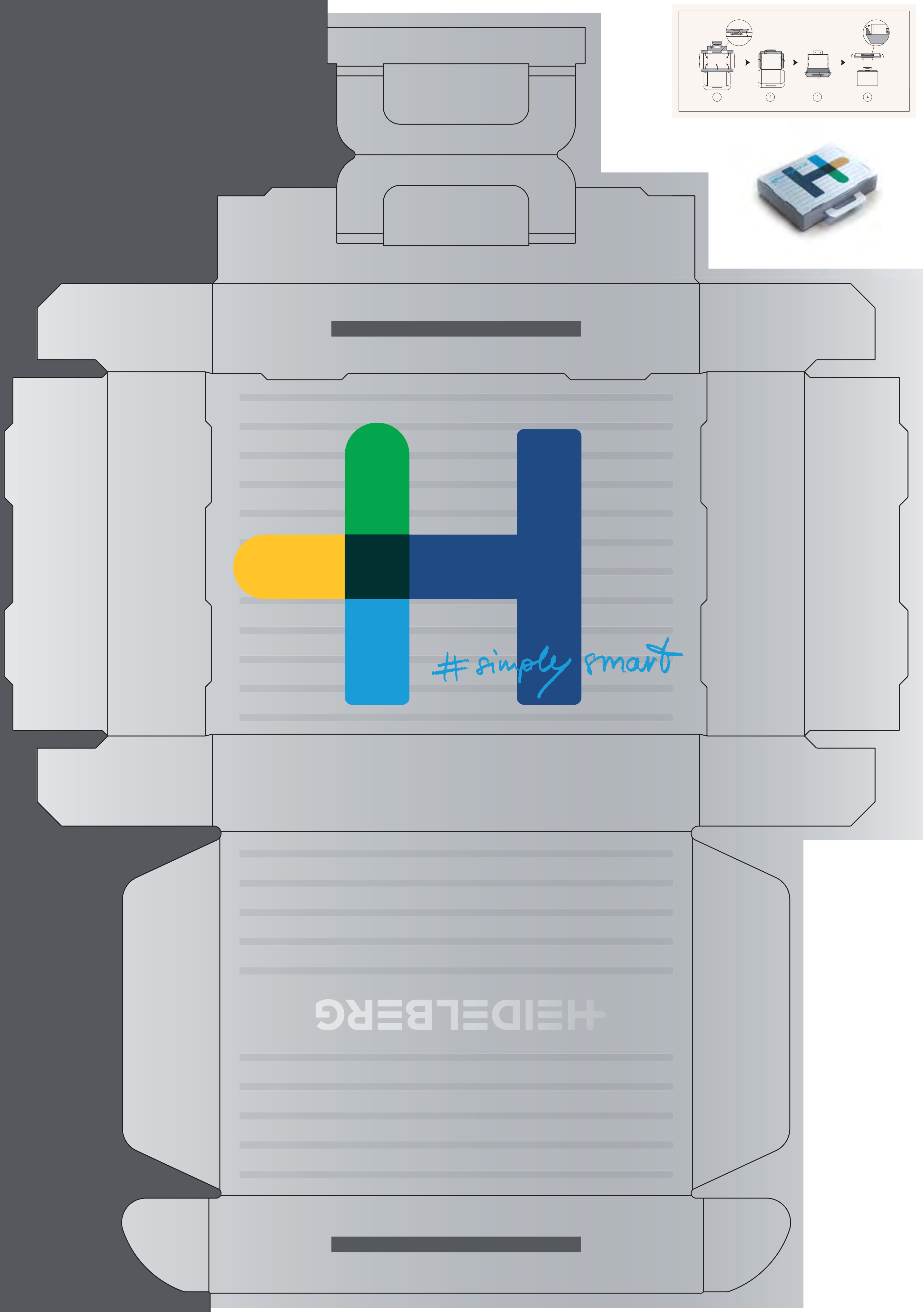
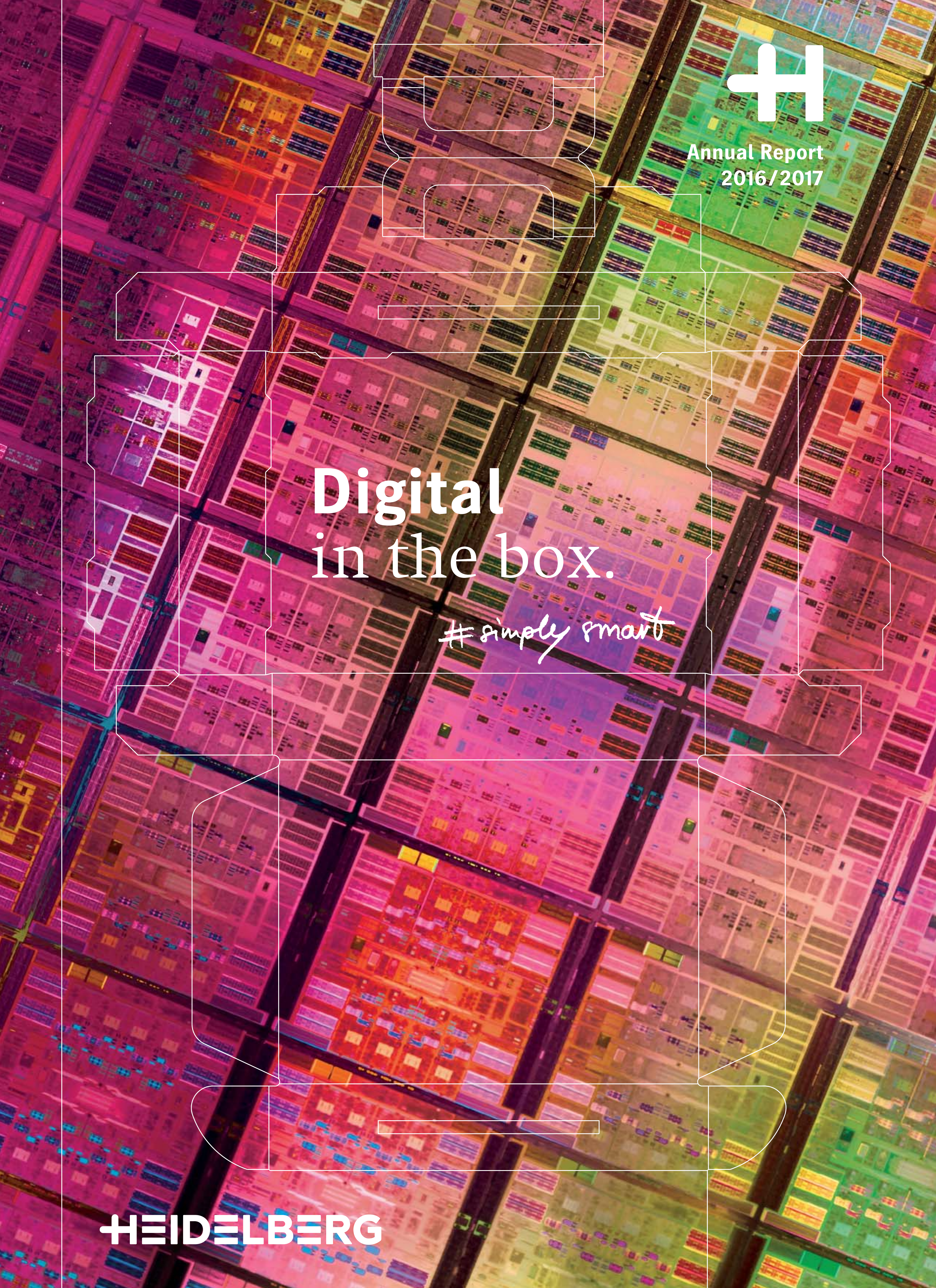
Annual Report
2016/2017

Digital
in the box.

#simply smart

HEIDELBERG


#simply smart



Annual Report
2016/2017

Digital in the box.

#simply smart

HEIDELBERG


Rainer Hundsdörfer
Heidelberg goes digital
Digital in the box.
Simply Smart

Rainer Hundsdörfer
Chairman of the Management Board

Dear readers,

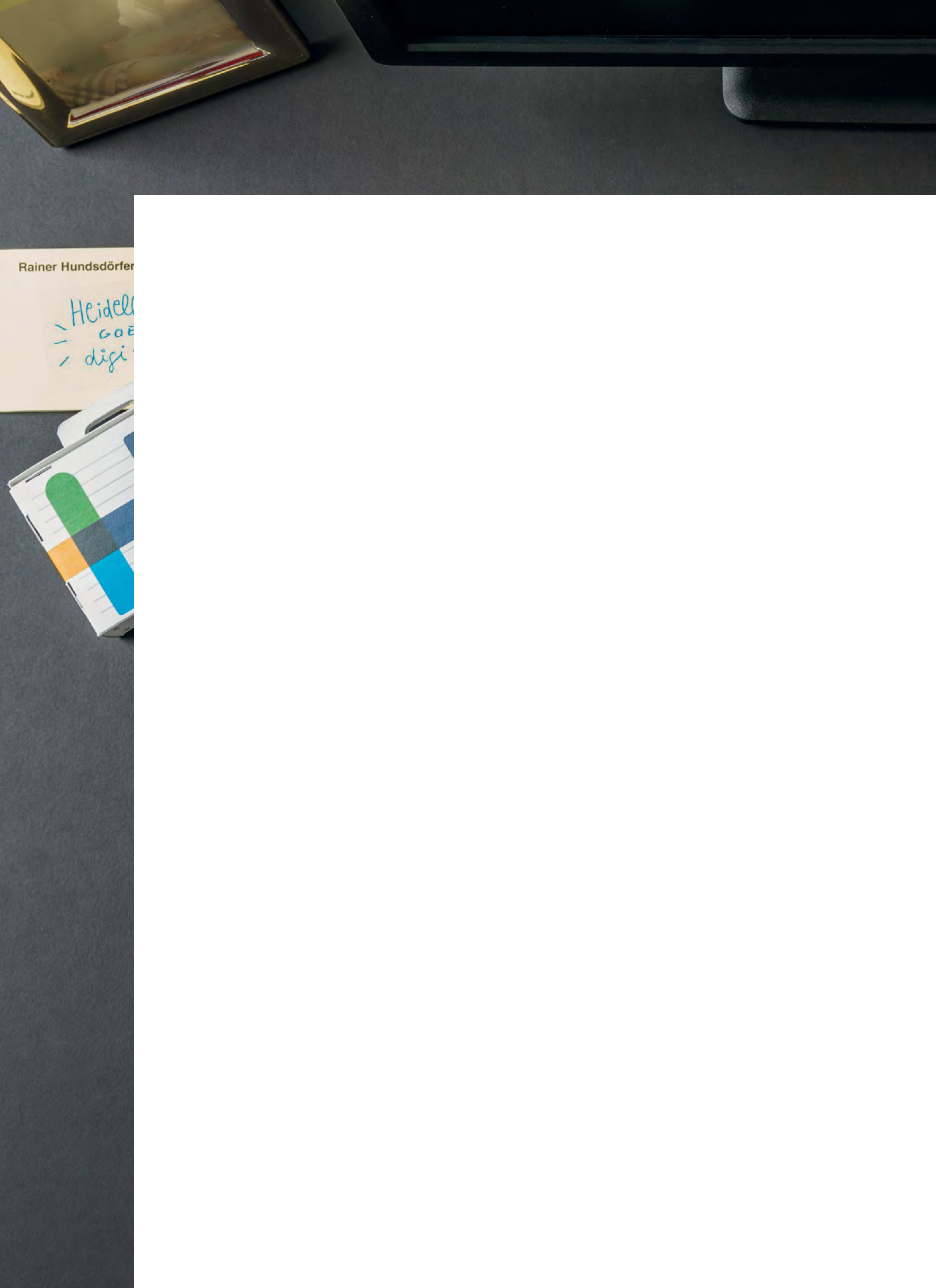
Our mission is clear: We are building the digital future of our industry. This is why the core message of our strategy is "Heidelberg goes digital".

It builds on our promise to our customers (and their customers): to optimally and uniquely visualize their great ideas using our solutions in order to create a suitable communication medium for the products to which they relate.

This is illustrated by our Heidelberg suitcase – because packaging today is far more than a mere covering for what is inside it.

Discover our digital luggage on the next pages.

Best regards


Rainer Hundsdörfer


HEIDELBERG
VISION
Great ideas need visualization, identity & communication.
We make the difference.
VALUES
LISTEN
INSPIRE
DELIVER
MISSION
We listen to you.
We inspire innovation &
deliver performance for our customers.
We are building the digital future of our industry.

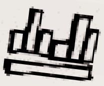
The first impression counts!

Consumers form a verdict within **7 seconds** of their first impression.

Why packaging is becoming increasingly important...

Annual global print volume of around

400 BILLION EUROS



Packaging accounts for **25%** of all printed materials

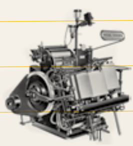
the fastest-growing market segment with an average growth rate of 3 %.

Although the label market only accounts for around **5 %** of the total print volume, it has the **highest growth potential** within the industry.

At just under **50 %**, the commercial printing market for printed advertising materials is the largest market segment in terms of the global print production volume and is enjoying **stable development.**

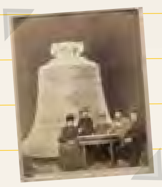
The Heidelberg story

(highly abridged)



Heidelberg platen press

1850 — 1914 — 1986 — 2016



Bell foundry

Navigated and autonomous printing

First steps into packaging printing

Speedmaster CD 102

How does production take place?

Comparison of the different printing technologies:

Sheetfed offset printing approx. 40 %

Digital printing approx. 15 %

Flexo printing approx. 13 %

11,500 EMPLOYEES WORLDWIDE

250 LOCATIONS
IN 170 COUNTRIES

Heidelberg is the leading supplier in the industry, and can guarantee digitized and industrial packaging production with a zero-defect, standardized end result.

