschinen Aktiengesellschaft as of March 30, 2020 at the set nominal amount plus interest incurred by March 30, 2020 (exclusively).

The liability component of the convertible bond was recognized at present value on issue, taking into account a market interest rate, and is increased at the end of each reporting period by the interest portion of that period in line with the effective interest rate method. The amount of interest accrued, which results from the difference between the coupon and the effective interest rate, was € 1,293 thousand (previous year: € 1,197 thousand) in the year under review.

The fair value of the convertible bond on the basis of the stock exchange listing corresponds to the first level of the IFRS 13 measurement hierarchy and is € 58,221 thousand (previous year: € 69,833 thousand) compared to the carrying amount of € 57,574 thousand (previous year: € 55,890 thousand).

Amounts due to banks

Amounts due to banks are shown in the table below:

Type	Contract currency	Carrying amount 31-Mar-2018 in € thousands	Remaining term in years	Effective interest rate in %	Carrying amount **31-Mar-2019** in € thousands	Remaining term in years	Effective interest rate in %
Loans	EUR	158,274	up to 9	up to 5.35	238,295	up to 8	up to 5.10
Loans	Various	10,291	up to 1	up to 16.00	9,891	up to 1	up to 25.00
Other	Various	1,326	up to 1	up to 2.50	1,019	up to 1	up to 2.50
		169,891			**249,205**		

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

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

The Heidelberg Group was able to meet its financial obligations at all times in the reporting year. The CREDIT LINES not yet fully utilized in our Group of € 268,422 thousand (previous year: € 336,738 thousand) can be used as financing for general business purposes, measures in connection with our portfolio and capacity adjustments and measures to optimize our management and organizational structure.

The revolving credit facility that came into force in 2011 with an original term until the end of 2014 was extended ahead of schedule in December 2013 until mid-2017 and ahead of schedule in July 2015 until June 2019.

In March 2018, this revolving credit facility was agreed anew with a consortium of banks at improved conditions with a volume of € 320 million and a term until March 2023.

An amortizing loan funded by the KfW in the amount of € 5 million maturing in September 2020 was issued in December 2015. Its fair value is € 1,766 thousand (previous year: € 2,769 thousand) compared to its carrying amount of € 1,750 thousand (previous year: € 2,750 thousand).

On March 31, 2016, a loan of € 100 million with a staggered term until March 2024 was agreed with the European Investment Bank to support Heidelberg's research and development activities, especially with regard to digitalization, and the expansion of the digital printing portfolio. The development loan is available in callable tranches, each with a term of seven years. In April 2016, Heidelberger Druckmaschinen Aktiengesellschaft called an initial tranche of € 50 million from this loan; this will amortize by April 2023. The remainder was called in January and March 2017 via further tranches of € 20 million and € 30 million respectively; these will amortize accordingly over terms until January 2024 and March 2024 respectively. The fair value of the loan is € 93,716 thousand (previous year: € 90,388 thousand) compared to its carrying amount of € 100,739 thousand (previous year: € 100,739 thousand).

To finance the investment in relocating our research and development activities to our Wiesloch-Walldorf site, a development loan of € 42.1 million maturing in September 2024 was arranged with a syndicate of banks refinanced by KfW ("Energy Efficiency Program – Energy-efficient Construction and Renovation"). The funding was paid over the course of construction. Heidelberger Druckmaschinen Aktiengesellschaft called an initial tranche of € 5.1 million from this development loan in March 2017, a second tranche of € 20.7 million in March 2018 and a third tranche of € 16.3 million in June 2018. Its fair value is € 30,363 thousand (previous year: € 24,658 thousand) compared to its carrying amount of € 31,730 thousand (previous year: € 25,798 thousand).

A loan of € 25.7 million amortizing by the end of June 2027 was borrowed in May 2017. It is secured by the lender's equal participation in the existing collateral concept. The fair value of this loan is € 20,391 thousand (previous year: € 22,242 thousand) compared to its carrying amount of € 22,044 thousand (previous year: € 24,637 thousand).

In connection with the purchase/sale of the research and development center in Heidelberg in the first quarter of the reporting year, a loan of around € 32.5 million was taken over, which will be amortized by March 2022. The fair value of this loan is € 27,488 thousand (previous year: € 0 thousand) compared to its carrying amount of € 27,993 thousand (previous year: € 0 thousand).

The fair value of each of these five financial liabilities was calculated on the basis of the discounted cash flow method using market interest rates and corresponds to the second level in the fair value hierarchy according to IFRS 13.

The KfW-funded, amortizing loan of € 20 million issued in April 2014 and maturing in December 2018 was repaid in full by December 2018.

The financing agreements for the revolving credit facility, the European Investment Bank loan and other significant loans contain standard financial covenants regarding the financial situation of the Heidelberg Group. Two of the key performance indicators relate to the Heidelberg Group's equity and cash funds. The minimum required liquidity of € 80 million is significantly less than the cash available in recent financial years.

With the existing financing portfolio, Heidelberg has total credit facilities with balanced diversification and a balanced maturity structure until 2023.

The carrying amounts of the collateral pledged in connection with the loan agreements as part of a collateral pool concept is shown under the appropriate notes.

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

Liabilities from finance leases

Liabilities from finance leases are as follows:

				31-Mar-2018				**31-Mar-2019**
	Up to 1 year	Between 1 and 5 years	More than 5 years	Total	Up to 1 year	Between 1 and 5 years	More than 5 years	**Total**
Total lease payments	–	–	–	14,088	–	–	–	14,509
Lease payments already made	–	–	–	– 9,208	–	–	–	– 10,504
Outstanding lease payments	2,369	2,511	–	4,880	2,149	1,856	–	4,005
Interest portion of outstanding lease payments	– 165	– 67	–	– 232	– 96	– 63	–	– 159
Present value of outstanding lease payments (carrying amount)	2,204	2,444	–	**4,648**	2,053	1,793	–	**3,846**

29 Trade payables

Trade payables are usually secured by reservation of title until payment has been completed. The carrying amount of the trade payables is to be taken as an appropriate estimate of the fair value.

30 Other liabilities

				31-Mar-2018				**31-Mar-2019**
	Up to 1 year	Between 1 and 5 years	More than 5 years	Total	Up to 1 year	Between 1 and 5 years	More than 5 years	**Total**
Accruals (staff)	57,472	–	–	57,472	56,897	–	–	56,897
Contract liabilities [1]	–	–	–	–	156,348	30,524	82	186,954
Advance payments	144,725	–	–	144,725	–	–	–	–
From derivative financial instruments	3,465	–	–	3,465	2,246	3,995	–	6,241
From other taxes	34,077	34	–	34,111	28,764	82	–	28,846
For social security contributions	6,498	423	–	6,921	7,127	208	–	7,335
Deferred income	42,864	20,505	80	63,449	3,113	2,208	6,183	11,504
Other	31,710	10,710	–	42,420	32,789	6	–	32,795
	320,811	31,672	80	**352,563**	287,284	37,023	6,265	**330,572**

[1] In accordance with IFRS 15, advance payments received on orders are reported under contractual liabilities in the year under review.

Contract liabilities

Contract liabilities essentially comprise advance payments received on orders and advance payments for future maintenance and services and amounted to € 203,752 thousand as of April 1, 2018 and € 186,954 thousand as of March 31, 2019. These amounts are reversed to profit or loss over the term of the agreement. The contractual liabilities in place as of April 1, 2018 resulted in revenue of € 183,403 thousand in the year under review.

Derivative financial instruments

Derivative financial instruments include liabilities from cash flow hedges of € 5,936 thousand (previous year: € 1,906 thousand) and from fair value hedges of € 303 thousand (previous year: € 1,559 thousand).

Deferred income

Deferred income includes taxable investment subsidies of € 7,937 thousand (previous year: € 696 thousand), tax-free investment allowances of € 197 thousand (previous year: € 426 thousand) and other deferred income of € 3,370 thousand (previous year: € 3,300 thousand).

In the reporting year, TAXABLE SUBSIDIES essentially include a subsidy for our investments to relocate our research and development activities to our Wiesloch-Walldorf site. In the previous year, this item essentially related to subsidies paid to Heidelberg Graphic Equipment (Shanghai) Co. Ltd., China, by a government institution to promote the Shanghai Qingpu development zone.

TAX-FREE ALLOWANCES include allowances under the German Investment Allowance Act of 1999/2005/2007/2010 of € 197 thousand (previous year: € 426 thousand) for the Brandenburg production site.

Miscellaneous other liabilities

Recognized liabilities are essentially the undiscounted contractual cash flows. The carrying amount of the remaining miscellaneous other financial liabilities is primarily to be taken as an appropriate estimate of the fair value.

31 Disclosures on financial instruments

Carrying amounts of financial instruments

The carrying amounts of financial instruments can be transitioned to the measurement categories of IAS 39/IFRS 9:

Reconciliation > Assets

Items in statement of financial position	IAS 39 measurement category[1]	Carrying amounts			IFRS 9 measurement category[2]	Carrying amounts		
				31-Mar-2018				**31-Mar-2019**
		Current	Non-current	Total		Current	Non-current	**Total**
Financial assets								
Shares in affiliated companies	n.a.	–	4,945	4,945	n. a.	–	663	663
Other investments	n.a.	–	3,388	3,388	n. a.	–	3,378	3,378
Securities	AfS	–	3,853	3,853	FVOCI	–	3,062	3,062
		–	12,186	12,186		–	7,103	7,103
Receivables from sales financing								
Receivables from sales financing not including finance leases	LaR	27,336	37,000	64,336	AC	28,961	29,466	58,427
Receivables from finance leases	n. a.	654	621	1,275	n. a.	514	895	1,409
		27,990	37,621	65,611		29,475	30,361	59,836
Trade receivables	LaR	369,808	–	369,808	AC	359,706	–	359,706
Other receivables and other assets								
Derivative financial instruments	n. a.[3]	2,885	–	2,885	n. a.	3,155	–	3,155
Miscellaneous financial assets	LaR	29,366	7,213	36,579	AC	30,846	2,988	33,834
Miscellaneous financial assets	AfS	9,929	10,715	20,644	FVTPL	–	–	–
		42,180	17,928	60,108		34,001	2,988	36,989
Miscellaneous other assets		44,982	7,396	52,378		37,380	5,052	42,432
		87,162	25,324	112,486		71,381	8,040	79,421
Cash and cash equivalents	LaR	201,607	–	201,607	AC	215,015	–	215,015

[1] Notes on abbreviations for IAS 39 measurement categories:
AfS: available-for-sale financial assets
LaR: loans and receivables
n. a.: no IAS 39 measurement category

[2] Notes on abbreviations for IFRS 9 measurement categories:
FVOCI: financial assets at fair value through other comprehensive income
AC: financial assets/liabilities at amortized cost
FVTPL: financial assets at fair value through profit or loss
n. a.: no IFRS 9 measurement category

[3] As in the previous year, derivative financial instruments do not include short-term hedges assigned to the IFRS 9 measurement category 'financial assets at fair value through profit or loss' (previous year: IAS 39 measurement category of financial instruments held for trading).

Reconciliation > Equity and liabilities

Items in statement of financial position	IAS 39 measurement category[1]	Carrying amounts			IFRS 9 measurement category[2]	Carrying amounts		
				31-Mar-2018				**31-Mar-2019**
		Current	Non-current	Total		Current	Non-current	**Total**
Financial liabilities								
Corporate bond	FLaC	6,208	198,112	204,320	FLaC	4,533	145,776	150,309
Convertible bonds	FLaC	786	55,104	55,890	FLaC	57,574	–	57,574
Amounts due to banks	FLaC	22,563	147,328	169,891	FLaC	30,333	218,872	249,205
Liabilities from finance leases	n. a.	2,203	2,445	4,648	n. a.	2,053	1,793	3,846
Other financial liabilities	FLaC	3,271	–	3,271	FLaC	4,075	–	4,075
		35,031	402,989	438,020		98,568	366,441	465,009
Trade payables	FLaC	237,454	–	237,454	FLaC	245,389	–	245,389
Other liabilities								
Derivative financial instruments	n. a.[3]	3,465	–	3,465	n. a.	2,246	3,995	6,241
Miscellaneous financial liabilities	FLaC	91,040	435	91,475	FLaC	89,575	214	89,789
		94,505	435	94,940		91,821	4,209	96,030
Miscellaneous other liabilities		226,306	31,317	257,623		195,463	39,079	234,542
		320,811	31,752	352,563		287,284	43,288	330,572

[1] [2] Notes on abbreviations for IAS 39/IFRS 9 measurement categories:
FLaC: financial liabilities at amortized cost
n. a.: no IAS 39/IFRS 9 measurement category

[3] As in the previous year, derivative financial instruments do not include short-term hedges assigned to the IFRS 9 measurement category 'financial liabilities at fair value through profit or loss' (previous year: IAS 39 measurement category of financial instruments held for trading).