Packaging CAN DO a lot

WE MAKE THE DIFFERENCE.

Packaging is becoming increasingly important for the success of a product strategy, whether for identification, security or as an information medium. Heidelberg is focusing its solutions in this segment on the folding carton market.

As globalization continues to advance, the need for additional packaging variants, a more personalized approach to customers and a shorter time-to-market is growing among companies that operate and produce internationally.

Join us on a journey through the extensive possibilities and opportunities of packaging production with Heidelberg.

Happy reading and discovering!

The accelerated growth of the emerging markets as a result of the growing middle class and the sharp upturn in income and urbanization remain the prevailing trends and the driving force behind the prospects for the future of the packaging industry. On a regional basis, ***Asia/Pacific is the region with the highest forecast growth between now and 2020.***

More on the next page ...

#2

HEIDELBERG

Dear Mr. Zhao Tian,

Thank you for your inquiry. We are delighted that the production of milk powder has proven to be such a success in China. As you correctly stated in your inquiry, our company also has a production site in China serving the local market. This ensures no lost time because of transportation and customs formalities. Our site is located in Qingpu near Shanghai.

I have already forwarded your inquiry to our local colleagues, who will be in touch with you as soon as possible so that they can find a timely solution to your problem by delivering the corresponding packaging printing presses.

We wish you every success with your new order.

Best regards from Heidelberg

Rainer Hundsdörfer

CHIEF EXECUTIVE OFFICER
HEIDELBERGER DRUCKMASCHINEN AG

✓Done

08.06.2017 8:30 +86 21 XXXXXXX Yìnhuā Zhao Ltd., Shanghai P. 01/01

#1

VERY URGENT

Ladies and gentlemen,

Due to steady growth in local demand, our manufacturer is now producing milk powder directly in China. As the print shop responsible for packaging in this area, this development also requires us to take corresponding measures to ensure on-time milk powder delivery. We need printing presses that can be installed as soon as possible and that will provide the familiar German standards of print quality for our packaging.

In the course of our research, we discovered that your company also has a production site in China, and we hope you may be able to assist us with a quick solution. We look forward to hearing from you in the very near future.

Sincerely,

ZHAO TIAN

Head of Production
Yìnhuā Zhao Ltd., Shanghai

WOW

Color perception in China

Some colors are perceived differently in China than in Europe:

- Red stands for happiness and life,
- yellow and gold represent wisdom,
- white is synonymous with mourning,
- black symbolizes power and money,
- blue represents faith and fidelity,
- and green – just as in Europe – stands for growth and hope.

Heidelberg Assistant

Everything under control, worldwide!

Wherever the physical location of your printing press, Heidelberg Assistant gives you easy access to Heidelberg's information and service portal using your PC, smartphone or tablet via the Heidelberg Cloud – from Germany, China, or anywhere in the world.

Heidelberg is everywhere!

Demographic change is posing a significant challenge to everyone, all around the world. But it also offers considerable opportunities for those who are able to provide the right solutions. In the industrialized nations, there are more and more single-person households. This also means increased demand and purchasing power, while a growing number of purchases are being made online. In the emerging economies, more and more customers are choosing to shop at the steadily increasing number of supermarkets, while China has been the world's largest national market for packaging since 2015. Having successfully recognized the emerging trends, Heidelberg has been supplying the Asian market since 2006 with its dedicated plant in China and a strong local sales presence.

A paradigm shift in print production!

With its "Push to Stop" philosophy, Heidelberg is laying the foundations for the future of print production. It will allow our customers to significantly improve their competitive capability and increase their profitability for the long term.

The autonomous process chain is only interrupted by operators as and when required. This will increase the effectiveness of print production to previously unseen levels, as well as making processes more predictable and reducing the error rate thanks to automated process monitoring. We expect this to enable customers to double their productivity in the coming years with the same or reduced staff requirements.

Push to Stop – Heidelberg implements autonomous printing!

URGENT!!!! – No two reds the same

Senden Chat Anhang

#1

An: information@heidelberg.com

Betreff: URGENT!!!! – No two reds the same

Von: <pierre.fouettard@noelapproche.com>

Hello,

We have a red problem. Our supermarket displays: Chocolate, Santa Claus figures, pralines, bows and ribbons. All made by us. All in red.
The problem: Sometimes our red looks light red, sometimes bright red, and sometimes blood red. This is unacceptable.

We need ONE red!!!!!!
Do you have our red?
Guaranteed every time?
Thank you for your help!

Sincerely,
Pierre Fouettard

Key Account Seasonal Business
Noëlapproche S.A.
24. Rue de la Saint-Nicolas

URGENT!!!! – No two reds the same

Senden Chat Anhang

#2

An: pierre.fouettard@noelapproche-printing.com

Betreff: Re: URGENT!!!! – No two reds the same

Von: <information@heidelberg.com>

Dear Mr. Fouettard,

✓ Done

We will be glad to take the weight of the Christmas stress off your shoulders. With Heidelberg, red is always red – exactly as it should be. Whatever material it is printed on. From bows to baubles to Santa himself. Our software takes care of this. We will be happy to provide you with detailed information – so you can focus entirely on your delicious chocolate. Not forgetting your pralines. And good old chocolate Santa Claus.

All the best!

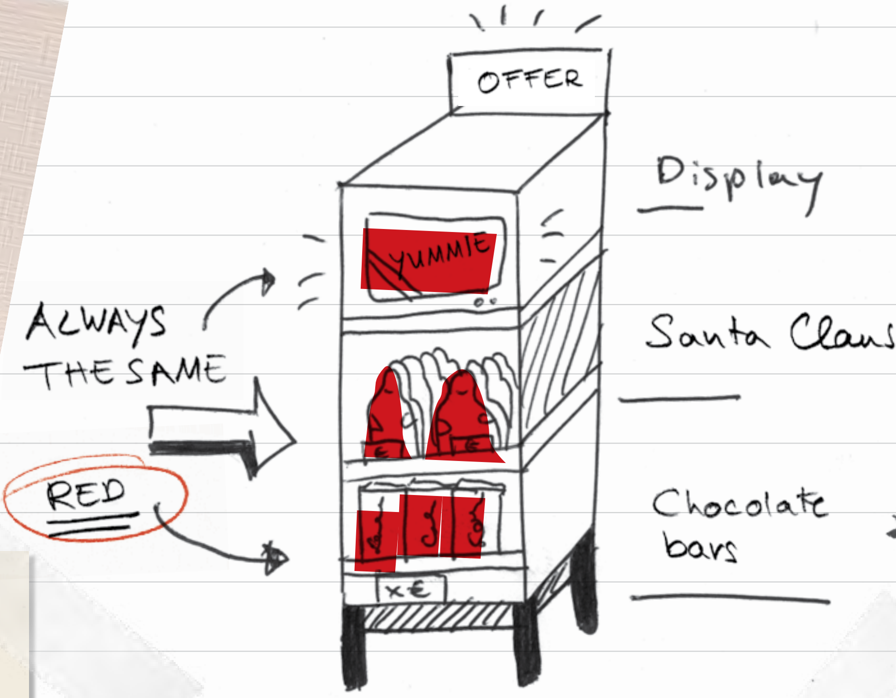
PS: Speaking of Christmas: You could also offer your customers chocolate personalized with their name. Our presses can handle it. Could there be a more individual gift? And all in the same perfect red. *

* Another case for our Primefire > P. XII

Can it already be CHRISTMAS?

A red for every occasion!

"There is no way around it: Shades of color are a challenge. A challenge we have accepted – and conquered."



For optimal coloring and increased productivity.

Print Color Management, a comprehensive service package developed by Heidelberg encompassing consulting and installation services, helps Heidelberg customers to achieve perfect color coordination.

- ✓ Definition of the required colorimetric values, densities, tone values and testing tools
- ✓ Printing press optimization, process calibration, color management and proofing
- ✓ Full service including training, documentation and success monitoring
- ✓ Fast inking-up and reduced waste thanks to improved ink presetting
- ✓ Makes it easier to achieve true-color proofs at the press
- ✓ Enables customers to better meet their customers' requirements

Every child knows what Santa Claus looks like, with his red hat and white beard. Sounds like child's play, but the printing process isn't always so straightforward. The stability of the system as a whole is essential in order to prevent reds from turning out light red one time, bright red the next time, and more like crimson another time. This is accompanied by the need for ever-greater efficiency. The trend towards smaller print runs and a growing number of jobs per machine is continuing unabated.

Thanks to its "Color Management" for optimal inking at higher productivity levels and its new "Push to Stop" operating philosophy, which enables continuous process monitoring, Heidelberg has the solution.

WOW

A product tester warns:

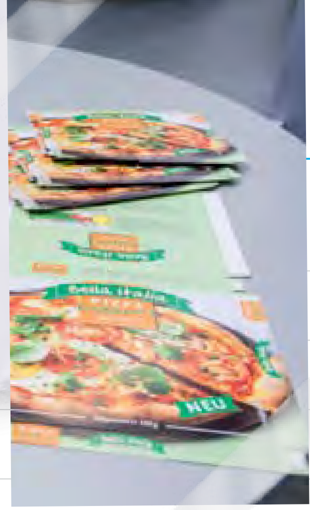
ADVENT CALENDARS

are often contaminated with mineral oils.

We've got the solution!

P.T.O.

Ink for pizza boxes, cups and sandwich packaging to go – guaranteed migration-free. In other words, nothing ends up on or in the food. Even at hot temperatures. Or when the product is moist or greasy.



WOW

SAPHIRA

is the name of our migration-free materials. Not just inks, but coatings, detergents, lubricants and glue, too. Tested for suitability for food products.

And certified.

shop.heidelberg.com

Order today for quick delivery. The Heidelberg eShop gives you what you want quickly and with ease of planning.

✓ Done

#1

Dear Heidelberger,

Our client from the shoe industry wants to change its current approach of delivering shoes to a warehouse first, then picking them as they are ordered by customers, as this is too resource-intensive. In future, our client wants to actively use its shoeboxes for presentation purposes. As the boxes are currently plain white with the client's logo as the sole visual element, they will need to be designed to reflect the current collection, season, etc. In particular, they will require a high-quality finish. Our client also wants to give its customers the option of buying different shoebox editions as add-ons in its online store. Do you have any ideas as to how we can best realize our client's requests?

All the best

#2

Dear Sneaker-in-the-box Team,

You have come to the right place. Our presses and their cold-foil and hot-foil applications will give your client's shoebox logo an unforgettable visual impact. Our extensive finishing options mean the packaging can be adapted to reflect the latest collection and the look and feel of the shoes. For example, an Iriodin coating* would be a perfect fit for the current "Marrakesh" collection, as it can create interesting iridescent color effects and the color impression created by the pigment changes when viewed from a different angle.

Please find enclosed an initial overview of our finishing options.

* Our cover is also finished with this coating.

Our little suitcase on the front cover also has a number of different finishes. Have you discovered the hot-foil stamping yet?

Packaging becomes the POINT OF SALE

Packaging nowadays is far more than an end in itself. Packaging doesn't just contain – packaging sells. Seasonal product changes are becoming increasingly important. The result: Many manufacturers of branded goods use packaging to present their products directly in store. High-end flower boxes and perfume packaging are popular right now. Finishing plays a key role in this process. Did you know that products finished with hot foil or stamping attract three times as much attention in stores than their standard counterparts? Ultimately, packaging is what encourages us to make a purchase, and the first thing we hold in our hands.

Reasons to use value-added enhancements:

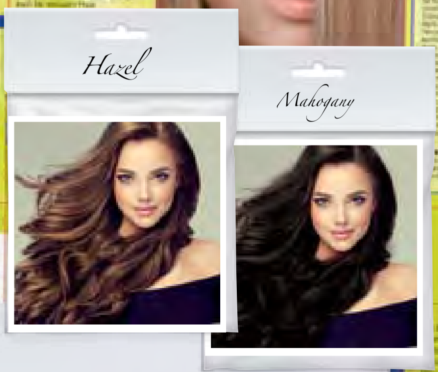
WRITE-IN RESPONSE	PERTAINING TO ENHANCEMENT
"To draw additional attention to specific content"	Fluorescent and/or iridescent inks
"Increase premium-ness"	Foil stamping
"Raise the level of end users' perception of the company"	UV-curable gloss and/or dull coatings
"To impress customers and attract new customers"	Unusual specialty stocks

Source: PRIMIR "Value-Added Printing & Finishing for Improved Profitability" by HHCS

WOW

GLOBAL PREMIERE

for the industrial production of
digital print
applications in sheet
size B1, format
70 x 100 cm



Hair colors are like chocolate. At least when it comes to versioning. Suppose a manufacturer offers 50 different hair dye products. The packaging is always the same – other than the hair colors. 50 colors, 50 versions of the packaging? No problem.

#1

Ladies and gentlemen,

We have come up with a new promotion: our traditional chocolate packaging – but personalized. 280 Annas, 120 Leons, 55 lots of Lucas with a 'c' and 55 lots of Lukas with a 'k'. Plus an Easter edition with a bunny motif.

Is that something your presses can do?
Would it be very complicated?
Sincerely,

Always

THE SAME, just DIFFERENT

PERSONALIZATION & VERSIONING

VERSIONING
is the production of printed material in different versions, e.g. for different countries or in different languages.

PERSONALIZATION
describes the production of printed items with different names (or, in a broader sense, with variable content), often in small to extremely small print runs.

CUSTOMIZATION
is the process of differentiating an otherwise uniform printed item (to reflect markets, customer requests, products, etc.).

Digital applications for packaging printing are changing the market. To attract consumer attention, packaging needs to be better tailored to the individual market segments, more relevant and more creative. With the launch of the Primefire 106, Heidelberg is offering innovative digital print technology that will generate real value added in precisely this area for print shops and the industry as a whole.

For today's brand companies operating in segments such as consumer goods and cosmetics, quick and creative changes in the visual appearance of brands and products are essential when it comes to achieving sales success. What counts is generating additional business potential through high-quality, flexible, variable and individual packaging solutions in order to establish a unique selling point compared with the competition. With the Primefire 106, Heidelberg is offering a reliable industrial digital printing press that meets these requirements perfectly.

ONE PRODUCT FOR LOTS OF COUNTRIES?
Always inscribed in the local language? Just another version of versioning!

HEIDELBERG

#2

✓ Done

Dear customer,

Yes, that is something our presses can do.
And no, it is not complicated!

There are two options. You can print labels featuring the different names – as many as you wish. Or you can print Anna, Leon and Co. directly onto the packaging. If you want, each product can have its own individual color – and the Easter edition can feature as many bunnies as you want.

You can find more information at www.heidelberg.com.
We will be happy to advise you in detail.

Sincerely,

THE NEW HEIDELBERG PRIMEFIRE 106 …

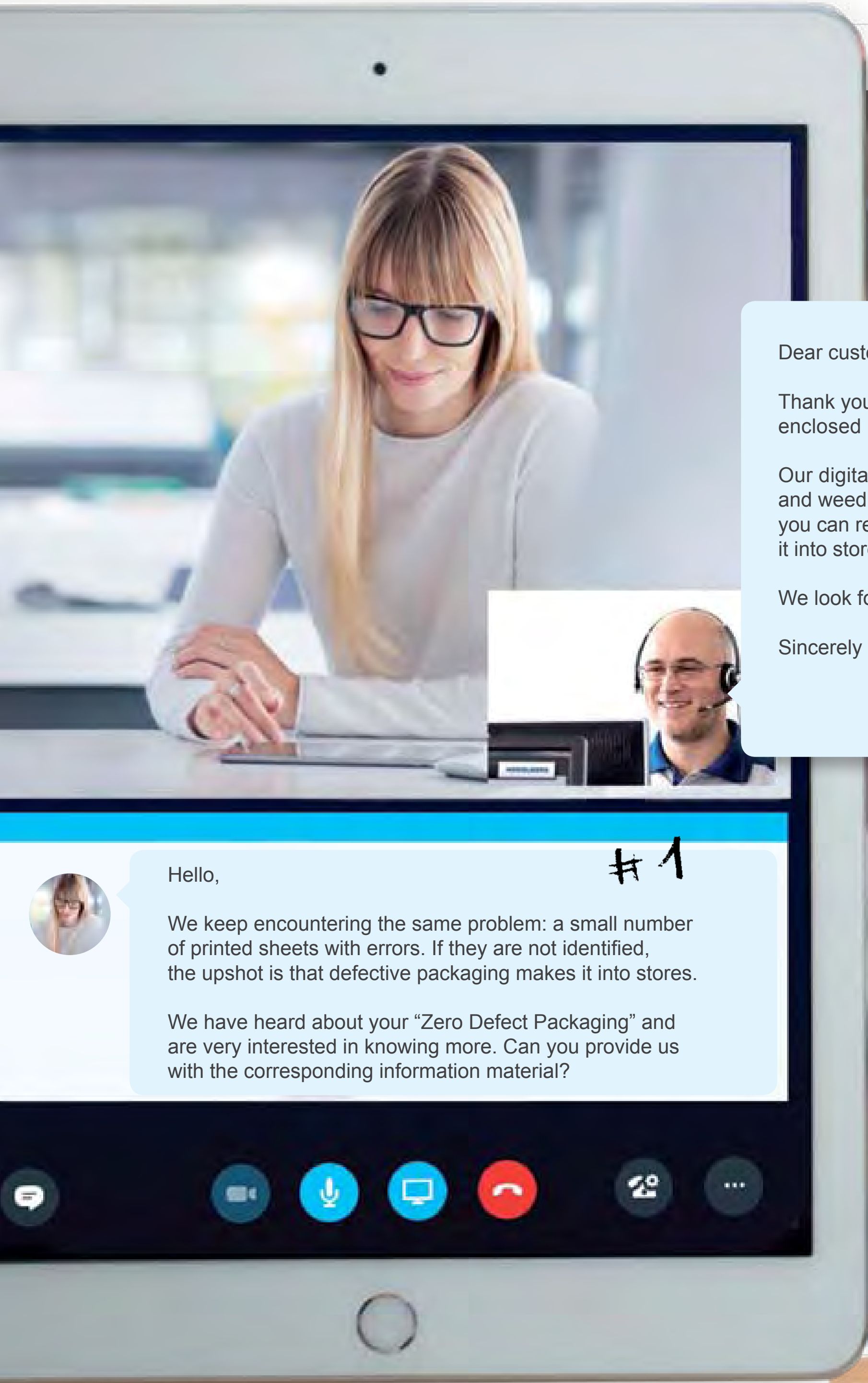
... gives customers, and packaging printers in particular, unlimited options for personalizing and customizing their packaging and building new business areas.

Examples include the production of variable and individual packaging and the addition of traceability and security elements to individual packaging. Printing on demand with the Primefire 106 means optimized supply chain processes and reduced storage costs. In addition, the seven-color inkjet system using Fujifilm Inkjet and Heidelberg Multicolor Technology covers up to 95% of the Pantone color spectrum, leading to time and cost benefits for production jobs using special inks. Water-based inkjet printing complies with strict environmental and recycling requirements, meaning that food-safe production is also possible.

"Smart Print Shop"

The Smart Print Shop is the goal we are working towards with our products and services so that our customers can successfully harness the benefits of digital change for their own business.

Heidelberg provides the necessary foundations for establishing and operating a Smart Print Shop – from intelligent presses and specially designed consumables, through seamless workflow integration, to software solutions and services.



A great deal of useful information is provided at the regular Heidelberg Info Day, including on topics such as *Zero Defect Packaging*

Dear customer,

Thank you for your interest. We are happy to provide the enclosed information material on "Zero Defect Packaging".

Our digital control systems identify even the tiniest errors and weed out defective sheets immediately. This means you can rest assured that only perfect packaging will make it into stores – without losing any time in the process.

We look forward to speaking with you. 🙂

Sincerely

#2

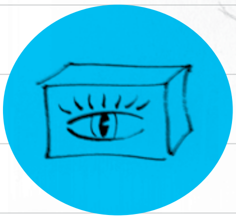
✓ Done

Not a defect in sight: folding boxes and labels, offset, digital and flexo printing.

Under EU regulations, pharmaceutical companies will be required to make drugs traceable and tamper-proof by **2017** at the latest.

Source: EU Directive 2011/62/EU

SAFE AND Sound



WOW

DIANA

sees everything: Diana Eye, our monitoring system with scanner and camera, can identify even the tiniest errors – including on coated surfaces, foils and holograms.

Continued globalization, rising demand for different types of packaging and a shorter time to market are being accompanied by increased complexity in production, and hence an increased risk of errors. An absolute no-go for pharmaceutical packaging production, for example. With the establishment of a Smart Print Shop and solutions for automated quality assurance, Heidelberg customers can master this growing complexity with ease.

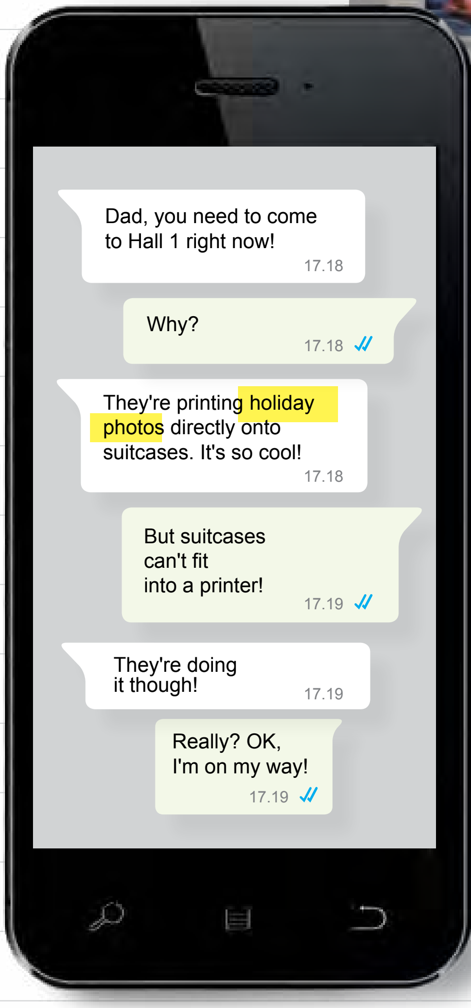
Our aim and our aspiration: "Zero Defect Packaging".

Error prevention? Yes, and much more besides. Some examples of tamper-free packaging for the pharmaceutical industry:

- Serial numbers or bar codes for seamless tracing
- Individual identification for packs and labels
- Metallic doming: reflective structures to prevent falsification
- Fully sealed closures
- Thermoreactive inks that only become visible when rubbed or illuminated with a laser pointer
- Magnetic inks and invisible coatings that can be read by smartphones

Dots? Braille!
Not all of us can read it.
But we can emboss it.*

*How? Using the Diana Braille Module!



#1

#2

Dear trade show team, thank you for the inspiration!

Happy to oblige!

One question: Can you also print on other materials?
And other shapes?

Of course, what do you need?

<u>Car fittings</u>, for example. Highly personalized ones. But I'm sure that must be complicated...

No, it isn't! I'll send you some information about our Omnifire…

WOW

The basis for

4D PRINTING

is a combination of advanced inkjet technology and high-precision robotics. The modular system used in the Omnifire model series guarantees maximum flexibility for different objects, surfaces and applications, tailored to your needs and requirements.

Any risk of a mix-up? No chance!

The machine

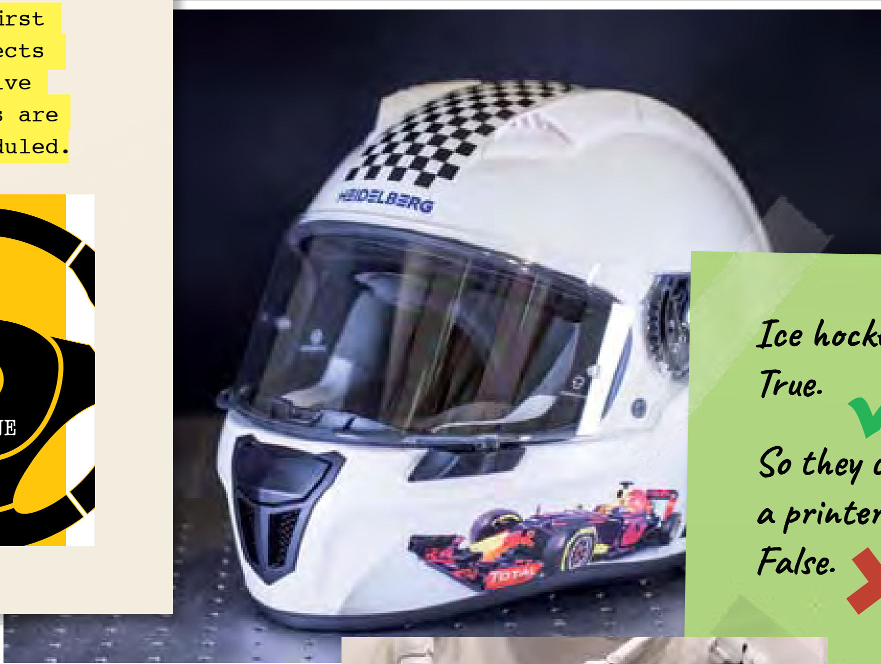
The Omnifire is not round. But it can print on rounded surfaces. And around corners. On every surface – and always personalized.

WELL rounded!

✓ Done

The customer is planning to integrate the Omnifire 1000 into its industrial production process in order to customize and enhance both standard and after-sales parts with a range of colorful decors. The first specific projects with automotive manufacturers are already scheduled.

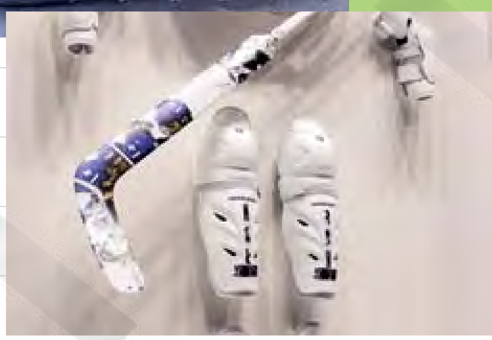
Individually printed balls, suitcases, motorcycle helmets, ice hockey sticks, aircraft overhead stowage compartments with different designs, car fittings, and a lot more besides – all of this is made possible by Heidelberg's new 4D printing technology and the new Omnifire 1000, which allows three-dimensional objects in a wide range of materials to be printed individually regardless of their shape. Another step towards the customized future.



Sometimes you have to print "outside the box".