Liquidity risk from non-derivative financial liabilities

The following table shows the contractually agreed, undiscounted cash flows of non-derivative financial liabilities. The yield curves of the respective currencies valid as of the end of the reporting period were used to determine the variable interest payments from financial instruments. Where necessary, foreign currencies were translated at closing rates. Financial liabilities repayable on demand are always assigned to the earliest time band. Utilization of the syndicated credit facility is on a short-term basis. The period of utilization is normally not more than three months. These loans have therefore been assigned to the "Up to 1 year" column, although the agreements on which they are based run until the end of March 2023.

	31-Mar-2018	**31-Mar-2019**
Up to 1 year	382,665	455,978
Between 1 and 5 years	458,089	408,916
More than 5 years	37,117	9,664
	877,871	**874,558**

Net gains and losses

The net gains and losses are assigned to the IAS 39/IFRS 9 measurement categories as follows:

	2017/2018 (IAS 39)	**2018/2019 (IFRS 9)**
Available-for-sale financial assets	258	–
Loans and receivables	– 3,468	–
Financial liabilities at amortized cost	– 35,066	– 36,651
Financial assets at fair value through profit or loss	–	391
Financial investments in equity instruments at fair value through other comprehensive income	–	7
Financial assets at amortized cost	–	– 6,091

Net gains and losses include € 3,236 thousand (previous year: € 3,963 thousand) of interest income and € 36,651 thousand (previous year: € 36,167 thousand) of interest expenses for financial assets and financial liabilities measured at amortized cost.

The derecognition of financial assets measured at amortized cost gave rise to gains and losses of € 0 thousand and € 850 thousand respectively in the reporting period.

In the reporting year, securities with a fair value of € 17 thousand were sold essentially for business policy reasons in light of their performance. This gave rise to a loss of € 14 thousand.

Derivative financial instruments

The Corporate Treasury department of Heidelberger Druckmaschinen Aktiengesellschaft is responsible for all hedging and financing activities of Heidelberger Druckmaschinen Aktiengesellschaft and our subsidiaries. It is also responsible for the cash pooling operations of our Group as a whole. Within the Corporate Treasury department, we ensure that there is both a functional and a physical separation of the trading, processing and risk control activities, and that this is regularly reviewed by our Internal Audit department.

The prerequisite for an adequate risk management system is a well-founded database. The Corporate Treasury department of Heidelberger Druckmaschinen Aktiengesellschaft operates a Group-wide financial reporting system – the Treasury Information System. This system is used to identify interest rate, currency and liquidity risks within the Group and to derive appropriate action plans and strategies with which to manage these risks on a central basis in line with guidelines issued by the Management Board.

Heidelberg operates a monthly, annualized consolidated liquidity planning system on a rollover basis, which makes it possible to manage current and future liquidity needs in a timely manner

The Heidelberg Group is exposed to market price risks in the form of interest rate and exchange rate fluctuations. In general, derivative financial instruments are used to limit these risks. Corresponding contracts with third-party banks are mainly concluded through Heidelberger Druckmaschinen Aktiengesellschaft. The credit ratings of these business partners are reviewed regularly. The risk control activities include an ongoing market evaluation of contracted transactions.

In hedge accounting, the derivative financial instruments designated as a hedge of these currency risks and of interest rate risks are shown as follows:

The derivative financial instruments designated as hedges are reported in the statement of financial position under other receivables and other assets/other liabilities.

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

	Nominal volumes		Fair values	
	31-Mar-2018	**31-Mar-2019**	31-Mar-2018	**31-Mar-2019**
Currency hedging				
Cash flow hedge				
Forward exchange transactions	245,929	155,582	– 537	– 1,061
of which: assets	67,243	56,334	1,369	883
of which: liabilities	178,686	99,248	– 1,906	– 1,943
Fair value hedge				
Forward exchange transactions	237,361	261,307	– 43	1,970
of which: assets	124,590	190,838	1,516	2,272
of which: liabilities	112,771	70,469	– 1,559	– 303
Interest rate hedging				
Cash flow hedge				
Interest rate swap	–	31,234	–	– 3,996
of which: assets	–	–	–	–
of which: liabilities	–	31,234	–	– 3,996

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

The following table shows the contractually agreed, undiscounted incoming and outgoing payments for derivative financial instruments. The yield curves of the respective currencies valid as of the end of the reporting period were used to determine the variable interest payments from financial instruments. Where necessary, foreign currencies were translated at closing rates.

	31-Mar-2018				31-Mar-2019			
	Up to 1 year	Between 1 and 5 years	More than 5 years	Total undis-counted cash flows	Up to 1 year	Between 1 and 5 years	More than 5 years	Total undis-counted cash flows
Derivative financial liabilities								
Outgoing payments	–293,576	–	–	–293,576	–172,871	–2,695	–	–175,566
Associated incoming payments	293,303	–	–	293,303	168,692	–	–	169,692
Derivative financial assets								
Outgoing payments	–193,580	–	–	–193,580	–246,984	–	–	–246,984
Associated incoming payments	196.504	–	–	196,504	250,344	–	–	250,344

Currency hedging

Hedging strategy

CURRENCY RISKS arise in particular as a result of exchange rate fluctuations in connection with net risk positions in foreign currency. These occur for receivables and liabilities, anticipated cash flows and onerous contracts. The highly probable underlying transactions to be hedged are always fully designated. The extent of the risk hedged is equal to the nominal volume shown in the table on page 123. Only forward exchange transactions are used as hedging instruments at this time. Hedge effectiveness is calculated using the critical terms match method. Only the spot component of the hedging transaction is designated. Only discontinued hedged items can lead to ineffectiveness in this respect.

The forward exchange transactions outstanding as of the end of the reporting period of € 155,582 thousand essentially hedge highly likely currency risks expected from purchase volumes of our subsidiaries over the next 12 months. Therefore, the remaining term of these derivatives at the end of the reporting period was up to one year. As of the end of the reporting period, a net volume of € 112,303 thousand from hedges relates to the Swiss franc and a net volume of € 37,306 thousand relates to US-Dollar.

The average hedging rate for these transactions was CHF 1.13/EUR and USD 1.15/EUR.

Cash flow hedge

The underlying transactions hedged against currency risks as part of cash flow hedges and recognised in the cash flow hedge reserve relate exclusively to active hedges amounting to € –1,232 thousand at the end of the reporting period.

In connection with the hedging of currency risks, the non-designated portion of cash flow hedges resulted in an expense of € 1,175 thousand in the reporting year, which was reported under financial result.

As of the end of the reporting period, hedges resulted in total assets of € 883 thousand (previous year: € 1,369 thousand) and liabilities of € 1,943 thousand (previous year: € 1,906 thousand). The change in value of the designated portion of the hedge was recognized outside profit and loss and will be recognized in income from operating activities over the subsequent 12 months. As the forecast purchasing volumes of our subsidiaries are no longer highly likely, no cash flow hedges were terminated early and no expenses were transferred from the hedge reserve to the financial result (previous year: € 0 thousand).

Fair value hedge

This is essentially the exchange rate hedge for loan receivables and liabilities in foreign currencies within the Group. The net results on the fair value of hedges of € 9,429 thousand (previous year: € – 14,126 thousand) and the translation of hedged items at closing rates of € 9,327 thousand (previous year: € 13,905 thousand) are reported in the consolidated income statement.

In connection with the hedging of currency risks, the non-designated portion of fair flow hedges resulted in an expense of € 1,093 thousand in the reporting year, which was reported under financial result.

Interest rate hedging

INTEREST RATE RISKS generally occur for floating rate refinancing transactions. Typically only variable interest payments are designated as hedged items. Other risk components are disregarded. The extent of the risk hedged is equal to the nominal volume shown in the table above. Only interest rate swaps are used as hedging instruments at this time. Hedge effectiveness is calculated using the critical terms match method. The interest payments of the hedged items are fully hedged. Ineffectiveness can arise, for example, if different interest calculation methods or interest periods are used.

Cash flow hedge

The Heidelberg Group limits the risk from increasing interest expenses for refinancing by using interest rate swaps, under which Heidelberg receives variable-rate interest and pays fixed interest (payer interest rate swap). In connection with the purchase/sale of the research and development center in Heidelberg in the first quarter of the reporting year, in addition to a loan, an interest rate swap of the same nominal amount was entered into to hedge against rising interest rates. As of the end of the reporting period, the interest rate swap had a nominal volume of € 31,234 thousand, a remaining term of three years and a negative fair value of € 3,996 thousand (previous year: € 0 thousand). The hedging interest rate is 4.39 %. € 296 thousand has been recognized in other comprehensive income and will be reclassified to net finance costs over the term of the hedge. No cash flow hedges of interest rate risk were terminated early in the reporting year and no hedge reserve expenses were reclassified to financial result (previous year: € 0 thousand).

The underlying transactions hedged against interest rate risks as part of cash flow hedges and recognised in the cash flow hedge reserve relate exclusively to active hedges amounting to € 296 thousand at the balance sheet date.

The reserve for cash flow hedges developed as follows in relation to the hedging of currency and interest rate risks:

	2018/2019
As of April 1	– 1,952
Effective portion of changes in value	
Currency risks	– 1,642
Interest rate risks	296
Reclassification to the income statement due to the recognition of the hedged item	
Currency risks	2,541
Interest rate risks	–
Reclassification to the income statement due to non-occurrence of expected cash flows	
Currency risks	–
Interest rate risks	–
Tax effect from the change in reserves	– 179
As of March 31	– 936

Sensitivity analysis

In order to clearly show the effects of currency and interest rate risks on the consolidated income statement and the equity, the impact of hypothetical changes in exchange rates and interest is shown below in the form of sensitivity analyses. It is assumed here that the position at the end of the reporting period is representative for the financial year.

Recognized CURRENCY RISKS as defined by IFRS 7 are caused by monetary financial instruments not in the functional currency. The portfolio of primary monetary financial instruments is mainly held directly in the functional currency or transferred to the functional currency through the use of derivatives. It is therefore assumed in this analysis that changes in exchange rates show no influence on income or equity with regard to this portfolio. The impact of the translation of the subsidiaries' financial statements into the Group currency (translation risk) is not taken into account either. Accordingly, the analysis includes those derivative financial instruments that were concluded in order to hedge highly probable future cash flows in a foreign currency (cash flow hedge). Assuming a 10 percent increase in the value of the euro against all currencies in which hedges are held, the hedge reserve would have been € 4,174 thousand (previous year: € 2,595 thousand) higher as of the end of the reporting period and the financial result would have been € 32 thousand lower (previous year: € 9 thousand higher). Assuming a 10 percent decrease in the value of the euro, the hedge reserve would have been € 5,102 thousand (previous year: € 3,172 thousand) lower and the financial result would have been € 39 thousand higher (previous year: € 11 thousand lower).

In accordance with IFRS 7, recognized INTEREST RATE RISKS of the Heidelberg Group must also be shown. These are partly due to the portion of primary floating rate financial instruments that were not hedged through the use of derivative financial instruments within cash flow hedges. In addition, a hypothetical change in market interest rates with regard to derivative financial instruments would result in changes to the hedge reserve in the cash flow hedge. However, fixed-income financial instruments carried at amortized cost and floating rate financial instruments hedged within cash flow hedges are not subject to any recognized interest rate risk.

These financial instruments are therefore not taken into account. Assuming an increase of 100 basis points in the market interest rate across all terms, the hedge reserve would have been € 798 thousand higher (previous year: € 0 thousand) as of the end of the reporting period and the financial result would have been € 327 thousand (previous year: € 1,096 thousand) higher. Assuming a decrease of 100 basis points in the market interest rate across all terms, the hedge reserve would have been € 824 thousand lower (previous year: € 0 thousand) and the financial result would have been € 327 thousand (previous year: € 1,096 thousand) lower.

Risk of default

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

Fair values of securities, loans and derivative financial instruments

Financial assets and financial liabilities are allocated to the three levels of the fair value hierarchy as set out in IFRS 13 depending on the availability of observable market data.

The individual levels are defined as follows:

- LEVEL 1: Financial instruments traded on active markets whose quoted prices can be used to measure fair value without adjustment.
- LEVEL 2: Measurement on the basis of measurement procedures whose inputs are derived from observable market data, either directly or indirectly.
- LEVEL 3: Measurement on the basis of measurement procedures whose inputs are not derived from observable market data.