Ice hockey sticks are long.
True. ✓

So they can't fit into a printer.
False. ✗



Two-year overview – Heidelberg Group

Figures in € millions	2015/2016	**2016/2017**
Incoming orders	2,492	2,593
Net sales	2,512	2,524
EBITDA [1]	189	179
in percent of sales	7.5	7.1
Result of operating activities [2]	116	108
Net result after taxes	28	36
in percent of sales	1.1	1.4
Research and development costs	122	119
Investments	65	105
Equity	287	340
Net debt [3]	281	252
Free cash flow	– 32	24
Earnings per share in €	0.11	0.14
Number of employees at financial year-end [4]	11,565	11,511

[1] Result of operating activities before interest and taxes and before depreciation and amortization, excluding special items
[2] Excluding special items
[3] Net total of financial liabilities and cash and cash equivalents
[4] Number of employees excluding trainees

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

» Packaging today is FAR MORE than a mere covering for what lies inside. «

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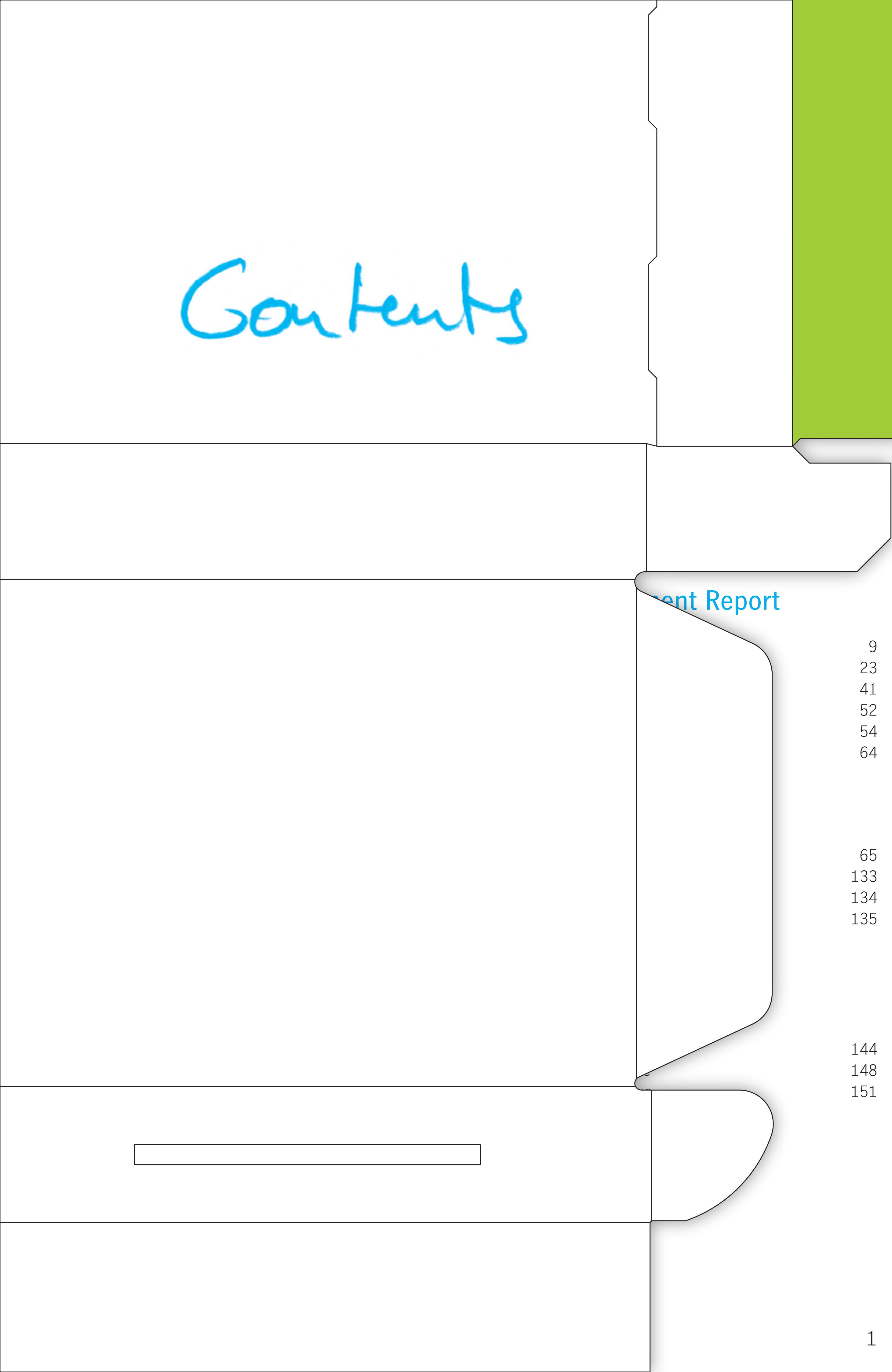


Result	
Net debt [3]	
Free cash flow	
Earnings per share in €	
Number of employe	

[1] Result of op
[2] Excluding sp
[3] Net total of
[4] Number of e

In individual c

Contents

To our Investors

Consolidated Management Report

Financial section

Supervisory Board and corporate governance

Letter from the Management Board

Ladies and gentlemen,

"Heidelberg goes digital!" is the core message of Heidelberg's new strategy and corporate vision. This is based on a promise to our customers and their customers. With the help of our services and solutions, we want to give their great ideas an ideal form of visualization, a unique identity and therefore a suitable communication medium for the products to which they relate. Packaging, for example, is today much more than a mere covering for what is inside. Instead it is a means of conveying an image and thus plays a key role in consumers' purchasing decisions. An incredible amount can be created from a printed sheet of paper. And this is precisely where Heidelberg makes the difference for its customers!

In order to continue being the perfect partner for our customers, we are transforming Heidelberg into a digital company and will therefore also shape the digital future of our industry. To us, digitization means providing the perfect support for our printing presses throughout their entire life cycle. In this context, we are the only provider in the industry to offer our customers an end-to-end solution that encompasses the optimal use of presses with the right software, the supply of consumables, such as ink, and a pinpoint range of services. By doing this, we are helping to make our print shop customers more productive and more efficient.

We have continued to develop the strategy of the Heidelberg Group towards this goal. We began by first adapting our organization to our new digital and inter-networked business model. The "Heidelberg Digital Technology" (HDT) segment comprises sheetfed offset business, label printing and print processing; the right technologies and products are developed, produced and marketed here, including for new business models. Information obtained through our broad network of installed printing presses allows us to conduct operations for our other activities, which we manage in the "Heidelberg Digital Business & Services" (HDB) segment. Here we assist our customers by providing offerings and solutions for digital printing presses, software, consumables and services. To make the networking of operating areas both efficient and enable it throughout the entire product creation process, we have also realigned all functional areas according to this business model.

Dr. Ulrich Hermann

Rainer Hundsdörfer

Dirk Kaliebe

Stephan Plenz

By gearing the company towards a digital future, we intend to continue the turnaround in earnings that has successfully begun in recent years. In line with planning, we were able to moderately increase our earnings after taxes to € 36 million in financial year 2016/2017. There has been a slight increase in our sales development to € 2,525 million. New digital business models, our approach that focuses on the needs of customers and the aspiration we practice – that we make the difference – should lead to profitable growth moving ahead. Heidelberg is on a path towards a digital future – simply smart. We want to further strengthen our trailblazing position in the industry and thus continuously improve the profitability of our customers and our company.

Our thanks go to our employees all over the world for their tremendous commitment and loyalty. We would also like to take this opportunity to thank our shareholders, bondholders, customers and suppliers for their confidence in Heidelberg.

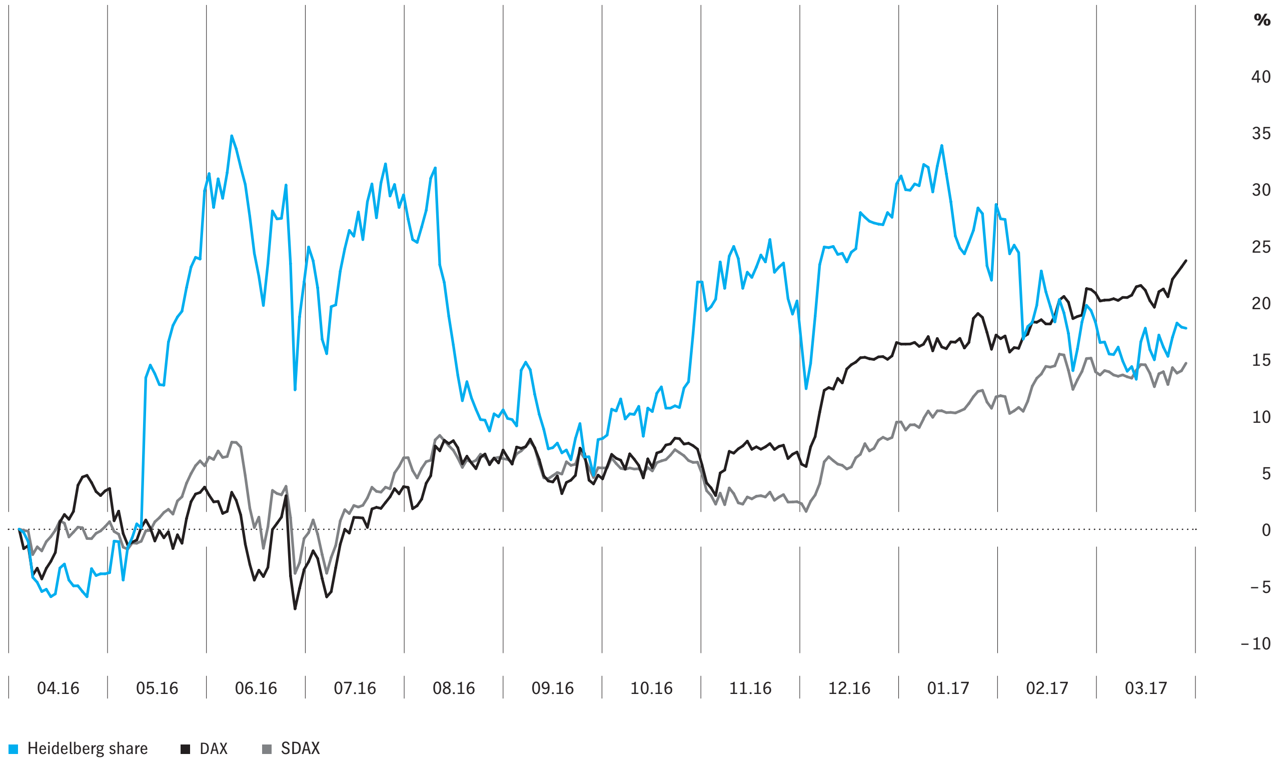
Sincerely,

Rainer Hundsdörfer   Dirk Kaliebe   Dr. Ulrich Hermann   Stephan Plenz

Heidelberg on the Capital Markets

Performance of the Heidelberg share

Compared to the DAX (Index: April 1, 2016 = 0 percent)



The Heidelberg share and the Heidelberg bonds

- Heidelberg share outperforms SDAX with price increase of almost 18 percent
- Heidelberg bonds were traded almost continuously at over 100 percent

The performance of the Heidelberg share was mixed in the 2016/2017 reporting year – geopolitical events such as Brexit in particular greatly influenced stock market developments and therefore the price of the share. Following the publication of preliminary figures for the past financial year in early May 2016, the price climbed significantly and reached its highest level for the year under review at € 2.68 on June 7. A temporary correction began at the start of August following publication of the figures for the first quarter of 2016/2017, though the share price rose again markedly after publication of the figures for the first half of the year. In the third quarter as well, the share price continued to rise to close to its highest level for the year, but fell again at the beginning of February 2017 on the announcement of the nine-month figures in the final quarter of the year under review. There was a slight recovery again at the end of the financial year, with the share trading at € 2.34 on March 31, 2017, corresponding to a price increase of just under 18 percent compared to its price at the beginning of the financial year. The price increase by the Heidelberg share therefore outperformed the S-DAX (price increase of approximately 15 percent). It did not match the price increase of the German DAX benchmark index of just under 24 percent in the year under review.

The convertible bonds issued were strongly influenced by the share price performance. In line with the development of the Heidelberg share, both climbed sharply until the beginning of June 2016 and reached their highest levels for the reporting year during this period. The 2015 Heidelberg convertible bond, like the Heidelberg share, was also trading higher than the price at the beginning of the financial year by the end of the reporting year. By contrast, the price of the 2013 Heidelberg convertible bond was slightly below the price at the beginning of the financial year by the end of the reporting year. No bonds were converted in financial year 2016/2017.

The 2015 corporate bond reached its high for the year of 108.6 percent in early March 2017. Like the shares and the 2015 convertible bond, it also reached its low for the year at 99.5 percent at the start of the financial year in April 2016. Nonetheless, it was listed at above 100 percent almost throughout and ended the year under review on March 31, 2017 at a price of 108.4 percent and thus higher than its level at the start of the financial year. The 2011 Heidelberg corporate bond was repaid in full in the first quarter of the financial year.

German benchmark index moving only in one direction despite immense political events

The German DAX benchmark index began the first quarter of 2016/2017 at a relatively weak level of around 9,795 points on April 1, 2016. The reasons for this included the mixed economic data from Europe and the rising price of the euro. Following the broadly unexpected Brexit vote, it reached its lowest point for the year of 9,268 points at the end of the first quarter. The uncertainty over the political and economic consequences of the UK leaving the EU led to marked losses on the stock market. After its initial losses, the DAX rose back above 10,000 points at the beginning of the second quarter and then remained around this level. Contrary to expectations, not even the US election on November 8 rattled Germany's key stock market barometer in the third quarter. The DAX also remained largely unaffected by the announcements by the new US president of high import duties. In December 2016 the German benchmark index climbed to a strong 11,481 points for the end of the third quarter. The reason for this historic development was the consistently loose monetary policy of the ECB, with which it is attempting to curb the crises in the euro area. This positive development also continued in the fourth quarter. Despite immense political events in this reporting year, the DAX only moved in one direction – up. Thus, the German benchmark index ended the financial year on March 31, 2017 at 12,312 points, and therefore around 24 percent higher than at the start of the financial year.

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

The aim of our investor and creditor relations activities is to present Heidelberg transparently on the capital markets in order to achieve an appropriate valuation for the Heidelberg share and bonds. For that purpose, we inform all stakeholders in an open and timely manner and set great store on not only publishing financial figures but also explaining them. This includes working continuously with the 12 financial analysts and rating agencies that regularly covered the Heidelberg share and bonds in the year under review.