Securities are classified as financial assets at fair value through other comprehensive income and recognized at fair value. This classification was chosen in accordance with the strategic orientation of these financial investments. The underlying quoted prices for the measurement of the vast majority of securities correspond to level 1 of the fair value hierarchy set out in IFRS 13, as only quoted prices observed on active markets are used in measurement. If the fair value of securities cannot be reliably determined, they are carried at cost.

The fair values of derivative financial instruments correspond to changes in value arising from a notional revaluation taking into consideration market parameters applicable at the end of the reporting period. The fair values are calculated using standardized measurement procedures (discounted cash flow and option pricing models). This corresponds to level 2 of the fair value hierarchy set out in IFRS 13, as only input data observable on the market, such as exchange rates, exchange rate volatilities and interest rates, is used.

The loans allocated in the previous year to the third level of the fair value hierarchy set out in IFRS 13 relate to a fixed-income cash investment classified as a financial asset that was made by Heidelberger Druckmaschinen Aktiengesellschaft in August 2016 and was fully repaid in the reporting period.

The financial assets and financial liabilities recognized at fair value were assigned to the IFRS 13 fair value hierarchy as follows on March 31, 2019:

	31-Mar-2018				**31-Mar-2019**			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	**Total**
Securities	3,412	–	–	3,412	3,062	–	–	3,062
Loans	–	–	20,644	20,644	–	–	–	–
Derivative financial assets	–	2,885	–	2,885	–	3,155	–	3,155
Assets carried at fair value	**3,412**	**2,885**	**20,644**	**26,941**	**3,062**	**3,155**	–	**6,217**
Derivative financial liabilities	–	3,465	–	3,465	–	6,241	–	6,241
Liabilities carried at fair value	**–**	**3,465**	**–**	**3,465**	–	**6,241**	–	**6,241**

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

The carrying amount of the financial asset allocated to the third level of the measurement hierarchy set out in IFRS 13 as of March 31, 2019 (€ 0 thousand), is reconciled as follows:

Carrying amount as of April 1, 2018 (€ 20,644 thousand), disposal (€ 21,933 thousand), other changes recognized through profit or loss (€ 1,289 thousand).

Offsetting financial assets and financial liabilities

For Germany, the following table shows the carrying amounts of the recognized derivative financial instruments subject to master netting agreements and the offsetting between trade receivables and payables:

	Gross amount	Offsetting implemented	Reported net amount	Amounts not offset	Net amount
31-Mar-2018					
Derivative financial instruments (assets)	2,885	–	2,885	–1,090	1,795
Trade receivables	370,813	–1,005	369,808	–	369,808
Derivative financial instruments (liabilities)	3,465	–	3,465	–1,090	2,375
Trade payables	238,459	–1,005	237,454	–	237,454
31-Mar-2019					
Derivative financial instruments (assets)	3,155	–	3,155	–1,018	2,137
Trade receivables	361,106	–1,400	359,706	–	359,706
Derivative financial instruments (liabilities)	6,241	–	6,241	–1,018	5,223
Trade payables	246,784	–1,400	245,384	–	245,384

32 Guarantees and contingent liabilities

Contingent liabilities from warranties and guarantees, amounting to € 5,726 thousand as of March 31, 2019 (previous year: € 6,726 thousand), comprise among others reciprocal liability and buyback obligations for third-party liabilities in connection with long-term sales financing, which in turn largely correspond to rights of recourse on the delivered products.

The contingent liabilities in connection with legal disputes are immaterial.

33 Other financial liabilities

Other financial liabilities break down as follows:

				31-Mar-2018				**31-Mar-2019**
	Up to 1 year	Between 1 and 5 years	More than 5 years	Total	Up to 1 year	Between 1 and 5 years	More than 5 years	**Total**
Lease obligations	28,889	60,951	7,014	96,854	23,302	42,190	6,655	72,147
Investments and other purchasing commitments	32,116	13,367	–	45,483	18,048	8,230	0	26,278
	61,005	**74,318**	**7,014**	**142,337**	**41,350**	**50,420**	**6,655**	**98,425**

The figures shown are nominal values.

The lease obligations comprise primarily the following minimum lease payments for operating leases:

- the administrative building in Tokyo, Japan in the amount of € 10.010 thousand (previous year: € 12,090 thousand);
- the administrative building in Kennesaw, USA, in the amount of € 10.824 thousand (previous year: € 11,828 thousand);
- the administrative building in Brussels, Belgium, in the amount of € 4.830 thousand (previous year: € 5,050 thousand);
- the administrative and production building in Durham, USA, in the amount of € 2.710 thousand (previous year: € 4,665 thousand) and
- motor vehicles with a total value of € 20,449 thousand (previous year: € 25,528 thousand).

Investments and other purchasing commitments are essentially financial liabilities in connection with orders of property, plant and equipment and obligations for the purchase of raw materials, consumables and supplies.

Future payments for other financial liabilities are partially offset by future incoming payments for license agreements.

Additional information

34 Earnings per share in accordance with IAS 33

	2017/2018	**2018/2019**
Net result after taxes (€ thousands)	13,565	20,875
Number of shares in thousands (weighted average)	273,429	279,227
Basic earnings per share (€)	0.05	0.07
Diluted earnings per share (€)	0.05	0.07

The basic earnings per share are calculated by dividing the net result after taxes by the weighted average number of the shares outstanding in the reporting year of 279,227 thousand (previous year: 273,429 thousand). The weighted number of shares outstanding was influenced by the cash capital increase (see note 25) and the holdings of treasury shares. As in the previous year, there were still 142,919 treasury shares as of March 31, 2019.

The calculation of diluted earnings per share assumes conversion of outstanding debt securities (convertible bond) to shares. The convertible bond is only included in the calculation of diluted earnings per share when it has a diluting effect in the respective reporting period.

Taking into account the corresponding number of shares from the convertible bond, there is no dilution of earnings per share, as the net result for the period – as well as in previous year – is adjusted for the interest expense recognized in the financial result for the convertible bonds. In the future, such instruments may have a fully dilutive effect.

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

	2018/2019	
	Potentially dilutive financial instruments (total)	Dilutive financial instruments applied in calculation
Numerator for basic earnings (€ thousands)	**20,875**	**20,875**
Plus effects from the convertible bond recognized in profit or loss (€ thousands)	4,760	0
Numerator for diluted earnings (€ thousands)	**25,634**	**20,875**
Number of shares (thousands)		
Denominator for basic earnings per share (weighted average number of shares, thousands)	**279,227**	**279,227**
Convertible bond	18,840	0
Denominator for diluted earnings per share (thousands)	**–**	**279,227**
Denominator for potentially diluted earnings per share (thousands)	**298,067**	**–**
Basic earnings per share (€)	–	0.07
Diluted earnings per share (€)	–	0.07

35 Information on the consolidated statement of cash flows

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

€ 32,770 thousand (previous year: € 30,754 thousand) of investments in intangible assets, property, plant and equipment and investment property relate to intangible assets, € 92,117 thousand (previous year: € 83,813 thousand) to property, plant and equipment. Investments do not include additions from finance leases of € 1,648 thousand (previous year: € 1,343 thousand). € 96 thousand (previous year: € 90 thousand) of income from the disposal of intangible assets, property, plant and equipment and investment property relates to intangible assets and € 20,655 thousand (previous year: € 9,781 thousand) to property, plant and equipment.

The payments from operating leases in which Heidelberg is the lessee are shown in the consolidated statement of cash flows under operating activities. The repayment portion of lease installments for finance leases in which Heidelberg is the lessee is reported under financing activities. The interest portion of lease installments is shown under operating activities.

Payments received from operating and finance leases in which Heidelberg is the lessor are reported under changes in cash from operating activities.

The carrying amounts of the collateral pledged in connection with the loan agreements as part of a collateral pool concept are shown under the appropriate notes. Please see note 28 for information on the unutilized credit lines.

Cash and cash equivalents include cash and cash equivalents only (€ 205,015 thousand; previous year: € 201,607 thousand). For foreign exchange restrictions please see note 24.

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

36 Information on segment reporting

	Heidelberg Digital Technology		Heidelberg Lifecycle Solutions 1)		Heidelberg Financial Services		**Heidelberg Group**	
	1-Apr-2017 to 31-Mar-2018 2)	**1-Apr-2018 to 31-Mar-2019**	1-Apr-2017 to 31-Mar-2018 2)	**1-Apr-2018 to 31-Mar-2019**	1-Apr-2017 to 31-Mar-2018	**1-Apr-2018 to 31-Mar-2019**	1-Apr-2017 to 31-Mar-2018 2)	**1-Apr-2018 to 31-Mar-2019**
External sales	1,465,144	1,534,840	950,872	951,386	4,138	4,266	2,420,154	2,490,492
EBITDA excluding restructuring result 3) (segment result)	45,420	53,417	123,279	122,244	3,064	4,333	171,763	179,994
Depreciation and amortization excluding depreciation and amortization due to restructuring 4)	49,961	62,137	17,550	16,385	820	633	68,331	79,155
EBIT excluding restructuring result	–4,541	–8,720	105,729	105,859	2,244	3,700	103,432	100,839
Non-cash expenses	138,356	181,031	46,956	48,882	2,703	2,588	188,015	232,501

1) Until March 31, 2018: Heidelberg Digital Business and Services
2) Figures for the previous year were adjusted
3) Result of operating activities before interest, taxes, depreciation and amortization, excluding restructuring result
4) Depreciation and amortization including impairment

In the Heidelberg Group, segments are defined by the services performed by the divisions. The segments are based on internal reporting in line with the MANAGEMENT APPROACH.

As part of the digital transformation process, the Company's segments were reorganized as of April 1, 2018. The previous Heidelberg Digital Technology and Heidelberg Digital Business and Services segments were restructured; the Heidelberg Financial Services segment remains unchanged. The Heidelberg Group's structure has since been broken down in line with the internal organizational and reporting structure into the segments Heidelberg Digital Technology, Heidelberg Lifecycle Solutions and Heidelberg Financial Services. Heidelberg Digital Technology comprises the sheetfed offset, the label printing, the postpress and the digital printing business. The Lifecycle business (services, consumables), Software Solutions and Heidelberg Platforms (offerings outside the print media industry) are bundled in the Heidelberg Lifecycle Solutions segment. The Heidelberg Financial Services segment continues to comprise sales financing business. The figures of the previous year were adjusted accordingly. In the period from April 1, 2017, to March 31, 2018, there was accordingly a € 149,964 thousand reduction in sales for the Heidelberg Lifecycle Solutions segment and a € 29,623 thousand increase in EBITDA excluding restructuring result. Further information on the business activities, products and services of the individual segments can be found in note 8 in the chapters "Management and control" and "Segments and business units" in the Group management report.

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

Further information on the business areas can be found in the chapters "Segment report" and "Report on the regions" in the Group management report. Transfer prices for internal Group sales are determined using a market-driven approach, based on the principle of dealing at arm's length.

Notes on segment data

Segment performance is measured on the basis of EBITDA excluding restructuring result – the result of operating activity before interest, taxes and depreciation and amortization excluding restructuring result.

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

Inter-segment sales are of minor financial significance.

The segment result is transitioned to the net result before taxes as follows:

	1-Apr-2017 to 31-Mar-2018	**1-Apr-2018 to 31-Mar-2019**
EBITDA excluding restructuring result (segment result)	171,763	179,994
Depreciation and amortization excluding depreciation and amortization due to restructuring	68,331	79,155
EBIT excluding restructuring result	103,432	100,839
Restructuring result	– 16,315	– 19,800
Result of operating activities	87,117	81,039
Financial income	4,583	5,995
Financial expenses	52,560	54,896
Financial result	– 47,977	– 48,901
Net result before taxes	**39,140**	**32,138**

Information by region

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

	Heidelberg Digital Technology		Heidelberg Lifecycle Solutions[1]		Heidelberg Financial Services		**Heidelberg Group**	
	1-Apr-2017 to 31-Mar-2018	**1-Apr-2018 to 31-Mar-2019**	1-Apr-2017 to 31-Mar-2018	**1-Apr-2018 to 31-Mar-2019**	1-Apr-2017 to 31-Mar-2018	**1-Apr-2018 to 31-Mar-2019**	1-Apr-2017 to 31-Mar-2018	**1-Apr-2018 to 31-Mar-2019**
Europe, Middle East and Africa								
Germany	237,564	249,146	125,111	126,663	2,271	2,300	364,946	378,110
Other Europe, Middle East and Africa region	424,725	378,396	294,958	293,641	244	287	719,927	672,323
	662,289	627,542	420,069	420,304	2,515	2,587	1,084,873	1,050,433
Asia/Pacific								
China	206,035	279,130	48,380	45,307	7	18	254,422	324,454
Other Asia/Pacific region	197,662	207,081	155,894	154,074	1,538	1,451	355,094	362,607
	403,697	486,211	204,274	199,381	1,545	1,469	609,516	687,061
Eastern Europe	156,777	135,616	108,048	106,168	37	135	264,862	241,919
North America								
USA	166,841	187,018	139,356	146,975	15	13	306,212	334,006
Other North America region	41,012	42,157	51,658	51,207	–	18	92,670	93,382
	207,853	229,175	191,014	198,182	15	31	398,882	427,388
South America	34,528	56,296	27,467	27,351	26	44	62,021	83,691
	1,465,144	**1,534,840**	**950,872**	**951,386**	**4,138**	**4,266**	**2,420,154**	**2,490,492**

[1] Until March 31, 2018: Heidelberg Digital Business and Services

Of the non-current assets, which comprise intangible assets, property, plant and equipment and investment property, € 634,802 thousand (previous year: € 562,780 thousand) relate to Germany and € 203,838 thousand (previous year: € 235,521 thousand) to other countries.

37 Capital management

In the context of implementing the holistic management approach, it is the task of capital management to provide the best possible support in the attainment of the Heidelberg Group's goals. The focus here is on ensuring liquidity and creditworthiness and increasing the enterprise value of the Heidelberg Group on an ongoing basis. We calculate the value contribution for a reporting period, the benchmark used for this, as the net total of return on capital employed (ROCE) and capital costs (see Group management report, page 38). The value contribution can be seen as the profit remaining after deducting the capital costs for the capital employed in the reporting period. If the value contribution is positive, the Heidelberg Group has earned more than its capital costs. The following capital structure is used to calculate the cost of capital:

	2017/2018	**2018/2019**
Equity	340,914	399,397
Net deferred taxes	59,919	71,439
Adjusted equity	**280,995**	**327,958**
Annual average	263,532	304,477
Pension provisions	523,445	582,159
Tax provisions	58,972	61,454
Net tax receivables/liabilities	7,203	12,416
Non-operating financial liabilities	423,720	450,884
Liabilities	**1,013,340**	**1,106,913**
Annual average	1,016,165	1,060,127
Adjusted total capital	**1,294,335**	**1,434,871**
Annual average	1,279,696	1,364,603

For the Heidelberg Group, capital management prioritizes reducing the commitment of capital, strengthening the equity and securing liquidity. In the year under review, the equity of the Heidelberg Group increased from € 340,914 thousand to € 399,397 thousand. Based on total assets, the equity ratio is higher than in the previous year's level at 17.2 percent (previous year: 15.1 percent).

As a result of the negative free cash flow in the year under review, net debt of € 249,994 thousand was higher than previous year at € 236,413 thousand. The net debt is total financial liabilities less cash and cash equivalents and current securities.

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

As of March 31, 2019, the financing of the Heidelberg Group mainly consists of an unsecured corporate bond with a maturity of seven years in a nominal amount of € 150 million (corporate bond), a promotional loan from the European Investment Bank of € 100 million with a staggered maturity until March 2024, a convertible bond totaling € 58.6 million with a maturity of seven years (convertible bond), a development loan of € 42.1 million maturing in September 2024 arranged with a syndicate of banks refinanced by KfW, a loan of around € 32.5 million maturing by March 2022 assumed in connection with the purchase/sell of the research and development center in Heidelberg, a loan of € 25.7 million borrowed in May 2017 and maturing at the end of June 2027, and a revolving credit facility with a banking syndicate totaling around € 320 million with a maturity until March 2023.

The financing agreements for the revolving credit facility, the European Investment Bank loan and other significant loans contain standard financial covenants regarding the financial situation of the Heidelberg Group. Two of the key performance indicators relate to the Heidelberg Group's equity and cash funds. The minimum required liquidity of € 80 million is significantly less than the cash available in recent financial years.

Heidelberg's financing structure is thus well-balanced with regard to the diversification of instruments and the maturity profile. For further details regarding the financing instruments, please refer to note 28.

38 Declaration of compliance in accordance with section 161 AktG

The Management Board and the Supervisory Board of Heidelberger Druckmaschinen Aktiengesellschaft issued the declaration of compliance in accordance with Section 161 of the German Stock Corporation Act (AktG) and made it permanently accessible to the shareholders on the website WWW.HEIDELBERG.COM under Company > About Us > Corporate Governance. Earlier declarations of compliance are also permanently available here.

39 Executive bodies of the Company

The basic characteristics of the compensation system and amounts of compensation for the members of the Management Board and Supervisory Board are presented in the remuneration report. The compensation report is part of the Group management report (see pages 54 to 60) and the corporate governance report.

The members of the Supervisory Board and the Management Board are listed in the separate overview presented on pages 150 to 151 (Supervisory Board) and 152 (Management Board).

MEMBERS OF THE MANAGEMENT BOARD: The total cash compensation (= total compensation) in accordance with HGB amounts to € 4,653 thousand (previous year: € 5,072 thousand), comprising the fixed compensation including fringe benefits of € 1,928 thousand (previous year: € 1,940 thousand), one-year variable compensation of € 1,695 thousand (previous year: € 1,669 thousand) and multi-year variable compensation of € 1,030 thousand (previous year: € 1,463 thousand).

The multi-year variable compensation includes € 466 thousand (previous year: € 666 thousand) for the fair value calculated as of the grant date for the total shareholder return (cash-settled share-based compensation); this is not distributed over the performance period (three years).

The total compensation according to IFRS of € 4,872 thousand (previous year: € 5,771 thousand) relates to short-term benefits of € 3,623 thousand (previous year: € 3,609 thousand), post-employment benefits of € 666 thousand (previous year: € 650 thousand), other long-term benefits of € 939 thousand (previous year: € 1,075 thousand), termination benefits of € 0 thousand (previous year: € 0 thousand) and share-based payments of € -356 thousand (income; previous year: € 437 thousand expenses). In accordance with IFRS, total compensation includes the fair value of the claim to share-based payment earned in the respective financial year in the form of cash settlement; this means that, given a three-year vesting period, in each case the respective fair value is recognized in profit or loss over three years from the grant year. No pre-emption rights or options were granted. Rather, cash settlement was granted depending on the development of the price of Heidelberger Druckmaschinen Aktiengesellschaft shares.

From the 2017/2018 financial year, the multi-year variable compensation granted is determined according to two benchmarks: earnings before taxes (EBT) according to the IFRS consolidated income statement and total shareholder return (TSR). The targets for these two benchmarks, the respective thresholds and the maximum overfulfillment are all defined at the beginning of the relevant three-year period (performance period). Half the multi-year variable compensation is attributable to each benchmark, i. e. 45 percent of the fixed annual compensation in the event of 100 percent fulfillment of the targets for each of the relevant benchmarks. Overfulfillment of a benchmark is recognized and can at most result in a doubling of the attributable multi-year variable target compensation. Both benchmarks are associated with an objective fulfillment threshold that must be reached in order for the multi-year variable compensation for the benchmark in question to be paid out. However, overfulfillment of a benchmark can only increase the multi-year variable compensation if the other benchmark reaches at least the threshold. The basis for target measurement for the total shareholder return is the long-term expected return (Heidelberg share price increases) during the performance period. The baseline value for each performance period is determined at the beginning of the first financial year of the performance period. The achievement of objectives is checked and ascertained at the end of each three-year period. The multi-year variable compensation is paid out at the end of the month in which the Annual General Meeting – after the end of the final financial year of the three-year period – resolves on the appropriation of the net result. For the multi-year variable compensation, achievement of the relevant threshold results in a payout amounting to 25 percent of the amount that would be payable in the event of 100 percent objective fulfillment. If the objective attainment lies between the threshold and the defined objective, the payout is determined by linear interpolation. If overfulfillment is to be recognized, the amount of the payout is either determined as a percentage according to the degree of overfulfillment or – if a maximum recognizable value for overfulfillment has been defined – by linear interpolation between the objective and the maximum recognizable value. In the event of a member joining or leaving within an ongoing performance period, that member has a pro rata temporis claim to any multi-year variable compensation determined after the end of the performance period. In the event of a member leaving, pro rata temporis multi-year variable compensation is calculated for the performance periods still ongoing at this time on the basis of the determination of goals as of the exit date, which is then frozen. There is a special rule for the three-year period 2017/2018 to 2019/2020. The amount resulting according to the previous rule from the objective already set for the first portion of the multi-year variable compensation of financial year 2017/2018 (2017/2018 tranche) and the related evaluation with regard to the (proportional) target compensation of no more than 30 percent of the fixed annual compensation is, in the event of the agreed achievement of objectives, counted towards this new rule and paid out after the end of the three-year period in the 2019/2020 financial year.

This was measured on the basis of the above special rule assuming an achievement rate of 30% as of March 31, 2019.

This share-based payment is measured using a Monte Carlo simulation. This simulates the log-normal processes for the price of Heidelberger Druckmaschinen Aktiengesellschaft to establish an average share price at the end of the respective performance period. Depending on the total shareholder return, a percentage of the target value to be paid out is calculated using the TSR performance matrix.

The fair value for the 2018 to 2020 performance period was € 56 thousand in total (previous year: € 714 thousand) as of March 31, 2019. The underlying measurement parameters used to calculate the fair value as of March 31, 2019 are as follows: risk-free continuous zero interest rates: end of performance period: – 0.62 percent (previous year: – 0.61 percent) and payout date: – 0.63 percent (previous year: – 0.57 percent); interest rates based on the yield curve for government bonds; dividend payments as the arithmetic mean, based on publicly available estimates for the years 2019 and 2020; historic volatility based on closing prices for Heidelberger Druckmaschinen Aktiengesellschaft shares: 42.79 percent (previous year: 32.68 percent).

The fair value for the 2019 to 2021 performance period was € 50 thousand in total as of March 31, 2019. The underlying measurement parameters used to calculate the fair value as of March 31, 2019 are as follows: risk-free continuous zero interest rates: end of performance period: – 0.63 percent and payout date: – 0.62 percent; interest rates based on the yield curve for government bonds; dividend payments as the arithmetic mean, based on publicly available estimates for the years 2019 and 2020; historic volatility based on closing prices for Heidelberger Druckmaschinen Aktiengesellschaft shares: 37.97 percent.

As of March 31, 2019, Heidelberger Druckmaschinen Aktiengesellschaft had recognized provisions and liabilities for the compensation of active members of the Management Board with short-term benefits of € 1,724 thousand (previous year: € 1,669 thousand), post-employment benefits of € 4,966 thousand (previous year: € 4,153 thousand), other long-term benefits of € 2,130 thousand (previous year: € 1,904 thousand) and share-based payments of € 80 thousand (previous year: € 437 thousand).

No loans or advances were granted in the reporting period; the Heidelberg Group has not undertaken any contingent liabilities.

FORMER MEMBERS OF THE MANAGEMENT BOARD AND THEIR SURVIVING DEPENDENTS: The total cash compensation (= total compensation) amounts to € 3,142 thousand (previous year: € 3,574 thousand), comprising € 885 thousand (previous year: € 903 thousand) in obligations to former members of the Management Board and their surviving dependents of Linotype-Hell Aktiengesellschaft, which were assumed in the financial year 1997/1998 under the provisions of universal succession. As in the previous year, no share options were held as of the end of the reporting period. The pension obligations (defined benefit obligations as per IFRS) amounted to € 51,017 thousand (previous year: € 51,146 thousand); € 8,021 thousand (previous year: € 8,186 thousand) of which relating to pension obligations of the former Linotype-Hell Aktiengesellschaft, which were assumed in the 1997/1998 financial year under the provisions of universal succession.

MEMBERS OF THE SUPERVISORY BOARD: For the year under review, fixed annual compensation plus an attendance fee of € 500 per meeting day and compensation for sitting on the Management Committee, the Audit Committee and the Committee on Arranging Personnel Matters were granted, totaling € 770 thousand (previous year: € 754 thousand). Two members of the Supervisory Board received fixed compensation totalling € 24 thousand (previous year: € 53 thousand) for their activities on the Board of Directors of foreign subsidiaries. This compensation does not include VAT. Furthermore, members of the Supervisory Board who are employees in a company of the Heidelberg Group receive an activity-related standard market compensation. No loans or advances were granted to members of the Supervisory Board in the reporting period; the Heidelberg Group has not undertaken any contingent liabilities for Supervisory Board members.