This year the analyst conference in June 2016 took place in Düsseldorf at drupa, the world's largest trade show for the printing industry. At the Company's stand, attendees were able to form an impression of how Heidelberg is advancing the digitization of the industry. Under the "Simply Smart" slogan, the "Smart Print Shop" of the future was presented alongside the international debut of the new Heidelberg Primefire 106 digital printing system.

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 communicating with investors, analysts and other capital market participants at a number of international capital market conferences and roadshows in Germany and abroad. 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.

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 (SdK), Deutsche Schutzvereinigung für Wertpapierbesitz (DSW) and regional banks. We presented the strategic reorientation of Heidelberg at six events in total with the slogan "Roadmap to smart printing in a digitized world". One highlight this year was the event for DSW members at drupa in Düsseldorf. The approximately 120 private investors in attendance were able to experience "Simply Smart" for themselves with a great show on the stage. The Investor Relations team then presented the current challenges and opportunities facing the company.

Our upcoming events and the option to sign up for them can be found on our IR website under "Private shareholder events". 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 + 49-62 22-82 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 website also contains 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 2016 approves all agenda items by significant majority

On July 28, 2016, around 1,500 shareholders attended our Annual General Meeting for the 2015/2016 financial year, which was held at the Rosengarten Congress Center in Mannheim. This meant that around 33 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, 2015 to March 31, 2016). In his speech, Dr. Gerold Linzbach, the Chief Executive Officer of the Company at the time, analyzed Heidelberg's current position and revealed how the Company will develop in the medium term. The Company's shareholders then voted on five of the six agenda items, including the election of Karen Heumann to the Supervisory Board. All these agenda items were approved by a significant majority. Furthermore, Edwin Eichler reported that he would be stepping down from the Supervisory Board at the end of July 2016.

Shareholder structure: Free float at around 91 percent

The proportion of shares in Heidelberger Druckmaschinen Aktiengesellschaft in free float on March 31, 2017 was around 91 percent of the share capital of 257,437,779 shares. Ferd. Rüesch AG has held 9.02 percent of the shares since summer 2014. At the time this report was printed, other shareholders holding more than 3 percent of Heidelberg shares were Dimensional Fund Advisors LP (3.01 percent) and Dimensional Holdings Inc. (3.01 percent).

Credit ratings as of March 31, 2017

	Standard & Poor's	Moody's
Company	B	B3
Outlook	stable	positive

Key performance data of the Heidelberg share

Figures in € ISIN: DE 0007314007	2015/2016	**2016/2017**
Basic earnings per share [1]	0.11	0.14
Cash flow per share	0.38	0.41
High	2.78	2.68
Low	1.62	1.87
Price at beginning of financial year [2]	2.51	1.98
Price at end of financial year [2]	1.99	2.34
Market capitalization – financial year-end in € millions	512	602
Number of shares outstanding in thousands (reporting date)	257,438	257,438

Key performance data of the Heidelberg 2015 corporate bond

Figures in percent RegS ISIN: DE 000A14J7A9	2015/2016	**2016/2017**
Nominal volume in € millions	205.4	205.4
High	105.6	108.6
Low	92.2	99.5
Price at beginning of financial year [3]	98.4	99.5
Price at end of financial year [3]	99.2	108.4

Key performance data of the Heidelberg 2013 convertible bond

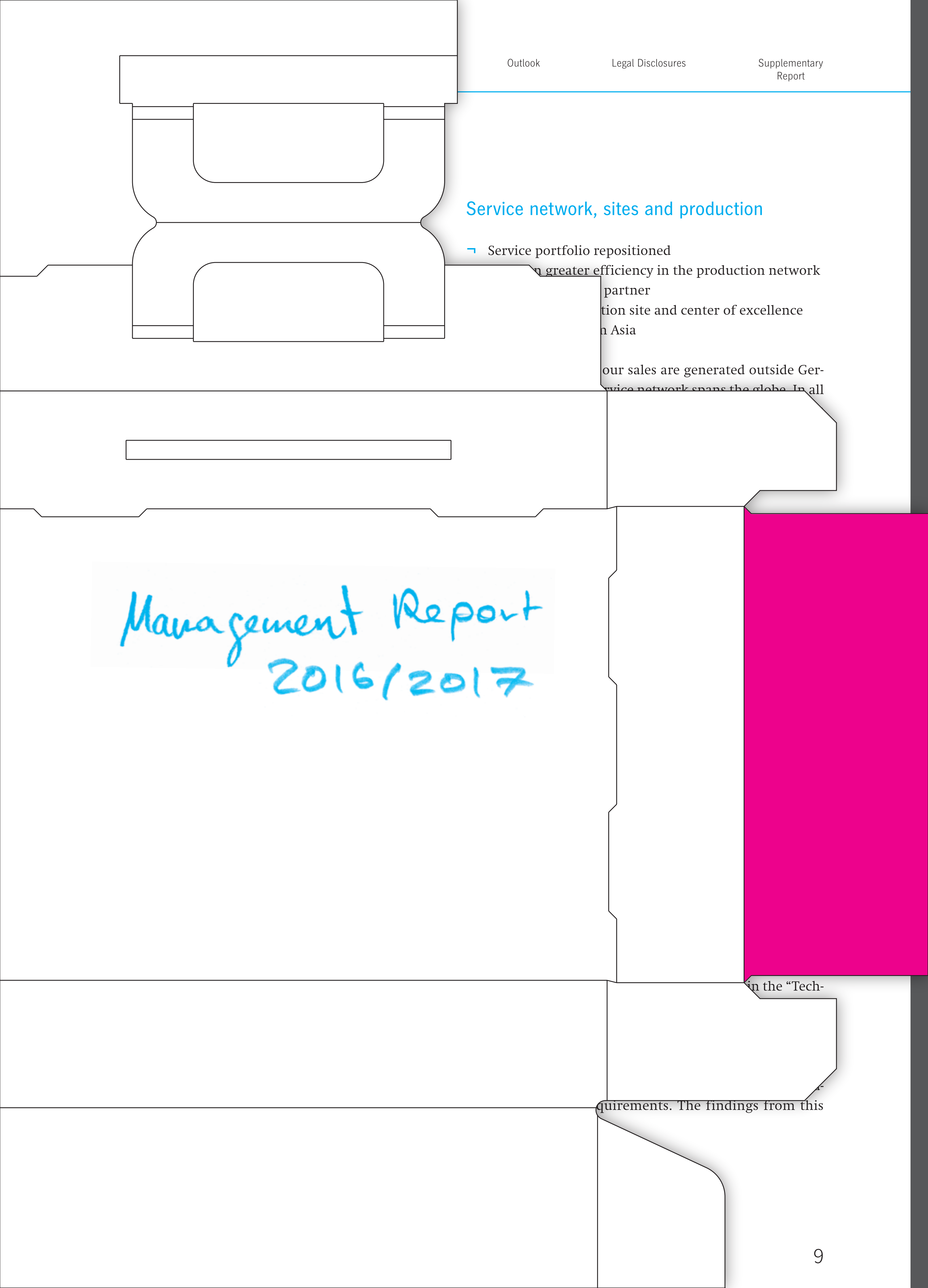
Figures in percent ISIN: DE 000A1X25N0	2015/2016	**2016/2017**
Nominal volume in € millions	60.0	60.0
High	119.7	114.1
Low	97.5	100.8
Price at beginning of financial year [3]	117.8	103.4
Price at end of financial year [3]	103.7	101.2

Key performance data of the Heidelberg 2015 convertible bond

Figures in percent ISIN: DE 000A14KEZ4	2015/2016	**2016/2017**
Nominal volume in € millions	58.6	58.6
High	108.7	110.4
Low	87.9	92.9
Price at beginning of financial year [3]	104.5	94.6
Price at end of financial year [3]	94.8	104.5

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

Management Report 2016/2017



Service network, sites and production

- Service portfolio repositioned
- …n greater efficiency in the production network
- … partner
- …tion site and center of excellence
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Management

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. The effects of the general digitization of society can always be seen – moving away from mass production and towards individualization.

But with everything that is new, the old values are always retained. Customers are at the heart of our business, and our customer-centric approach is continually advanced. 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. Also 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 us and our customers. Beyond the printing industry, we are also addressing new markets with our digital platform for industrial customers.

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 around € 2.5 billion in the 2016/2017 financial year.

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

- Service portfolio repositioned
- Focus on greater efficiency in the production network
- Global production partner
- China: Key production site and center of excellence for customers from Asia

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.

A global service and sales network supports print shop performance

The range of the global Heidelberg Service Organization is highly valued by our customers and is considered to be an engineering leader throughout the printing industry. Our service logistics network ensures that customers can enjoy a reliable supply of original Heidelberg service parts over the entire product life cycle. Customers can choose what they need from a range of 250,000 different service parts. We have 125,000 service parts permanently in stock, meaning that we can fulfill 98 percent of incoming orders on the day 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 and thus also continuously reducing net working capital.

Service portfolio repositioned for drupa 2016

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 10,000 connected presses and a further 15,000 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. Thus, Heidelberg is now offering its advanced and online-based service tool for preventive fault detection known as PREDICTIVE MONITORING (formerly Remote Monitoring). The Company is thereby highlighting the greater 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 leads 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.

As consulting services such as Performance Plus, workflow optimization, lean implementation and investment consulting, which are aimed at the holistic performance enhancement of print shops, are becoming increasingly important to customers, Heidelberg is bundling these offers in its new category PRINT SHOP OPTIMIZATION. Print shops are achieving significant productivity gains especially with the "Performance Plus" consulting concept, which was launched only around 18 months ago and in which the customer and Heidelberg share the success.

Heidelberg production network: Focus on greater efficiency

Heidelberg has production sites in seven countries. They constitute a network that is organized by families of components or 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 all our format classes based on customer requirements. In Qingpu near Shanghai in China, we produce high-quality preconfigured models. The other production sites manufacture individual parts and modules or build prepress or postpress machines. The Amstetten site is the most important casting supplier for our production locations, and is continuing to expand industrial customer business as a limited liability company. Sales with industrial customers have been increased by more than 30 percent. The US, the UK and the Netherlands are home to our experts for specialty coatings, while our specialist for business and automation software is located in Belgium. The primary production site for label printing systems is St. Gallen (Gallus) in Switzerland.

In manufacturing 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 specialization. We continually analyze costs and processes with a view to optimizing vertical integration. There are also structural changes in this area. Production and maintenance at the Wiesloch-Walldorf site will be concentrated on two halls in the future. This will significantly improve the use of space, optimize processes and reduce interfaces.

Heidelberg is continuing the development of its production system with high intensity in order to realize continuous cost savings in the future as well. The new production system compass identifies the success factors for lean and efficient production and offers all employees starting points to generate further potential for improvement. The next step now is to mainstream the administrative areas even more. Efficient process and project management are the main areas of the ongoing development in the lean administration environment.

Further progress has also been made in optimizing the assembly processes at the Wiesloch-Walldorf production site. Assembly will be more flexible, efficient and cost-effective in the future. The activities of this project combined with the production system tools have resulted in a concentration of the required assembly space, and this process is continuing in the new financial year. The project is now around 80 percent complete and will be wrapped up by the end of the financial year 2017/2018.

In addition to the ongoing programs and optimization activities, a savings project affecting all divisions was launched at the start of the financial year 2016/2017 to sustainably reduce manufacturing and process costs. The concept, with its special project workshops and the associated bundling of synergies from various functional areas, is new at Heidelberg. Product development, procurement, manufacturing, assembly, sales, service and controlling are just some of the most important functions. Ideas are generated, their potential for cost savings and quality improvement is assessed and decisions are made about which measures to take. Efficient decision-making is a key component in reducing costs, whereby speed is the essential part of the process for achieving the goal of savings in the double-digit million range.

Heidelberger Druckmaschinen as a global production partner

As a result of rapidly increasing demand for individualized solutions for different markets, the scalability of the production process is necessary for external providers as well. Heidelberg was able to position itself as a partner in the production of high-precision 3D printing platforms for the flexible production of such new systems with its Smart Factory division. For example, Heidelberg supports Multiphoton Optics in the transformation of development data into productive information and in product validation. Heidelberg also completes the assembly of 3D printing platforms at its Wiesloch-Walldorf production site, documents their condition and delivers them on time to customers worldwide. 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 for customers from Asia

In total, Heidelberg has approximately 860 employees in China, around 500 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. Three branches in Beijing, Shanghai and Shenzhen and three offices in Hong Kong, Chengdu and Guangzhou serve to ensure comprehensive local customer care.

We 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 Qingpu 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 is reflected in an increase in export volumes to other Asian countries and Europe to more than 20 percent of the total production volume.

The significance of the Asia region and the Qingpu production site can also be seen by the official opening of the Print Media Center Shanghai (PMC Shanghai) last year. Alongside Atlanta in the US and Wiesloch in Germany, Shanghai is the third center of excellence for the printing industry worldwide, where presses are not just demonstrated but training is provided for customers as well. PMC Shanghai, which has been excellently accepted by its customers, is part of Heidelberg's training network and covers all areas from prepress to further processing in addition to training for consumables and special printing applications. Just recently, a Print Media Academy (PMA Shanghai) was also added, which serves as a base for comprehensive training and further training opportunities in the region.

Markets and customers

- Print production volume relevant to Heidelberg growing
- Heidelberg increasingly using digital business models
- Strategic focus on the areas of packaging, commercial printing, labels and new markets

Print production volume relevant to Heidelberg growing

The market for printed products is stable with a global print volume of more than € 400 billion per year. 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 annual sales. However, finishing and customization increase the value of individual printed products, as these applications enhance the appeal of print media in the communications mix. This is particularly true for the generally growing field of packaging and label printing.