40 Related party transactions

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

In the reporting year, transactions were carried out with related parties that resulted in liabilities of € 4,120 thousand (previous year: € 3,436 thousand), receivables of € 3,676 thousand (previous year: € 4,397 thousand), expenses of € 4,071 thousand (previous year: € 3,940 thousand) and income of € 8,191 thousand (previous year: € 6,312 thousand), which essentially includes net sales. Write-downs of € 334 thousand were recognized on receivables from related parties in the reporting year (previous year: € 309 thousand). All transactions were concluded at standard market terms and did not differ from trade relationships with other companies.

41 Exemption under section 264 (3) and section 264 b of the German Commercial Code

The following subsidiaries exercised the exemption provisions of Sections 264 (3) and 264 b of the Handelsgesetzbuch (HGB – German Commercial Code) with regard to the preparation and disclosure of financial statements in the period under review:

- docufy GmbH, Bamberg [1)]
- Gallus Druckmaschinen GmbH, Langgöns-Oberkleen [1), 2)];
- Heidelberg Boxmeer Beteiligungs-GmbH, Wiesloch [1)];
- Heidelberg China-Holding GmbH, Wiesloch [1)];
- Heidelberg Consumables Holding GmbH, Wiesloch [1)];
- Heidelberger Druckmaschinen Vertrieb Deutschland GmbH, Wiesloch [1), 2)];
- Heidelberg Manufacturing Deutschland GmbH, Wiesloch [1), 2)];
- Heidelberg Postpress Deutschland GmbH, Wiesloch [1), 2)];
- Heidelberg Print Finance International GmbH, Wiesloch [3)];
- Hi-Tech Coatings Deutschland GmbH, Wiesloch [1)].

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

42 Auditor's fees

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

	2017/2018	**2018/2019**
Fees for		
Audits of financial statements	1,226	1,147
Other assurance services	36	117
Tax advisory services	–	–
Other services	–	–
	1,262	**1,264**

Material other assurance services for Heidelberger Druckmaschinen Aktiengesellschaft provided by the auditor relate to services with regard to the non-financial report, the German Securities Trading Act (WpHG), energy industry law and the capital increase.

43 Events after the end of the reporting period

On May 7, 2019, the German Federal Cartel Office announced its decision not to allow the planned acquisition of the MBO Group by Heidelberger Druckmaschinen Aktiengesellschaft. As a result of this decision, the acquisition will not go ahead; the two companies will continue to operate separately and independently from one another as before. Heidelberg had announced its intention to acquire the MBO Group in October 2018 and had signed an agreement with the owner family. This was then reported to the Federal Cartel Office for approval and has been under review since that time. Even without the acquisition of the MBO Group, Heidelberg will stand by its strategy of continuing to develop its postpress portfolio towards industrial postpress services.

Heidelberg, May 23, 2019

HEIDELBERGER DRUCKMASCHINEN
AKTIENGESELLSCHAFT
The Management Board

Rainer Hundsdörfer | Dirk Kaliebe

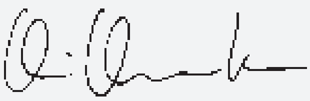
Prof. Dr. Ulrich Hermann | Stephan Plenz

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Heidelberg, May 23, 2019

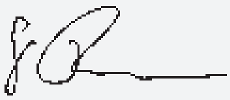
HEIDELBERGER DRUCKMASCHINEN
AKTIENGESELLSCHAFT
The Management Board



Rainer Hundsdörfer

Dirk Kaliebe

Prof. Dr. Ulrich Hermann



Stephan Plenz

Independent auditor's report

To Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg

Report on the audit of the consolidated financial statements and of the group management report

Audit Opinions

We have audited the consolidated financial statements of Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at March 31, 2019, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from April 1, 2018 to March 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Heidelberger Druckmaschinen Aktiengesellschaft for the financial year from April 1, 2018 to March 31, 2019. In accordance with the German legal requirements, we have not audited the content of those parts of the group management report listed in the "Other information" section of our auditor's report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at March 31, 2019, and of its financial performance for the financial year from April 1, 2018 to March 31, 2019, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to §322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with §317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10(2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5(1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from April 1, 2018 to March 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matter of most significance in our audit was as follows:

1 **Recoverability of goodwill**

Our presentation of these key audit matters has been structured in each case as follows:

1 Matter and issue
2 Audit approach and findings
3 Reference to further information

Hereinafter we present the key audit matters:

1 **Recoverability of goodwill**

1 In the Company's consolidated financial statements goodwill amounting in total to EUR 129.6 million (5.6 % of total assets or 32.4 % of equity) is reported under the "Intangible assets" balance sheet item. Goodwill is tested for impairment by the Company once a year or when there are indications of impairment to determine any possible need for write-downs. The impairment test is carried out at the level of the groups of cash-generating units to which the relevant goodwill is allocated. The carrying amount of the relevant cash-generating units, including goodwill, is compared with the corresponding recoverable amount in the context of the impairment test. The recoverable amount is generally determined using the value in use. The present value of the future cash flows from the respective group of cash-generating units normally serves as the basis of valuation. Present values are calculated using discounted cash flow models. For this purpose, the adopted medium-term business plan of the Group forms the starting point which is extrapolated based on assumptions about long-term rates of growth. Expectations relating to future market developments and assumptions about the development of macroeconomic factors are also taken into account. The discount rate used is the weighted average cost of capital for the respective group of cash-generating units. The impairment test determined that no write-downs were necessary. The outcome of this valuation is dependent to a large extent on the estimates made by the executive directors with respect to the future cash inflows from the respective group of cash-generating units, the discount rate used, the rate of growth and other assumptions, and is therefore subject to associated uncertainty. Against this background and due to the highly complex nature of the valuation, this matter was of particular significance in the context of our audit.

2 As part of our audit, we assessed the methodology used for the purposes of performing the impairment test, among other things. After matching the future cash inflows used for the calculation against the adopted medium-term business plan of the Group, we assessed the appropriateness of the calculation, in particular by reconciling it with general and sector-specific market expectations. We discussed and examined supplementary adjustments to the medium-term business plan for the purposes of the impairment test with the members of the Company's staff responsible. In addition, we assessed the appropriate consideration of the costs of Group functions. In the knowledge that even relatively small changes in the discount rate applied can have a material impact on the value of the entity calculated in this way, we also focused our testing on the parameters used to determine the discount rate applied, and assessed the calculation model. In order to reflect the uncertainty inherent in the projections, we evaluated the sensitivity analyses performed by the Company. Taking into account the information available, we determined that the carrying amounts of the cash-generating units, including the allocated goodwill, were adequately covered by the discounted future net cash flows. Overall, the valuation parameters and assumptions used by the executive directors are in line with our expectations and are also within the ranges considered by us to be reasonable.

3 The Company's disclosures on impairment testing and goodwill are contained in numbers 6, 7 and 18 of the notes to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- the statement on corporate governance pursuant to §289f HGB and §315d HGB included in the "Legal disclosures" section of the group management report
- the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code
- the separate non-financial report pursuant to §289b Abs. 3 HGB and §315b Abs. 3 HGB

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to §315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with §317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to §315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on July 25, 2018. We were engaged by the supervisory board on July 25, 2018. We have been the group auditor of Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg, without interruption since the financial year 1997.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German public auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Stefan Hartwig.

Mannheim, May 24, 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Stefan Hartwig	ppa. Stefan Sigmann
Wirtschaftsprüfer	Wirtschaftsprüfer

Financial section 2018/2019

Further information

List of shareholdings

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

Name	Country/Domicile		Shareholding in percent	Equity	Net result after taxes
Affiliated companies included in the consolidated financial statements					
Germany					
docufy GmbH[1]	D	Bamberg	100	2,133	1,712
Gallus Druckmaschinen GmbH[1]	D	Langgöns-Oberkleen	100	2,238	–1,402
Heidelberg Boxmeer Beteiligungs-GmbH[1]	D	Wiesloch	100	127,091	82
Heidelberg China-Holding GmbH[1]	D	Wiesloch	100	58,430	7,644
Heidelberg Consumables Holding GmbH[1]	D	Wiesloch	100	24,382	–884
Heidelberg Manufacturing Deutschland GmbH[1]	D	Wiesloch	100	42,561	3,923
Heidelberg Postpress Beteiligungen GmbH[1]	D	Wiesloch	100	24	–1
Heidelberg Postpress Deutschland GmbH[1]	D	Wiesloch	100	25,887	1,961
Heidelberg Print Finance International GmbH[1]	D	Wiesloch	100	34,849	964
Heidelberg Web Carton Converting GmbH	D	Weiden	100	2,927	–61
Heidelberger Druckmaschinen Vertrieb Deutschland GmbH[1]	D	Wiesloch	100	54,901	4,001
Hi-Tech Coatings Deutschland GmbH[1]	D	Wiesloch	100	1,925	–1,148
Outside Germany[2]					
Baumfolder Corporation	USA	Sidney, Ohio	100	519	–333
BluePrint Products N.V.	BE	Sint-Niklaas	100	6,193	878
Cerm N.V.	BE	Oostkamp	100	1,325	339
Europe Graphic Machinery Far East Ltd.	PRC	Hong Kong	100	1,890	505
Gallus Ferd. Rüesch AG	CH	St. Gallen	100	54,027	1,662
Gallus Holding AG	CH	St. Gallen	100	83,849	529
Gallus Inc.	USA	Philadelphia, Pennsylvania	100	8,489	207
Hi-Tech Chemicals BVBA[4]	BE	Kruibecke	100	3,790	1,351
Heidelberg Americas, Inc.	USA	Kennesaw, Georgia	100	104,542	–4,251
Heidelberg Asia Pte. Ltd.	SGP	Singapore	100	7,728	–52
Heidelberg Baltic Finland OÜ	EST	Tallinn	100	1,308	74
Heidelberg Benelux B.V.	NL	Haarlem	100	50,606	10,970
Heidelberg Benelux BVBA	BE	Brussels	100	13,914	1,155
Heidelberg Boxmeer B.V.	NL	Boxmeer	100	42,146	–62
Heidelberg Canada Graphic Equipment Ltd.	CDN	Mississauga	100	10,124	5,240
Heidelberg China Ltd.	PRC	Hong Kong	100	6,050	1,984
Heidelberg do Brasil Sistemas Graficos e Servicos Ltda.	BR	São Paulo	100	4,401	1,493
Heidelberg France S.A.S.	F	Roissy-en-France	100	12,731	3,090
Heidelberg Grafik Ticaret Servis Limited Sirketi	TR	Istanbul	100	3,024	–454
Heidelberg Graphic Equipment (Shanghai) Co. Ltd.	PRC	Shanghai	100	99,150	14,381
Heidelberg Graphic Equipment Ltd. – Heidelberg Australia –	AUS	Notting Hill, Melbourne	100	19,584	–101
Heidelberg Graphic Equipment Ltd. – Heidelberg New Zealand –	NZ	Auckland	100	2,252	226
Heidelberg Graphic Equipment Ltd. – Heidelberg UK –	GB	Brentford	100	11,962	–640