Technologically, two-thirds of the print volume is already created using sheetfed offset, flexographic and digital printing processes today, and the trend is rising. To address this print production volume relevant to Heidelberg, we offer products, services and solutions for these printing technologies. 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 15 percent since 2000, and the trend is still rising. 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 13 percent of global print volumes.

The change in the printing industry is also shown by the fact that the industrialization of the industry across all areas is driving forward structural change. Globally, we are seeing the growth of ever larger, usually international printed media groups, combined with a decline in small and medium-sized businesses. In the last few years, the number of print shops has declined from around 200,000 more artisanal businesses to around 15,000 industrial printing 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. Achieving operational excellence is an important way of achieving the economies of scale necessary to compete.

But business innovations and new business models, often in conjunction with intelligent data management, are increasingly being seen as well. This is especially true in digital printing. Print shops are attempting to reposition themselves – away from being copiers and towards being innovative and consulting service providers.

Heidelberg is increasingly using digital business models and will be focusing even more strongly on a digital future in terms of its structure and customer approach. To achieve this, the potential resulting from combining individual product portfolio offerings to create an end-to-end productive solution for customers must be leveraged. Unlike in traditional capital goods business, new digital business models are geared directly to the customer's business success. New digital technologies and corresponding business concepts have to be made marketable to offer customers a performance promise based on presses, consumables and service as a full-service provider in the future. To this end, we intend to increasingly sell packages and systems rather than individual products. We are also developing subscription models already established in other sectors for different customer segments to tap additional profitable business.

Strategic focus on the areas of packaging, commercial printing, labels and new markets

We want to focus even more on the customer requirements of individual market segments. To do this, we will develop corresponding business area strategies for the areas of packaging, commercial printing, labels and markets that are new to us outside the classic printing industry. Here, we are devising the strategic approaches for our future activities at all levels.

Packaging market

The packaging market is the fastest growing market segment in terms of the global print production volume with average growth of around 3 percent. Packaging is becoming more and more important for the success of a product strategy, whether for identification, security or as an information medium. In total, around 25 percent of all printed materials are produced as packaging. Heidelberg is focusing its solutions in this market segment on the folding carton market. As globalization continues to advance, the need for additional packaging variants, a more personalized approach to customers and a shorter time-to-market is growing among brand companies that operate and produce internationally. Heidelberg is the leading supplier in the industry, and can guarantee digitized and industrial packaging production with a faultless, standardized end result. We will steadily expand our offering for this growth market.

Commercial printing market

The commercial printing market for printed advertising materials such as flyers, brochures or calendars is the largest market segment with approximately 50 percent of the world's print production volume, and is enjoying a stable development. Heidelberg is the market leader in this area with its products and services. There are high growth rates in online printing in particular. The success of this business model for the production of individual printed materials in the sense of Industry 4.0 is based on three pillars – online sales, fully integrated production from ordering to dispatch and collective printing. In the latter, several print jobs are produced jointly on what are known as collective forms.

Label market

The label market is one of the largest areas of growth in the printing industry, accounting for around 5 percent of the total print volume. In particular, demand for digitally printed labels is growing at a consistently high rate. The global print volume of self-adhesive labels alone is growing at an annual rate of around 4 percent. The share of the digitally printed volume in this is currently only around 5 percent with up to double-digit growth rates. 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 is actively driving the change in business models in this area with their offering, providing users with flexible and economical solutions.

New markets

New markets refer to those areas outside the classic printing industry. Here, using our expertise from the areas of development, production, service and sales, we are attempting to develop new applications together with new potential customer groups and thus cultivate new markets. One example is printing suitcases, motorcycle helmets or hockey sticks – colorfully, individually and economically. For example, the automotive equipment supplier Ritzi Lackiertechnik GmbH based in Tuningen in Baden-Württemberg was the first adopter to be swayed by the advantages of Heidelberg's new range.

However, the first customers have also been secured as a global production partner for other industries. Heidelberg and its Smart Factory area were selected for the flexible production of new 3D printing systems. For example, we are supporting the start-up Multiphoton Optics in the transformation of development data into productive information and in product validation. Heidelberg also completes the assembly of 3D printing platforms at its Wiesloch-Walldorf production site, documents their condition and delivers them on time to customers worldwide. To do this, Heidelberg uses its View2Connect® collaboration tool, a cloud-based application for digital networking of today's process chains across company boundaries.

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 Equipment) and Dr. Ulrich Hermann (head of Heidelberg Services).

The organizational chart (below) shows the allocation of the business areas (BAs) to the Management Board divisions and the segments and the allocation of functional responsibilities within the Management Board as of March 31, 2017. Rainer Hundsdörfer is responsible for the areas of Corporate Development, Human Resources, Communications, Internal Audit, Manufacturing, Assembly, Procurement, Quality and Environmental Management, Occupational Health and Safety and Marketing. In his role as CFO, Dirk Kaliebe is also the head of the Heidelberg Financial Services segment and is responsible for the Customer Financing BA and the areas of Controlling, Accounting, Treasury, Taxes, IT, Investor Relations and Legal, Patents and Compliance. Dr. Ulrich Hermann is the head of the Heidelberg Services segment and responsible for the Consumables and CtP (Computer-to-Plate) BA, the Remarketed Equipment BA and the Service and Service Parts BA. Dr. Ulrich Hermann also has overall responsibility for Sales, hence he is in charge of the Regional Markets and Service Organization. As the Management Board member responsible for the Heidelberg Equipment segment, Stephan Plenz is in charge of the Sheetfed, Digital and Gallus business areas. He is also responsible for the functional areas of Product Management Equipment, Product Development and Product Safety.

As part of the revision of our strategy, we adjusted our business structures and organization effective from April 1, 2017. Details of this can be found in the "Strategy" chapter on pages 16 to 18 of this report.

Organizational chart as of March 31, 2017

Stephan Plenz Member of the Board Equipment	**Dr. Ulrich Hermann** Member of the Board Services	**Dirk Kaliebe** Chief Financial Officer and Financial Services	**Rainer Hundsdörfer** Chief Executive Officer
BUSINESS AREAS			
¬ Sheetfed ¬ Digital ¬ Gallus	¬ Consumables and CtP ¬ Remarketed Equipment ¬ Service and Service Parts ¬ Postpress	¬ Financial Services	
FUNCTIONAL RESPONSIBILITIES			
¬ Product Management Equipment ¬ Product Development and Product Safety	¬ Regional Markets and Service Organization	¬ Controlling ¬ Accounting ¬ Treasury ¬ Taxes ¬ IT ¬ Investor Relations ¬ Legal, Patents and Compliance	¬ Corporate Development ¬ Chief Human Resources Officer ¬ Communications ¬ Internal Audit ¬ Manufacturing and Assembly ¬ Procurement ¬ Management of Quality and Environment ¬ Occupational Health and Safety ¬ Marketing

The Supervisory Board consists of twelve 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.

Segments and business areas

In line with its internal reporting structure, the operating activities of the Heidelberg Group are divided into the following segments: Heidelberg Equipment, Heidelberg Services and Heidelberg Financial Services. These are also the reportable segments in accordance with IFRS. Within the segments, Heidelberg is divided into business areas (BAs). Each business area formulates plans for how best to leverage the potential offered by their respective submarket. The Production, 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 submarkets while generating synergies within the functions and upholding the principle of "one face to the customer". Our sheetfed offset, flexo and digital printing press technologies are developed, produced and marketed by the corresponding business areas. Finishing technologies for packaging and advertising are the responsibility of the Postpress business area. The global provision of service capacity and service parts is coordinated by the Service and Service Parts business area, which has around 3,000 service employees and a global logistics system for service parts. The Consumables and CtP business area ensures that our customers around the world are supplied with consumables. Remarketed printing presses, mainly manufactured by Heidelberg, are traded in the Remarketed Equipment business area.

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, 2017 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 136 to 139.

Overview of material subsidiaries included in the consolidated financial statements

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

Strategy

- Our vision: We make the difference
- Our mission: We are building the digital future of our industry
- Our values: We listen. We inspire. We deliver.

Over the past few years, we have completed an operational turnaround to become a sustainably profitable company. This is confirmed by the key figures for the 2016/2017 reporting year. The main factors behind this were an adjustment of strategy and structures with far-reaching restructuring steps and the transformation of the portfolio with a focus on profitability and growth areas.

Our vision: We make the difference

Heidelberg is accelerating its development into the digital future and has devised its future corporate strategy accordingly with the slogan "Heidelberg goes digital!".

We want to play an active and key part in shaping the digitization of our industry, being the perfect partner for our customers and offering the value added and the difference that gives us and our customers more efficiency, profitability and success. To do this, we place customers and their needs at the heart of what we think and do.

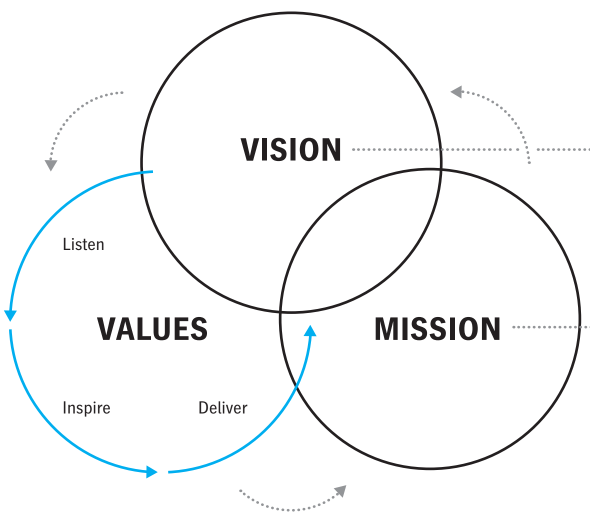
Commitment and strategic networking across all levels

A customer-centric approach can only work if we establish an efficient process coordinated and networked across all regions, business units and functions. This must comprise sales planning in the regions, production planning in the operational units and operational excellence, i. e. general support in the functional departments. Consistent investment planning and the corresponding research and development approaches are likewise managed this way.

Operationally, the measures this entails are expected to result in improved efficiency, a higher margin and corresponding sustainably profitable growth.

Our mission: We are building the digital future of our industry

We want to achieve some of the potential for growth in the area of digitization organically, i. e. by expanding our innovation leadership. Around 5 percent of our sales are therefore channeled into research and development. We will continue to expand the products and concepts we presented at drupa 2016 under the "Simply Smart" slogan, thereby continuously optimizing and simplifying the use of increasingly complex processes and technologies.



Great ideas need visualization, identity & communication.

We make the difference.

We **listen** to you.
We **inspire** innovation & **deliver** performance for our customers.

We are building the digital future of our industry.

Furthermore, we will expand our expertise through targeted acquisitions. As a holistic solutions provider, Heidelberg's goal is to increase the productivity of the entire printing business. This derives from IT and data excellence and the intelligent linking of equipment, service and consumables, provided on a single platform. We have established a good track record here in recent years with the takeover of the Gallus Group and the acquisitions of Hi-Tech Coatings, the PSG Group, BluePrint Products, CERM and, most recently, Fujifilm's European paint and printing chemicals business.

Digitization means using presses and software to deliver information for digital business

We began developing digital product and solution offerings years ago. Now we are aligning the entire Group according to an all-encompassing strategy of digitization. The aim is to guarantee the optimal use and appropriate digital – smart – networking of presses, software, consumables and service. Presses serve as information providers (big data), which form the basis for digital business and therefore growth opportunities.

Digitization also means completely rethinking business models

In order to be successful in the long term in the face of persistently challenging and rapidly changing conditions, we strive to practice a customer-centric approach at all levels. We want to accompany the lives and business of our customers by offering an end-to-end solution over the entire life cycle of a press. Our aspiration is that Heidelberg goes from being the manufacturer of the best and most innovative printing presses to a full-service provider for presses, consumables, software and services. By doing this we want to make a decisive contribution to making our customers more efficient and more profitable. However, in order to increase our own share in print production volumes, it is absolutely essential to develop completely new business models. This is about offering performance-related and output-related models rather than being a pure-play provider of presses, materials and services. Consequently, this also means thinking about subscription models and developing towards being an operator.

Our values: We listen. We inspire. We deliver.

LISTEN	INSPIRE	DELIVER
We listen to our customers closely in order to understand their needs. But we also listen to each other as we are working together towards a common goal.	**We want to inspire and impress our customers,** anticipate the technology of the future and in doing so surpass customers' expectations. Internally it is crucial that we challenge and motivate each other in order to find new and better paths to our goal.	**We deliver what we promise.** Every customer must be able to see the benefits of our products and actions. With each order we give a personal promise that we naturally keep. But we also have to achieve the targets we define for ourselves. Our own actions, for which we take responsibility, serve the goal of profitability. This requires that we take responsibility and act accordingly.

Goals

In the course of adjusting our strategy, we have defined a new catalog of goals that we will be guided by in the years ahead.

- IN THE SHORT TERM this mainly means defining appropriate measures with which to achieve our medium- to long-term goals. We are focusing on cost-efficiency in all functional areas such as production, purchasing and sales and marketing, and on the expansion of innovative growth areas through investment and targeted acquisitions.
- IN THE MEDIUM TERM we want to make new, digital technologies and business concepts marketable. The starting point for this is data-driven business models with which we can map customers' needs. We want to become a full-service provider and a "performance seller" for presses, consumables and services throughout the entire life cycle of printing presses. New customer business and thus additional profitable sources of income will be cultivated by ramping up production of our digital printing portfolio and new subscription models.
- IN THE LONG TERM this will make us a digital company that works to define, develop and advance integrated digital business models with genuine added value for our customers.

Measures for achieving goals

The new strategic approaches and goals have a direct impact on business structures and organization:

New management structure for the digital future

To accelerate Heidelberg's digital transformation, there was a reorganization of the segments and functional responsibilities, and of the regional market and service organization, at the start of financial year 2017/2018. Particular importance was attached to the efficient networking of business areas.

Definition of new segments

The businesses bundled in the previous segments Heidelberg Equipment (HDE) and Heidelberg Service (HDS) are being restructured into the Heidelberg Digital Technology and Heidelberg Digital Business & Service segments. The Heidelberg Financial Services segment will continue to exist unchanged.

Heidelberg Digital Technology (HDT): The right technologies and products for increased profitability

The Heidelberg Digital Technology segment comprises sheetfed offset business, label printing and print processing. The right technologies and products are developed, produced and marketed here, including for new business models.

The presses themselves are increasingly being used to generate data for additional sales potential as part of a newly developed full-service offering for customers. In addition to the growth potential resulting from this, improved cost management is also expected to lead to continuous increases in efficiency and margins. The entire value-added process with research and development, purchasing and production is built around this under the responsibility of Heidelberg Digital Technology.

Heidelberg Digital Business & Services (HDB): New digital business models for profitable growth

In our Heidelberg Digital Business and Services segment we help our customers to grow profitably and to meet their own digital challenges successfully with new business models, by optimizing the use of our solutions for digital printing presses, software, consumables and services. We are aligning our range of solutions to the customer's entire value chain and utilization phase. Growth potential will also be generated by expanding software business. The same is true of the business known as Smart Factory with its digital platforms for industrial customers. A work area called New Markets, which deals with Industry 4.0 issues, will be created for this.

The reorganization of the segments will affect both the organization and reporting of key performance indicators from April 1, 2017.

In addition to the reorganization of the segments and business units, there will also be an adjustment of the global sales and service network in line with the digital challenges and needs of customers.

Four strategic business segments with individual market strategies

Building on the market environment defined by customer requirements, we will develop specially coordinated market strategies for the four strategic business areas "Packaging", "Commercial Printing", "Label Printing" and "New Markets". These market segments are described in the section "Markets and customers" on pages 12 and 13 of this report.

Key Performance Indicators

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

With the implementation of portfolio optimization measures, we have already achieved key strategic targets. The next phase is to continue to adapt our portfolio and structures to future requirements in order to safeguard efficiency and profitability in the long term.

Most significant controlling performance indicators

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. 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 special items (EBITDA), the RESULT AFTER TAXES and LEVERAGE, i. e. net debt in relation to EBITDA. More detailed information on the development of these financial performance indicators can be found in the individual sections of the “Economic report” on pages 23 to 40 and in the “Future prospects” section on page 53.

Other financial and non-financial performance indicators

Other key figures applied in operational financial performance measurement are primarily the result of operating activities before interest and taxes excluding special items (EBIT), net working capital in relation to sales and FREE CASH FLOW. Moreover, 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 special items have covered our cost of capital once more. More information can be found in the “ROCE and value added” section on page 33.

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

Research and Development

- Further expansion of digital portfolio
- Integrating digital and offset printing systems
- Advancing autonomous printing
- Announcement of new research and development center

Strong customer orientation characterizes the culture of innovation at Heidelberg. The expectations and requirements of our customers are constantly rising and changing. Short reaction times, flexibility and reliability exactly in line with actual requirements are also key factors for a successful customer relationship from a development perspective. The digitization of the printing industry, in which processes are increasingly autonomous, and the further development of digital printing are the clear trends and key growth drivers in our industry. We have systematically geared our development strategy towards this to ensure that our customers remain successful on the market moving ahead.

Focus on digital portfolio

In the period under review we continued to invest significantly in expanding our digital offering, while at the same time further stepping up development activities in this area to realize our growth objectives in the digital area. We are convinced that the requirements and demand in digital packaging printing in particular will change the market. Among brand companies especially, there is a growing need for additional and industrially produced packaging variants for a more individual approach to customers and a shorter time-to-market in order to be successful in the long term at the point of sale.

To achieve this, Heidelberg has developed the Primefire 106 to market readiness together with Fujifilm. In particular, the system allows packaging printers to build new business areas, for example with the production of variable or even individual packaging, or by adding traceability and security elements to individual packaging. The needs-driven printing of small runs with Primefire 106 optimizes supply chain processes and helps to reduce storage costs.

Since early January 2017, Multi Packaging Solutions (MPS), based in New York, USA, and its German production site in Obersulm, have been the first pilot user.

In the area of digital label printing, we developed the Gallus Labelfire 340 to production standard in the reporting period. It allows our customers to produce small runs and individualized, high-quality labels industrially and economically.

At Inprint in Milan in November 2016, we debuted the new Omnifire 1000, with which three-dimensional objects of almost any shape and different materials – such as suitcases, balls, helmets, bottles, shoes or even displays or car parts – can be printed and decorated individually and in color. This means completely new opportunities for manufacturers of consumer goods and industrial customers to turn mass-produced goods into unique and individual pieces. And we are therefore also reaching into new market and customer segments for our Company.

We found the first pilot user for the Heidelberg Omnifire 1000 in the automotive equipment supplier Ritzi Lackiertechnik GmbH. Ritzi is a specialist for innovative surface finishing for high-quality components for a range of automotive manufacturers, such as trim strips, switches, instrument panels and other finished components.

Integrating digital and offset printing

A key role is played by print shop workflow, or the Prinect business intelligence platform. With Prinect, users can control and transparently manage their digital and offset printing workflow across locations and including customers and vendors using a centralized and integrated workflow system. This creates a fully automated and industrialized printing process. The system is therefore an essential requirement for industrialized production.

Digitization in the print media industry is also affecting the design of various systems. Especially for industrialized and therefore very powerful production systems, it is important that the operator always has an overview of all functions and the relevant processes. In addition, easy access to all control elements is crucial, and they must be designed so that physical exertion is reduced to a minimum while safety is increased to the maximum. Modern workstations on printing presses should also allow the user to fully utilize their potential and reduce operator errors – and the systems should also be an eye-catcher at the same time.

Our goal is therefore that customers and users can easily take advantage of the trends in digitization and thus become more successful in the long term. The 2017 iF Design Award presented for the Heidelberg Primefire 106 and the Prinect Press Center XL 2 digital control station highlight the fact that we are on the right path.

Advancing autonomous printing

With the help of digitization, Heidelberg is further developing its push-to-stop approach. With this new operating philosophy, we have initiated a paradigm shift in industrial print production using sheetfed offset printing presses. While processes have been actively planned, launched and handled by operators to date, in the future this will be done by the press itself. The printing process here is largely autonomous. An operator only intervenes in the process when something is not running completely smoothly. With this highly automated, industrial solution, we are advancing and securing the future viability of our core business. Our customers can therefore significantly increase their competitive capability and will have more time to take care of their own customers. We introduced autonomous printing for the first time with the new generation of the Speedmaster XL 106 at drupa 2016.

Announcement of new research and development center at Wiesloch-Walldorf production site

Together with the Baden-Württemberg Minister for Science, Research and the Arts, Theresia Bauer, Heidelberg officially announced the launch of its new development center at the Wiesloch-Walldorf production site in November 2016. The world's most state-of-the-art research facility for the printing industry will be completed by 2018 and become home for around 1,000 workplaces in R&D.

The Company is investing around € 50 million in the new innovation hub, at the same time setting new benchmarks. It is creating the most significant center of excellence for the printing industry, which will generate global sales of around € 400 billion per year.

R & D in figures

Currently around 8 percent of our workforce is employed in the area of research and development. We invested approximately 5 percent of our sales in research and development in the year under review.

Heidelberg submitted a total of 75 new patent applications in the 2016/2017 financial year (previous year: 76). This means that Heidelberg's innovations and unique selling propositions are protected by around 3,400 active patents and patent applications worldwide.

Five-year overview: Research and development

	2012/2013	2013/2014	2014/2015	2015/2016	**2016/2017**
R&D costs in € millions	118	117	121	122	119
in percent of sales	4.3	4.8	5.2	4.9	4.7
R&D employees	1,017	977	933	888	891
Patent applications	117	77	94	76	75

Partnerships

- Partnerships and cooperations in digital growth segments
- Focus on digitization and industrialization in all projects
- Tapping of new market potential by expanding value added

In the past, Heidelberg's unique position has allowed it to establish itself as a market and technology leader and 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 digitization in practically all projects. We combine our own innovative drive with that of our partners. This ensures optimized resource management on both sides. This way we combine the best possible expertise to create something new – for example the industrial digital printing system Heidelberg Primefire 106 in our cooperation with Fujifilm – and thus enable our customers to remain competitive in the future in an environment defined by digitization. In the period under review we significantly expanded or extended some of the partnerships that have already existed for many years. We will maintain this approach and continue to define key projects moving ahead to allow our customers to access new technologies and services and to strengthen our own business.

As a solutions provider, Heidelberg is always interested in attracting further cooperation partners to logically and efficiently supplement its portfolio. Heidelberg offers the ideal platform for the integration of further partners with its internationally unique sales and service network in conjunction with the Prinect print shop workflow.

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. In this way, we are aiming to be the preferred partner in the industry.

We are successfully cooperating in two important areas with FUJIFILM, Japan – digital printing and consumables. At drupa 2016 we presented the first industrial digital printing system for the B1 format, the Heidelberg Primefire 106 – developed in cooperation with Fujifilm – and launched practical testing with a customer in January 2017. As planned, series production will begin in 2018. Above all, this system meets packaging printers' requirements for more flexibility, higher productivity and customization.

Thanks to this strategic development project from two industry leaders, we are allowing users to try out new business models while at the same time opening up new market segments. We have since 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.

In the field of consumables, Heidelberg and Fujifilm are successfully cooperating in the marketing and sales of various products for offset printing.

Since the start of the partnership between Heidelberg and RICOH in 2011, around 1,200 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 editions, 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 the generally already highly automated PREPRESS area, we are continuing to make advances with our external partners. Since last year we have been cooperating with the companies KRAUSE AND NELA, with whom we have initiated a fully automated printing plate exposure line in a form not previously available on the market. This allows us to provide our industrial customers with a significant boost in productivity and increased production security.

In the field of further processing, we have begun a cooperation with the Swiss company STEINEMANN TECHNOLOGY AG. Steinemann is a global supplier of varnishing systems for digital and conventional printing. Heidelberg is handling the lead management for Steinemann in markets such as the US, Canada, Germany, France, Poland, Japan, Australia, India, Austria and the Nordic and Baltic States. Thus, Heidelberg can offer digital printing users in particular an attractive range of high-quality processing for digitally printed products.

The strategic partnership between us and the Chinese MASTERWORK MACHINERY CO. (MK) in the field of further processing for packaging printing continued to develop very positively in the year under review. After the successful launch at drupa 2016, where Masterworks was presented as Heidelberg's largest exhibiting partner, Heidelberg was able to sell around 70 die cutter and adhesive binder systems produced by Masterworks to customers worldwide. Further product launches are planned for the coming months, and will further accelerate the growth planned in this segment.

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 AND USU. 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 the area of INTERNAL AND EXTERNAL LOGISTICS, we are optimizing our processes and structures with various partners and reducing our costs. The logistics points in Asia and the Americas work together with the World Logistics Center in Wiesloch-Walldorf in a hub structure and are centrally managed from Germany. As part of an innovative logistics concept, we are working closely with LGI in Hall 11 at the Wiesloch-Walldorf production site. LGI carries out the major part of production logistics tasks there.

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

ECONOMIC REPORT

Macroeconomic and Industry-Specific Conditions

The robust development of the global economy since the middle of 2016 has been a pleasant surprise given the increased political risks. Factors contributing to this include the decision by the United Kingdom to leave the EU and the outcome of the election in the United States. However, growth for the year as a whole remained moderate at 2.3 percent. At 1.6 percent, growth stabilized not just in the industrialized countries but also in the emerging and developing countries, especially in Asia, at 3.5 percent.

At 1.7 percent despite high uncertainty, the slowdown in economic expansion in the **EURO ZONE** was not lasting.

The **US ECONOMY** continued to perform robustly at 1.6 percent, and the change in government in the US has apparently sparked hopes for strong economic policy stimulus.

The **JAPANESE** government's costly growth policy ensured economic growth of 1.0 percent in Japan. The depreciation of the yen against the dollar also helped.

The economy in **CHINA** picked up as a result of government stimulus measures, although the pace of growth was still moderate at 6.7 percent year-on-year. **RUSSIA** now seems to have overcome its recession; corporate and consumer sentiment has improved and industrial production increased markedly towards the end of the year. By contrast, the recession in **BRAZIL** is still ongoing; production slumped again in the fourth quarter.

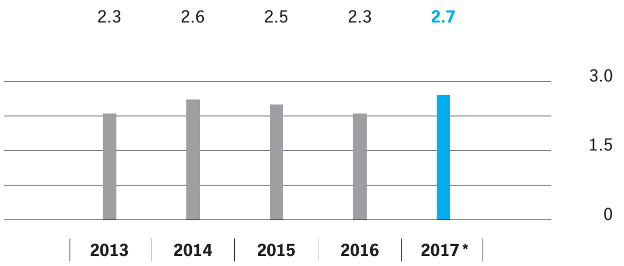
The **GERMAN ECONOMY** experienced solid economic growth in 2016. Overall, gross domestic product increased by 1.8 percent on average for the year, thus continuing the rise of recent years.

In **GERMAN ENGINEERING**, mechanical production was stagnant in 2016 and once more fell short of original expectations. Exports also only approximately lived up to the previous year's level. Incoming orders were down by 2 percent year-on-year in 2016 in real terms. Domestic incoming orders declined by 1 percent, while orders from abroad were down by 3 percent year-on-year.