Name	Country/Domicile		Shareholding in percent	Equity	Net result after taxes
Heidelberg Graphic Systems Southern Africa (Pty) Ltd.	ZA	Johannesburg	100	2,114	519
Heidelberg Graphics (Beijing) Co. Ltd.	PRC	Beijing	100	14,838	7,255
Heidelberg Graphics (Thailand) Ltd.	TH	Bangkok	100	5,422	1,288
Heidelberg Graphics (Tianjin) Co. Ltd.	PRC	Tianjin	100	8,070	2,173
Heidelberg Graphics Taiwan Ltd.	TWN	Wu Ku Hsiang	100	3,873	– 33
Heidelberg Group Trustees Ltd.	GB	Brentford	100	0	0
Heidelberg Hong Kong Ltd.	PRC	Hong Kong	100	12,059	– 1,251
Heidelberg India Private Ltd.	IN	Chennai	100	3,801	90
Heidelberg International Finance B.V.	NL	Boxmeer	100	14	– 13
Heidelberg International Ltd. A/S	DK	Ballerup	100	59,769	– 269
Heidelberg International Trading (Shanghai) Co. Ltd.	PRC	Shanghai	100	171	– 4
Heidelberg Italia S.r.L.	IT	Bollate	100	28,247	2,302
Heidelberg Japan K.K.	J	Tokyo	100	25,687	992
Heidelberg Korea Ltd.	ROK	Seoul	100	4,743	641
Heidelberg Magyarország Kft.	HU	Kalasch	100	4,774	231
Heidelberg Malaysia Sdn Bhd	MYS	Petaling Jaya	100	– 3,160	– 174
Heidelberg Mexico Services, S. de R.L. de C.V.	MEX	Mexico City	100	808	93
Heidelberg Mexico, S. de R.L. de C.V.	MEX	Mexico City	100	10,331	1,308
Heidelberg Philippines, Inc.	PH	Makati City	100	4,272	– 64
Heidelberg Polska Sp z.o.o.	PL	Warsaw	100	6,880	586
Heidelberg Praha spol s.r.o.	CZ	Prague	100	1,248	32
Heidelberg Print Finance Australia Pty Ltd.	AUS	Notting Hill, Melbourne	100	23,630	229
Heidelberg Print Finance Korea Ltd.	ROK	Seoul	100	17,638	333
Heidelberg Print Finance Osteuropa Finanzierungsvermittlung GmbH	A	Vienna	100	11,961	– 6
Heidelberg Schweiz AG	CH	Bern	100	13,146	1,668
Heidelberg Slovensko s.r.o.	SK	Bratislava	100	871	– 39
Heidelberg Spain S.L.U.	ES	Cornella de Llobregat	100	11,131	1,071
Heidelberg Sverige AB	S	Solna	100	6,022	300
Heidelberg USA, Inc.	USA	Kennesaw, Georgia	100	69,235	15,337
Heidelberger CIS OOO	RUS	Moscow	100	– 11,251	– 1,510
Heidelberger Druckmaschinen Austria Vertriebs-GmbH	A	Vienna	100	33,139	3,453
Heidelberger Druckmaschinen Osteuropa Vertriebs-GmbH	A	Vienna	100	7,072	2,786
Heidelberger Druckmaschinen WEB-Solution CEE Ges.m.b.H	A	Vienna	100	2,046	– 4
Hi-Tech Coatings International B.V.	NL	Zwaag	100	7,084	518
Hi-Tech Coatings International Limited	GB	Aylesbury, Bucks	100	3,920	998
Linotype-Hell Ltd.	GB	Brentford	100	3,995	0
Modern Printing Equipment Ltd.	PRC	Hong Kong	100	1,512	– 55
MTC Co., Ltd.	J	Tokyo	99.99	8,321	– 9
P.T. Heidelberg Indonesia	ID	Jakarta	100	9,865	809

Name	Country/Domicile		Shareholding in percent	Equity	Net result after taxes
Affiliated companies not included in the consolidated financial statements owing to immateriality for the net assets, financial positions and result of operations					
Germany					
D. Stempel AG i.A.[3]	D	Heidelberg	99.23	– 166	– 66
Heidelberg Catering Services GmbH[1]	D	Wiesloch	100	386	– 2,396
Heidelberg Digital Unit GmbH[1]	D	Wiesloch	90	100	– 8
Heidelberger Druckmaschinen Vermögensverwaltungsgesellschaft mbH	D	Walldorf	100	25	0
Menschick Trockensysteme GmbH	D	Renningen	100	385	35
Heidelberg Digital Platforms GmbH[1]	D	Wiesloch	100	26	– 72
Outside Germany[2]					
Gallus India Private Limited	IN	Mumbai	100	98	0
Gallus Mexico S. de R.L. de C.V.	MEX	Mexico City	100	– 50	– 28
Gallus Printing Machinery Corp.	USA	Philadelphia, Pennsylvania	100	– 206	– 222
Heidelberg Asia Procurement Centre Sdn Bhd	MYS	Petaling Jaya	100	79	– 5
Heidelberg Hellas A.E.E.	GR	Metamorfosis	100	3,415	280
Heidelberg Used Equipment Ltd.[3]	GB	Brentford	100	0	0
Heidelberger Druckmaschinen Ukraina Ltd.	UA	Kiev	100	– 227	1,090

Name	Country/Domicile		Shareholding in percent	Equity	Net result after taxes
Joint venture not accounted for using the equity method owing to immateriality for the net assets, financial position and results of operations					
Outside Germany [2]					
Heidelberg Middle East FZ Co.	AE	Dubai	50	784	113
Heidelberg NetworX Holding Company Limited	PRC	Hong Kong	52	1	0

[1] Before profit transfer
[2] Disclosures for companies outside Germany in accordance with IFRS
[3] Prior-year figures, since financial statements not yet available
[4] Relocation

The Supervisory Board

Dr. Siegfried Jaschinski
Partner of Augur Capital AG, Frankfurt am Main
b) Augur Capital Advisors S.A., Luxembourg (Member of the Administration Board)
Augur FIS–Financial Opportunities II (Member of the Administration Board)
Augur General Partners S.A.R.L., Luxembourg (Member of the Administration Board)
Augur Mittelstand Partners S.A., Luxembourg (Member of the Administration Board)

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

Joachim Dencker*
(since July 25, 2018)
Head of Technology and Production Gallus/Postpress,
Head of Heidelberg Excellence System, Spokesperson of the Executive Staff, Wiesloch-Walldorf

Gerald Dörr*
(since July 25, 2018)
Deputy Chairman of the Central Works Council, Heidelberg/Wiesloch-Walldorf

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

Karen Heumann
Founder and Spokesperson of the Executive Board of thjnk AG, Hamburg
a) NDR Media GmbH
Studio Hamburg GmbH
b) Commerzbank AG (Advisory Board of the North Region)

Oliver Jung
Chairman of the Management Board of Festo AG, Esslingen
a) Leistritz AG

Kirsten Lange
Management Consultant and supervisory board member, Ulm; Adjunct Professor of INSEAD, Fontainebleau, France
a) ATS Automation Tooling Systems Inc., Toronto, Canada
b) Fritsch Holding AG (Member of the Supervisory Board)

Dr. Herbert Meyer
(until July 25, 2018)
Independent business consultant, Königstein/Taunus and Member of the Consulting Board of the Auditor Oversight Body (AOB), Berlin
a) profine GmbH
d.i.i. Investment GmbH
b) Verlag Europa Lehrmittel GmbH & Co. KG (Member of the Advisory Board)

Petra Otte*
(since July 25, 2018)
Trade union secretary of IG Metall Baden-Württemberg, Stuttgart
a) Audi AG
Aesculap AG

Ferdinand Rüesch
(since July 25, 2018)
Entrepreneur, St. Gallen, Switzerland
b) Ferd. Rüesch AG, Switzerland (Chairman of the Administration Board)

Beate Schmitt*
Full-time member of the Works Council, Heidelberg/Wiesloch-Walldorf

Prof. Dr.-Ing. Günther Schuh
Professor and holder of the chair in production engineering at RWTH Aachen University, Aachen; Chairman of the Management Board of e.GO Mobile AG, Aachen; Managing Director of e.GO MOOVE GmbH, Aachen; Managing Director of e.SAT GmbH, Aachen
a) KEX Knowledge Exchange AG (Chairman)
b) Phoenix Contact GmbH & Co. KG (Member of the Advisory Board)

Rainer Wagner*
(until July 25, 2018)
Deputy Chairman of the Supervisory Board

Christoph Woesler*
(until July 25, 2018)
Head of Procurement, Chairman of the Speakers Committee for the Executive Staff, Wiesloch-Walldorf

Roman Zitzelsberger*
(until July 25, 2018)
Regional head of IG Metall Baden-Württemberg, Stuttgart
a) Daimler AG
Rolls-Royce Power Systems AG
MTU GmbH

* Employee representative
a) Membership in other statutory supervisory boards
b) Membership in comparable German and foreign control bodies of business enterprises

Committees of the Supervisory Board

MANAGEMENT COMMITTEE

Dr. Siegfried Jaschinski (Chairman)
Ralph Arns
Gerald Dörr (since July 25, 2018)
Mirko Geiger
Kirsten Lange (until July 25, 2018)
Ferdinand Rüesch (since July 25, 2018)
Prof. Dr.-Ing. Günther Schuh
Rainer Wagner (until July 25, 2018)

MEDIATION COMMITTEE UNDER ARTICLE 27 PARAGRAPH 3 OF THE CODETERMINATION ACT

Dr. Siegfried Jaschinski
Ralph Arns
Gerald Dörr (since July 25, 2018)
Dr. Herbert Meyer (until July 25, 2018)
Ferdinand Rüesch (since July 25, 2018)
Rainer Wagner (until July 25, 2018)

COMMITTEE ON ARRANGING PERSONNEL MATTERS OF THE MANAGEMENT BOARD

Dr. Siegfried Jaschinski (Chairman)
Ralph Arns (since July 25, 2018)
Gerald Dörr (since July 25, 2018)
Karen Heumann
Ferdinand Rüesch (since July 25, 2018)
Beate Schmitt
Rainer Wagner (until July 25, 2018)

AUDIT COMMITTEE

Dr. Siegfried Jaschinski (Chairman, since July 25, 2018)
Ralph Arns (since July 25, 2018)
Mirko Geiger
Oliver Jung (since July 25, 2018)
Kirsten Lange
Dr. Herbert Meyer (until July 25, 2018)
Beate Schmitt (since July 25, 2018)

NOMINATION COMMITTEE

Dr. Siegfried Jaschinski (Chairman)
Oliver Jung (since June 5, 2018)
Dr. Herbert Meyer (until July 25, 2018)
Ferdinand Rüesch (since July 25, 2018)

STRATEGY COMMITTEE

Dr. Siegfried Jaschinski (Chairman)
Ralph Arns (since July 25, 2018)
Mirko Geiger
Karen Heumann
Oliver Jung
Kirsten Lange
Dr. Herbert Meyer (until July 25, 2018)
Ferdinand Rüesch (since July 25, 2018)
Prof. Dr.-Ing. Günther Schuh
Rainer Wagner (until July 25, 2018)

The Management Board

Rainer Hundsdörfer
Heidelberg
Chief Executive Officer and
Chief Human Resources Officer
* Marquardt GmbH (Chairman)
** Heidelberg Americas, Inc., USA
(Chairman of the Board of Directors)
Heidelberg USA, Inc., USA
(Chairman of the Board of Directors)

Prof. Dr. Ulrich Hermann
Heidelberg
Head of the Heidelberg Lifecycle
Solutions Segment
* Heidelberger Druckmaschinen Vertrieb
Deutschland GmbH (Chairman)
** Heidelberg Graphic Equipment Ltd.,
Australia
Heidelberg Japan K.K., Japan

Dirk Kaliebe
Sandhausen
Chief Financial Officer and
Head of the Heidelberg
Financial Services Segment
* Heidelberger Druckmaschinen Vertrieb
Deutschland GmbH
** Heidelberg Americas, Inc., USA
Heidelberg USA, Inc., USA

Stephan Plenz
Sandhausen
Head of the Heidelberg Digital
Technology Segment
** Gallus Holding AG, Switzerland
(Chairman of the Administration Board)
Heidelberg Graphic Equipment (Shanghai)
Co. Ltd., China (Chairman of the Board of
Directors)

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

Supervisory Board and corporate governance

Report of the Supervisory Board

DR. SIEGFRIED JASCHINSKI
Chairman of the Supervisory Board

Dear shareholders,

In the 2018/2019 financial year, the corporate strategy of Heidelberger Druckmaschinen Aktiengesellschaft (Heidelberg) was focused on building new digital business models and extending technological leadership by adding to the portfolio on growth markets. Key milestones have already been achieved in this respect, laying the groundwork for future growth and securing long-term profitability. By intensifying our cooperation with our long-standing partner Masterwork Group (Masterwork), we intend to tap the potential of packaging printing more extensively, especially on the key market of China. The Management Board and Supervisory Board therefore welcome Masterwork as another long-term strategic anchor shareholder. The investment also strengthened the Company's equity situation. The funds will be used for general corporate financing and to accelerate the implementation of the digital agenda, which is advancing with great strides. Thanks to the positive demand for the new subscription model and the launch of series production of the Primefire digital printing press, the potential of digital transformation for the Company is becoming increasingly apparent. The first print shops in Europe, the US and China have already started production using the new Primefire digital print system, cultivating new sales markets and customers thanks to its high quality and productivity. A pioneering example of how such technology can be used in combination with a digital business model is the Boxuni web-to-pack platform from Heidelberg and its partner Xianjunlong Colour Printing Co. Ltd for individual folding boxes, which was presented at the Print China trade show in April 2019.

We also anticipate business opportunities on the label market, which has the industry's greatest growth potential thanks to the rising demand for unusual finishes and just-in-time delivery. Digital label printing especially is becoming more significant here. Labelfire sets the benchmark for quality and flexibility.

Heidelberg has set new standards in global printing industry competition with the opening of its new innovation center (IVC) at the Wiesloch-Walldorf site, thereby stepping up its efforts to remain the technology leader and actively shape the digital transformation process in the printing industry moving ahead. Following the conversion of a former production hall, the new innovation incubator for the graphics industry is the most state-of-the-art development center in the sector, and the heart of the Company and the future high tech campus that we intend to gradually build up at the Wiesloch-Walldorf site.

Heidelberg has also continued to optimize its financing structure. The Company partially repaid a high-yield bond in July 2018. The cash repayment of around € 55 million will help to improve the financial result from the next financial year. Furthermore, Heidelberg's equity base was strengthened with the aforementioned inclusion of the new anchor shareholder Masterwork.

Close cooperation between Management Board and Supervisory Board

The Supervisory Board of Heidelberger Druckmaschinen AG again performed its duties in accordance with the law, the Articles of Association and its Rules of Procedure in full in the 2018/2019 financial year. The Supervisory Board continuously monitored the Management Board, regularly advised it on the running of the Company and oversaw key strategic issues. We were assured of the legality, expediency and compliance of the work of the Management Board at all times.

The Management Board reported to the Supervisory Board regularly, promptly and comprehensively in written or verbal form on all matters relevant to the Company. Namely, these include planning, corporate strategy, major transactions by the Company and the Group, and the associated opportunities and risks in addition to compliance issues. The Management Board kept the Supervisory Board informed continuously and in detail about the Group's sales, earnings, employment and business performance, and the Company's financial position. On receipt of the information, the Supervisory Board discussed and dealt with all the above topics in depth. In particular, the Supervisory Board discussed all the business transactions of significance to the Company verbally and in writing with the Management Board and reviewed them. In addition, the Supervisory Board and the Audit Committee dealt intensively with other material concerns of the Company in their meetings and separate discussions. The members of the Supervisory Board also discussed current topics with the Management Board outside of meetings. The Chairman of the Supervisory Board was in continuous contact with the Management Board and especially with the Chief Executive Officer and discussed significant current issues and developments at the Company with them. These discussions focused on digitization, the creation of an ecosystem and the subscription business model. The Chairmen of the Supervisory Board and the committees reported on key findings no later than the next Supervisory Board meeting. Against this backdrop, the Supervisory Board was always involved in good time in all decisions of material importance to the Company and the Group and reviewed these decisions before their implementation. The members of the Supervisory Board always had sufficient opportunity to scrutinize the information and resolution proposals they received from the Management Board and to make suggestions in the meetings of the committees and the Supervisory Board as a whole.

When necessary, the shareholder and employee representatives discussed the agenda items for the Supervisory Board meetings in separate preliminary talks. The Supervisory Board granted its approval for individual transactions to the extent required by law, the Articles of Association or the Rules of Procedure for the Management Board.

In the reporting period, the members of the Management Board and the Supervisory Board did not experience any conflicts of interest that they would have to have disclosed to the Supervisory Board in accordance with item 4.3.3 or item 5.5.2 of the German Corporate Governance Code.

Meetings of the Supervisory Board and key topics

The Supervisory Board held four ordinary meetings, one inaugural meeting and two extraordinary meetings in the reporting year. No members took part in only half or less of the meetings of the Supervisory Board and committees of which they are members (item 5.4.7 of the German Corporate Governance Code). The average attendance rate at the meetings of the Supervisory Board and its committees was around 97 percent in financial year 2018/2019. The members of the Management Board took part in the meetings of the Supervisory Board unless it seemed appropriate to discuss individual matters without their participation.

The Supervisory Board's discussions focused on issues relating to strategy, portfolio and business activities of Heidelberger Druckmaschinen Aktiengesellschaft. Furthermore, the Supervisory Board intensively discussed the liquidity situation and the capital structure.

The following key topics that the Supervisory Board discussed in the reporting year should be highlighted in more detail:

At its meeting on June 5, 2018, the Supervisory Board first discussed the reporting of the Management Board on the business situation, as in every meeting held in the year under review. In addition, the Supervisory Board adopted the single-entity financial statements for financial year 2017/2018 following the presentation and discussion of the auditor’s report and approved the consolidated financial statements, thereby concurring with the recommendation of the Audit Committee. It also approved the agenda for the 2018 Annual General Meeting. Furthermore, the Chairman of the Audit Committee reported on the meetings held on May 3 and June 4, 2018 and the Chairman of the Supervisory Board reported on the meeting of the Personnel Matters Committee of June 5, 2018 and the meeting of the Nomination Committee on June 4, 2018.

The meeting before the Annual General Meeting on July 25, 2018 was used to prepare for the Annual General Meeting. Moreover, the Supervisory Board discussed the current business situation of the Company. The Chairman of the Audit Committee reported on the meeting held on July 24, 2018.

At its inaugural meeting after the Annual General Meeting, on account of the Supervisory Board elections, the Supervisory Board dealt with the matters of the formation and composition of the six committees of the Supervisory Board. The Chairman of the Supervisory Board, Dr. Siegfried Jaschinski, and his deputy, Ralph Arns, were also elected. Furthermore, the Supervisory Board resolved to commission PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft as the auditor for financial year 2018/2019.

Following the account of the current business situation in the Supervisory Board meeting on November 29, 2018, the Supervisory Board was then informed in detail about the meetings of the Audit Committee on October 30, 2018, the Strategy Committee on November 28, 2018 and the Personnel Matters Committee on November 29, 2018. After reviewing the recommendations and suggestions of the German Corporate Governance Code, the Supervisory Board also approved the issue and publication of the declaration of compliance of November 29, 2018.

There was an extraordinary meeting of the Supervisory Board on January 22, 2019 at which the Supervisory Board discussed the current business situation of the Company and the planned investment in Heidelberg by Masterwork Group, China.

There was another extraordinary meeting on February 18, 2019. This meeting resolved to form a “Corporate Action 2019” committee and to transfer the powers of the Supervisory Board to this committee.

The topics discussed at the Supervisory Board’s last meeting of the reporting year, on March 28, 2019, were the current business situation, planning for the coming financial year and projections for the following years. The Supervisory Board noted with approval the planning presented to the meeting. The Supervisory Board was also informed about the meetings of the Audit Committee on February 5, 2019 and of the Personnel Matters Committee on March 28, 2019, and of the new organizational chart. Furthermore, the Chairman of the Supervisory Board reported on the meeting of the “Corporate Action 2019” committee held on March 12, 2019. Strategy was also discussed at this meeting.

Corporate governance

The corporate governance of the Company was a regular topic of discussion by the Supervisory Board. Further information on the Company’s corporate governance and related activities of the Supervisory Board can also be found in the corporate governance report on our website www.heidelberg.com under Company > About Us > Corporate Governance.

Work in the committees

The Supervisory Board of the Company has set up six permanent committees to support it in its work:

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

The Supervisory Board's six committees prepare decisions for the Supervisory Board as a whole and pass resolutions on matters delegated to them for a decision. Furthermore, the meeting of the Supervisory Board on February 18, 2019 set up a temporary "Corporate Action 2019" committee.

The respective chairs of the respective committees, at the meetings of the Supervisory Board, reported to the Supervisory Board regularly and comprehensively on their activities. The composition of the committees is presented in the notes to the consolidated financial statements.

The Personnel Matters Committee met three times in reporting year 2018/2019. In addition to the scheduled reappointment of Mr. Hundsdörfer and the renewal of his contract by another three years, and the renewal of Prof. Dr. Hermann's contract by another five years, the work of the Personnel Matters Committee focused on remuneration issues concerning the current members of the Management Board.

The Audit Committee held five regular meetings in the reporting year. It examined quarterly and ad hoc issues relating to the Company's net assets, financial position and results of operations and its risk reporting. Furthermore, together with the auditor, this committee also focused intensively on the annual and consolidated financial statements in addition to the quarterly financial statements, the accounting policies applied and the specifics of the separate and consolidated financial statements. Other topics discussed at the meetings included the liquidity situation of the Heidelberg Group and its refinancing, the development of the capital structure (equity and borrowed funds), the effects of the reorganization and ongoing development of the segments, the new regulations on revenue recognition and accounting for leases, accounting for and assessing the subscription business model, risk management, the internal controlling and audit system, compliance, the implementation and impact of the portfolio and restructuring measures, the accounting treatment of pension provisions, investment controlling and sales financing.

The Strategy Committee met once in the reporting year and discussed the strategic orientation of digital printing and the subscription business, as well as the equity situation and the financial framework. The Nomination Committee met once in the reporting year to discuss the candidates for election to the Supervisory Board at the 2018 Annual General Meeting. The Management Committee did not meet in the reporting year. The Mediation Committee in accordance with section 27 (3) of the German Codetermination Act (MitBestG) also did not have to be convened in the reporting year.

The temporary "Corporate Action 2019" committee met once on March 12, 2019 and approved the increase in the Company's share capital utilizing authorized capital in accordance with Article 3 (5) of the Articles of Association.

Audit of the single-entity and consolidated financial statements

The Annual General Meeting on July 25, 2018, appointed PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft as the auditor. This company audited the single-entity financial statements for financial year 2018/2019, the management report of Heidelberger Druckmaschinen Aktiengesellschaft and the consolidated financial statements and Group management report of the Heidelberg Group prepared by the Management Board and issued each with unqualified opinions. The single-entity financial statements, the consolidated financial statements, the management report of the Company and the management report of the Heidelberg Group were submitted to the Supervisory Board immediately on their completion. The reports of the auditors were distributed to all the members of the Supervisory Board in time before the accounts meeting of the Supervisory Board on June 4, 2019. The auditors who signed the audit reports took part in the Supervisory Board's discussions. During the meeting, they reported on the results and on the fact that there are no significant weaknesses in the internal controlling or risk management system with regard to the (Group) accounting process. They were available to the members of the Supervisory Board to answer questions. The auditor also informed the meeting about the services provided in addition to the audit of the financial statements and confirmed that there were no circumstances giving rise to concerns over its impartiality. The audit report does not include any comments or indications of any inaccuracies in the declaration of compliance with the German Corporate Governance Code. The Audit Committee recommended the adoption of the single-entity financial statements and the approval of the consolidated financial statements at the meeting of the Supervisory Board on June 4, 2019. In line with the Audit Committee's proposal, the Supervisory Board then concurred with the audit findings. Following its examination of the single-entity financial statements, the consolidated financial statements, the management report of Heidelberger Druckmaschinen Aktiengesellschaft and the management report of the Heidelberg Group, the Supervisory Board came to the conclusion that it had no reservations. The Supervisory Board adopted the single-entity financial statements of Heidelberger Druckmaschinen Aktiengesellschaft prepared by the Management Board and approved the consolidated financial statements of the Heidelberg Group for the year ended March 31, 2019.

Personnel changes in the Supervisory Board and the Management Board

There have been personnel changes among the shareholder representatives on the Supervisory Board of Heidelberger Druckmaschinen AG. Mr. Ferdinand Rüesch was elected as a new member of the Supervisory Board at the Annual General Meeting on July 25, 2018. Dr. Siegfried Jaschinski and Prof. Dr.-Ing. Günther Schuh were each re-elected for a standard term of five years after their previous terms in office ended after the Annual General Meeting on July 25, 2018. Dr. Herbert Meyer did not stand for re-election and left the Supervisory Board at the end of the Annual General Meeting on July 25, 2018. Of the employee representatives on the Supervisory Board, Mr. Rainer Wagner, Mr. Christoph Woesler and Mr. Roman Zitzelsberger left the Supervisory Board at the end of the Annual General Meeting. Mr. Gerald Dörr, Mr. Joachim Dencker and Ms. Petra Otte were elected to the Supervisory Board by the employees on June 19, 2018. Mr. Ralph Arns, Ms. Beate Schmitt and Mr. Mirko Geiger were re-elected.

The Supervisory Board wishes to especially thank the members of the Supervisory Board who have now stepped down for their work.

The Supervisory Board will continue to monitor the Company's interests and its long-term development and work towards the good of the Company.

In its meeting on May 27, 2019, the Supervisory Board of Heidelberger Druckmaschinen AG consented to the amicable termination of the Board activities of the Company's long-standing CFO, Mr. Dirk Kaliebe, as of September 30, 2019. Mr. Kaliebe had informed the Supervisory Board that he was not seeking to renew his current contract, which expires in calendar year 2021. The Supervisory Board noted Mr. Kaliebe's decision with great regret and expressed its sincere thanks for his successful work, including the restructuring necessary due to the financial crisis and the various refinancing measures undertaken in recent years for the realignment of the capital structure and Heidelberg's reorientation as a digital enterprise.

Thank you from the Supervisory Board

The Supervisory Board would like to thank the members of the Management Board, all the employees of the Heidelberg Group around the world and their representatives on the Supervisory Board, the members of the Works Councils and the Representative Committee for their hard work and achievements in the 2018/2019 financial year.

The Supervisory Board would like to conclude by thanking you, the shareholders, for the confidence you have placed in the Company and in the shares of Heidelberger Druckmaschinen Aktiengesellschaft.

Heidelberg, June 4, 2019

FOR THE SUPERVISORY BOARD

Siegfried Jaschinski

DR. SIEGFRIED JASCHINSKI

Chairman of the Supervisory Board

Corporate governance and compliance

- Recommendations of the German Corporate Governance Code complied with, with few exceptions
- Compliance activities in the Heidelberg Group expanded by commitments from service providers and suppliers to the new Heidelberger Druckmaschinen Aktiengesellschaft Code of Conduct, update of the internal regulations and corporate guidelines renewed
- Planned focus in financial year 2019/2020: Enhancement of the existing compliance management system, introduction of online training, increased assurance of ethically sound behavior

Corporate governance at Heidelberger Druckmaschinen Aktiengesellschaft is based on the standards of good corporate governance set out in the German Corporate Governance Code that supplement the requirements of the German Stock Corporation Act (AktG). The recommendations and suggestions of the Code were again largely complied with in the 2018/2019 financial year. Ensuring effective management and control in an evolving corporate structure remains the priority. It is regularly checked to ensure that all laws and mandatory regulations are complied with throughout the Group and that recognized standards and recommendations are followed in addition to the Company's values, Code of Conduct and corporate guidelines.

Declaration of compliance in accordance with section 161 of the German Stock Corporation Act

The Management Board and the Supervisory Board issued the following declaration of compliance in accordance with section 161 AktG on November 29, 2018:

Since issuing its last declaration of compliance on November 24, 2017, Heidelberger Druckmaschinen Aktiengesellschaft has complied with all recommendations of the Government Commission of the German Corporate Governance Code as amended February 7, 2017, and as promulgated by the German Federal Ministry of Justice in the official section of the Federal Gazette on April 24, 2017, with the following exceptions, and will continue to comply in the future with the following exceptions:

The Company has deviated from the recommendation of item 5.3.2 (3) sentence 3 since July 25, 2018 and will continue to do so as currently the Chairman of the Supervisory Board alone fulfills the requirements of item 5.3.1 for the skills and expertise profile of the Chairman of the Audit Committee. The Company intends to comply with this recommendation again as soon as this changes.

Heidelberger Druckmaschinen Aktiengesellschaft deviated from the recommendations of item 5.4.1 (2) of the Code as amended February 7, 2017, and will also continue to deviate from them in the future in that the Supervisory Board is expected to set a general time limit for its members. In the opinion of the Supervisory Board of the Company, nominations of suitable candidates for the Supervisory Board should be based primarily on personal qualifications, long-term experience and expertise.

Furthermore, Heidelberger Druckmaschinen Aktiengesellschaft has deviated from the recommendation of item 5.4.1 (5) sentence 2 of the Code as amended February 7, 2017 and will continue to do so in the future to the extent that the Company only publishes the résumés of the shareholder representatives on the Supervisory Board on its website on account of the data protection interests of its employees.

The Management Board and the Supervisory Board intend to update the annual declaration of compliance, prospectively on November 27, 2019, following due examination. All declarations of compliance are made permanently available on our website www.heidelberg.com under Company > About Us > Corporate Governance. The current declaration of compliance of November 29, 2018 can also be found there; it is also included in the current, detailed corporate governance declaration. This declaration – as well as our corporate governance report – is likewise permanently available on our website www.heidelberg.com under Company > About Us > Corporate Governance.

Taking the sector, the size of the Company and the share of international business into account, the Supervisory Board is guided in particular by the following targets and profile of skills and expertise for the future composition of the Board as a whole:

a) All Supervisory Board members must have sufficient corporate or operating experience as well as knowledge of their field and ensure that they have enough time to perform their Supervisory Board tasks, so that the Supervisory Board as a whole has the knowledge, skills and specific experience necessary to perform its tasks properly.
b) All Supervisory Board members must have the reliability and personal integrity necessary for the fulfillment of the Supervisory Board's monitoring duties.
c) At least two members of the Supervisory Board must be "independent" as defined by item 5.4.2 of the German Corporate Governance Code.
d) No more than two former members of the Management Board may sit on the Supervisory Board.
e) At least two Supervisory Board members must have international experience in a non-German market with relevance for the Company or particular expertise in the printing and media industry.
f) The Supervisory Board must have at least one member with experience in mechanical engineering and the associated industry expertise.
g) At least one member of the Supervisory Board must have expertise in accounting or auditing (financial expert).
h) The Supervisory Board must have at least one member with experience in financing and the capital market.

In accordance with section 96 (2) sentence 1 of the German Stock Corporation Act (AktG), the Supervisory Board is made up of at least 30 percent women (i. e. at least four) and at least 30 percent men (i. e. at least four). This gender ratio must be complied with by the Supervisory Board as a whole unless the shareholder or employee representatives object to overall compliance in accordance with section 96 (2) sentence 3 AktG. Before the election of shareholder representatives to the Supervisory Board on July 25, 2018, the shareholder representatives had objected to the overall compliance with the statutory gender ratio in accordance with Section 96 (2) sentence 3 AktG. The Supervisory Board therefore had to be comprised of at least two women and at least two men on both the shareholder representative and employee representative sides.

Supervisory Board members must not remain in their post beyond the end of the Annual General Meeting following their 72nd birthday. There is no defined limit for length of membership of the Supervisory Board. Among other things, this enables continuity and the preservation of long-standing expertise on the Supervisory Board in the interests of the Company.

The current composition of the Supervisory Board complies with these targets and fulfills the profile of skills and expertise.

Compliance management

The activities of the Heidelberg Group are subject to various national and international legal provisions and guidelines in addition to the Group's own Code of Conduct, which was introduced on June 1, 2005, and revised on March 20, 2017. The Code of Conduct forms the foundation of the compliance culture at Heidelberg and, among other things, has been adapted in line with the Ten Principles of the UN Global Compact. This is supplemented by a comprehensive system of values, principles, general and other internal guidelines hierarchically structured as a pyramid. The aim of these regulations is to provide the executive bodies and employees of the Heidelberg Group with guidance on how to use and practice these rules for fair, constructive and productive dealings in day-to-day operations with respect to the general public, customers and suppliers, competitors, other business partners and shareholders, and also other Heidelberg employees. Therefore, integrity in everyday business and respectful cooperation at all work levels is expected. The central task of the Compliance Office is to ensure Company-wide compliance with these regulations – both by the Group's executive bodies and each individual employee.

The Compliance Office has been integrated into the new Compliance & Internal Audit department since November 1, 2018. Since this date, the Chief Compliance Officer has reported directly to the Chief Executive Officer.

In addition to their supervisors, who are expected to act as role models in terms of compliance responsibility, employees of the Heidelberg Group can also speak to the Compliance Office for information and advice on matters of legally and ethically correct conduct in business situations.

Heidelberger Druckmaschinen Aktiengesellschaft uses a top-down approach in implementing its compliance management system. This is operationalized by ongoing training for management and employees on the one hand, and reinforced by the strict delegation of compliance duties on the other.

Heidelberg's measures to ensure compliance with Company-wide regulations are based on a preventive and risk-based approach. Compliance checks are carried out for identified compliance risks in certain compliance areas (e.g. environmental and product safety) with the responsible operational compliance experts to determine any need for further improvement. This centers around a threat analysis, knowledge of the legal requirements, the level of organization and documentation, the functionality of processes in the compliance area concerned and the tracking of prior audit findings. Where necessary, measures in addition to ordinary training requirements are arranged. Several compliance areas are subjected to cursory checks at the smaller Heidelberg production sites in the context of compliance checks at production sites. Other compliance issues such as antitrust law, corruption prevention, capital market law or conduct in the event of official investigations are addressed by targeted information, presentations at management meetings, specific training sessions or specially formed committees or working groups, such as the Ad Hoc Committee. Independently of this, Heidelberg executives are responsible for ensuring that their own conduct and that of their employees in their areas and organizational units is compliant. In financial year 2019/2020, there will be a continued focus on the review, revision and/or adjustment of the existing compliance management system in order to improve it also in light of current developments.

In order to evaluate the compliance areas specific to the Group, the Compliance Committee meets regularly under the Chief Compliance Officer. In this context, current global developments are evaluated in order to take centrally directed, appropriate preventative compliance measures. The whistleblower system introduced in 2016 has become established at the level of Heidelberger Druckmaschinen Aktiengesellschaft and is supported on an ongoing basis by internal and external communications. The global execution of the whistleblower system is implemented with the participation of the Compliance Committee by those responsible for compliance in the units. Another priority in the 2019/2020 financial year is again advising and training employees in the areas of the Code of Conduct, corruption prevention and antitrust law in particular. On the subject of confidentiality, Heidelberg has revised its existing non-disclosure concept and trained employees in particularly sensitive areas. Compliance training was also conducted at the new Group companies added via acquisitions.

Internal findings, comparisons and communication with external companies contribute to the ongoing development of our compliance management system.

In its meetings, the Audit Committee of the Supervisory Board regularly discusses compliance issues and activities. The Chief Compliance Officer issues a comprehensive compliance report there at least once a year on behalf of the Management Board.

Heidelberg, June 4, 2019

For the Supervisory Board Dr. Siegfried Jaschinski	For the Management Board Rainer Hundsdörfer

Financial calendar 2019 / 2020

June 6, 2019	Press Conference, Annual Analysts' and Investors' Conference
July 25, 2019	Annual General Meeting
August 6, 2019	Publication of First Quarter Figures 2019 / 2020
November 6, 2019	Publication of Half-Year Figures 2019 / 2020
February 11, 2020	Publication of Third Quarter Figures 2019 / 2020
June 9, 2020	Press Conference, Annual Analysts' and Investors' Conference
July 23, 2020	Annual General Meeting

Subject to change

Publishing information

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

Investor Relations
Tel.: +49-62 22-82 67121
Fax: +49-62 22-82 67129
investorrelations@heidelberg.com

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Five-year overview – Heidelberg Group

Figures in € millions	2014/2015	2015/2016	2016/2017	2017/2018	**2018/2019**
Incoming orders	2,434	2,492	2,593	2,588	2,559
Net sales	2,334	2,512	2,524	2,420	2,490
Foreign sales share in percent	84.7	86.5	84.8	84.9	84.8
EBITDA [1]	188	189	179	172	180
in percent of sales	8.1	7.5	7.1	7.1	7.2
Result of operating activities excluding restructuring result	119	116	108	103	101
Net result before taxes	–76	31	34	39	32
Net result after taxes	–72	28	36	14	21
in percent of sales	–3.1	1.1	1.4	0.6	0.8
Research and development costs	121	122	119	121	127
Investments	59	65	105	142	134
Total assets	2,293	2,202	2,219	2,256	2,329
Net working capital [2]	714	691	667	610	684
Receivables from sales financing	82	65	58	66	60
Equity	183	287	340	341	399
in percent of total equity and liabilities	8.0	13.0	15.3	15.1	17.1
Financial liabilities	542	496	470	438	465
Net debt [3]	256	281	252	236	250
Cash flow	–120	99	107	104	105
in percent of sales	–5.1	3.9	4.2	4.3	4.2
Free cash flow	–17	–32	24	–8	–93
in percent of sales	–0.7	–1.3	1.0	–0.3	–3.7
ROCE in percent	11.3	10.8	10.2	9.8	8.7
Return on equity in percent [4]	–39.3	9.8	10.6	4.1	5.3
Earnings per share in €	–0.29	0.11	0.14	0.05	0.07
Dividend in €	–	–	–	–	–
Share price at financial year-end in € [5]	2.49	1.99	2.34	3.04	1.55
Market capitalization at financial year-end	641	512	602	847	472
Number of employees at financial year-end [6]	11,951	11,565	11,511	11,563	11,522

[1] Result of operating activities before interest and taxes and before depreciation and amortization, excluding restructuring result
[2] The total of inventories and trade receivables less trade payables and advance payments
[3] Net total of financial liabilities and cash and cash equivalents and current securities
[4] After taxes
[5] Xetra closing price, source prices: Bloomberg
[6] Number of employees excluding trainees

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