Sources: IHS Global Insight 2016 and 2017; VDMA 2017

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:
2013: 2.6 %; 2014: 2.8 %; 2015: 2.8 %; 2016: 2.5 %; 2017: 2.9 %

Source: Global Insight (WMM); calendar year; as of April 2017

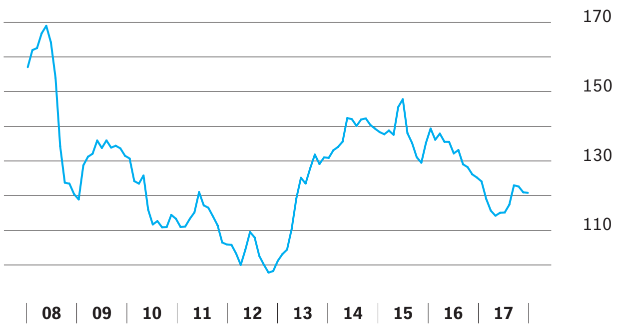
Development of EUR/USD

January 2008 to January 2017

Source: Global Insight

Development of EUR/JPY

January 2008 to January 2017



Source: Global Insight

Business Development

- Sales volume up slightly on previous year despite several acquisitions still outstanding
- Operating result (EBITDA) increased on like-for-like basis
- Result after taxes improves to € 36 million
- Leverage kept below target of 2

Overall assessment of business development

Heidelberg started the financial year 2016/2017 with a successful appearance at drupa in Düsseldorf. Under its drupa slogan "Simply Smart", Heidelberg continued to press ahead with the digitization of the industry and its own strategic reorientation. The new products and solutions led to a high level of demand across the entire product range for industrial print production and digitization. Overall, customer investment behavior confirmed the shift within the industry towards greater automation and productivity and towards software-based integration.

At € 2,524 million, sales were slightly higher than the previous year's level, despite several acquisitions still outstanding and consistently restrained investment behavior in China. The development of the growing digital business and the continuous expansion of service business created the foundation for future growth.

We have achieved our goal of operating profitability at the level of the previous year on a like-for-like basis. EBITDA amounted to € 179 million after € 189 million in the previous year. The previous year's earnings figure contained a one-time positive effect of around € 19 million from the reversal in profit or loss of the negative goodwill from the first-time consolidation of the acquired European Printing Systems Group (PSG). The segments Heidelberg Equipment and Heidelberg Services were within their forecast EBITDA ranges of 4 to 6 percent and 9 to 11 percent respectively.

As planned, the net result after taxes was increased moderately to € 36 million in the past financial year after € 28 million in the previous year. The Company has therefore made good progress in establishing itself as sustainably profitable.

Thanks to the operating result achieved and the lower net debt, as forecast we kept our leverage (net debt to EBITDA) below the target of 2.

In the year under review we further optimized the financing structure and thus achieved further diversification of our instruments and maturities. This has led to lower interest payments and an improved financial result.

Incoming orders up 4 percent on previous year

At € 2,593 million, total incoming orders in the financial year 2016/2017 were around 4 percent higher than in the previous year (€ 2,492 million), thereby bucking the market trend. While Brazil and Argentina posted declines in incoming orders due to ongoing recessions, and China due to subdued investment behavior, the EMEA (Europe, Middle East and Africa) and Eastern Europe regions increased their orders.

Sales up slightly on previous year despite several acquisitions still outstanding

Including minor negative currency effects, sales were slightly higher than in the previous year (€ 2,512 million) at € 2,524 million in the year under review. Sales per employee (excluding trainees) climbed from € 217 thousand to € 219 thousand in the reporting year. Thanks to the successful drupa trade show, the Heidelberg Equipment segment in particular contributed to growth.

The order backlog was higher than in the previous year (€ 460 million) at around € 497 million as of March 31, 2017.

Five-year overview: Business development

Figures in € millions	2012/2013	2013/2014	2014/2015	2015/2016	**2016/2017**
Incoming orders	2,822	2,436	2,434	2,492	2,593
Sales	2,735	2,434	2,334	2,512	2,524

Results of Operations

- EBITDA margin on a par with previous year's level
- Further drop in interest expenses
- Moderate increase in result after taxes

At € 179 million, EBITDA improved year-on-year on a like-for-like basis. The previous year's figure (€ 189 million) contained a positive effect of around € 19 million from the reversal in profit or loss of the negative goodwill from the first-time consolidation of the acquired European Printing Systems Group (PSG). The EBITDA margin was around 7.1 percent of sales and thus in line with the previous year's level as expected.

Income statement

Figures in € millions	2015/2016	**2016/2017**
Net sales	2,512	2,524
Change in inventories/ other own work capitalized	8	32
Total operating performance	2,520	2,556
EBITDA excluding special items	189	179
Result of operating activities excluding special items	116	108
Special items	– 21	– 18
Financial result	– 65	– 56
Net result before taxes	31	34
Taxes on income	3	– 2
Net result after taxes	28	36

Income statement: Moderate increase in result after taxes

Partly due to the rise in sales, the Group's total operating performance climbed from € 2,520 million in the previous year to € 2,556 million in the year under review. The ratio of cost of materials to total operating performance fell slightly to 45.4 percent (previous year: 46.8 percent) due primarily to the sales mix. At 33.1 percent, the staff cost ratio was up slightly year-on-year (32.7 percent).

Other operating expenses and income were up year-on-year at a net amount of € 371 million (€ 330 million) in the year under review. Special items, which predominantly resulted from partial retirement agreements, declined from € – 21 million in the previous year to € – 18 million in the year under review.

Heidelberg repaid its 2011 corporate bond in full ahead of schedule in June 2016. The financial result therefore benefited from lower interest expenses and amounted to € – 56 million (previous year: € – 65 million).

Owing to the lower special items from the portfolio optimization and the improved financial result, the net result before taxes improved to € 34 million (previous year: € 31 million) and the result after taxes to € 36 million (previous year: € 28 million).

Five-year overview: Results of operations

Figures in € millions	2012/2013	2013/2014	2014/2015	2015/2016	**2016/2017**
Sales	2,735	2,434	2,334	2,512	2,524
Per capita sales [1] (in € thousands)	200	194	195	217	219
EBITDA [2]	80	143	188	189	179
in percent of sales	2.9	5.9	8.1	7.5	7.1
Result of operating activities [3]	– 3	72	119	116	108
Special items	– 65	– 10	– 99	– 21	– 18
Financial result	– 59	– 60	– 96	– 65	– 56
Net result after taxes	– 117	4	– 72	28	36
in percent of sales	– 4.3	0.1	– 3.1	1.1	1.4

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

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

Net Assets

- Asset and net working capital management allows investment in digital business and demo centers
- Continued reduction in volume of directly assumed sales financing
- Further drop in net debt; leverage kept below target of 2

We again reduced our capital commitment through systematic asset and net working capital management. Receivables from sales financing reached a new low thanks to the high level of liquidations and repayments and lower demand for direct funding. Net debt was therefore reduced further. As a result, additional investment in the digital sector and equipment for our demo centers with drupa generation presses was possible.

Assets

Figures in € millions	31-Mar-2016	**31-Mar-2017**
Non-current assets	724	741
Inventories	607	581
Trade receivables	361	375
Receivables from sales financing	65	58
Current securities and cash and cash equivalents	215	218
Other assets	230	246
	2,202	**2,219**

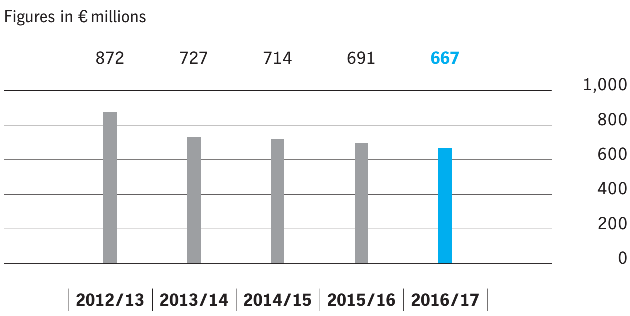
Assets: Capital commitment further reduced through asset and net working capital management

The total assets of the Heidelberg Group amounted to € 2,219 million as of March 31, 2017.

Non-current assets increased slightly in the year under review, essentially as a result of higher net investments. As in previous years, we used leasing as a form of financing when this made good business sense – particularly for vehicle fleets and IT.

We continued to make progress with the optimization of net working capital and reduced it to less than 30 percent of sales on average for the year. Thanks to the optimization of inventories, systematic cash management in terms of receivables and liabilities and an improved ratio between advance payments and the order backlog, committed capital was reduced further.

Development of net working capital



Inventories were down slightly year-on-year at around € 581 million as of the end of the reporting period (previous year: € 607 million), while trade receivables amounted to € 375 million as of March 31 of the year under review (previous year: € 361 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. In light of the limited demand for direct financing on the one hand plus repayments and liquidations on the other, receivables from sales financing reached a new low. At € 58 million they were down on the figure for the previous year yet again.

Equity and liabilities

Figures in € millions	31-Mar-2016	**31-Mar-2017**
Equity	287	340
Provisions	930	898
of which pension provisions	534	488
Financial liabilities	496	470
Trade payables	179	190
Other equity and liabilities	310	321
	2,202	**2,219**

Equity and liabilities: Leverage remains below target figure of 2

On the equity and liabilities side, the Heidelberg Group's equity climbed to € 340 million as of March 31, 2017 compared to the end of the previous financial year. This was essentially due to the net result after taxes. The equity ratio thus amounted to around 15 percent as of the end of the reporting period. Pension provisions declined from € 534 million in the previous year to € 488 million as of March 31, 2017, due in part to the good performance of plan assets; provisions therefore fell to € 898 million in total.

With a positive free cash flow, net debt was down on the previous year at € 252 million (March 31, 2016: € 281 million) and is therefore still at a low level. At 1.4, the ratio of net debt to EBITDA (leverage) remained under the target level of 2.

As part of the optimization of the capital structure, financial liabilities declined to € 470 million after € 496 million as of March 31, 2016. Trade payables amounted to € 190 million as of March 31, 2017, a slight increase as against the previous year's figure of € 179 million.

Five-year overview: Net assets

Figures in € millions	2012/2013	2013/2014	2014/2015	2015/2016	**2016/2017**
Total assets	2,338	2,244	2,293	2,202	2,219
Total operating performance	2,690	2,419	2,356	2,520	2,556
Ratio of total assets to total operating performance (in percent)	86.9	92.8	97.3	87.4	86.8
Net working capital	872	727	714	691	667
in percent of sales [1]	31.9	29.9	30.6	27.5	26.4
Equity	402	359	183	287	340
in percent of total equity and liabilities	17.2	16.0	8.0	13.0	15.3
Net debt [2]	261	238	256	281	252
Leverage [3]	3.3	1.7	1.4	1.5	1.4

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

[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 special items; in accordance with IAS 19 (2011) since 2012/2013 financial year

Financial Position

- Further diversification of financing sources and maturities
- Interest costs reduced
- Stable liquidity framework, long-term security

We continued to optimize our financing structure in the year under review. The sources of financing and maturities of instruments are appropriately diversified and net debt is financed in the long term by basic funding until 2022.

Statement of cash flows: Clearly positive cash flow

Cash flow was also clearly positive at € 107 million thanks to the positive result after taxes.

Other operating changes resulted in a net cash inflow of € 33 million. Thus, the balance of cash flow and other operating changes was accordingly positive at around € 139 million (previous year: € 41 million). Cash used in investing activities was € – 115 million in the year under review. In particular, we invested in digital projects and equipment for our demo centers with drupa generation presses in the past financial year.

The free cash flow, which was clearly positive in the year under review at € 24 million, included payments for portfolio optimization of around € 27 million.

Financing structure: Further diversification of financing sources and maturities

The pillars of our financing portfolio expanded gratifyingly in the past financial year. They are well balanced with capital market instruments (corporate bond and convertible bonds), a syndicated credit facility and other instruments and promotional loans. Net debt of € 252 million is financed by our basic funding in the long term until 2022.

Five-year overview: Financial position

Figures in € millions	2012/2013	2013/2014	2014/2015	2015/2016	**2016/2017**
Net result after taxes	– 117	4	– 72	28	36
Cash flow	– 41	70	– 120	99	107
Other operating changes	74	– 10	141	– 58	33
Cash flow and other operating changes	33	60	21	41	139
of which: net working capital	57	113	96	35	33
of which: receivables from sales financing	40	21	20	10	9
of which: other	– 23	– 144	25	– 104	– 10
Cash used in investing activities	– 51	– 38	– 39	– 74	– 115
Free cash flow	– 18	22	– 17	– 32	24
in percent of sales	– 0.7	0.9	– 0.7	– 1.3	1.0

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

After the extensive refinancing activities in recent years, we have made good progress in diversifying our financing sources and improving our financial result. The EIB loan with its long-term focus until 2024 rounds out the Company's financing mix, and thereby systematically aids the continuing innovation strategy in the field of digitization. The investments to relocate our research and development activities to our Wiesloch production site are accompanied by a syndicate of banks with refinancing by KfW and, in the long term, a promotional loan.

In June 2016 we repaid the 2011 corporate bond ahead of schedule in full, thus further reducing interest expenses, particularly for the years ahead.

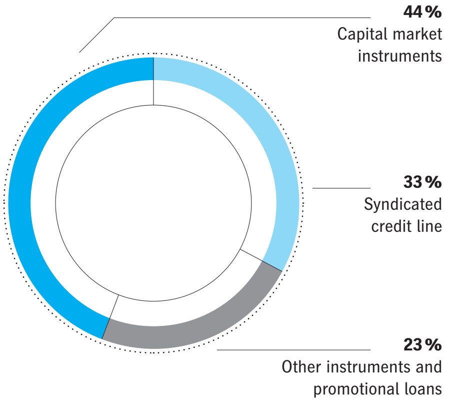
With its range of instruments, Heidelberg currently has comfortable total credit facilities of around € 730 million.

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 further reduce our interest expenses.

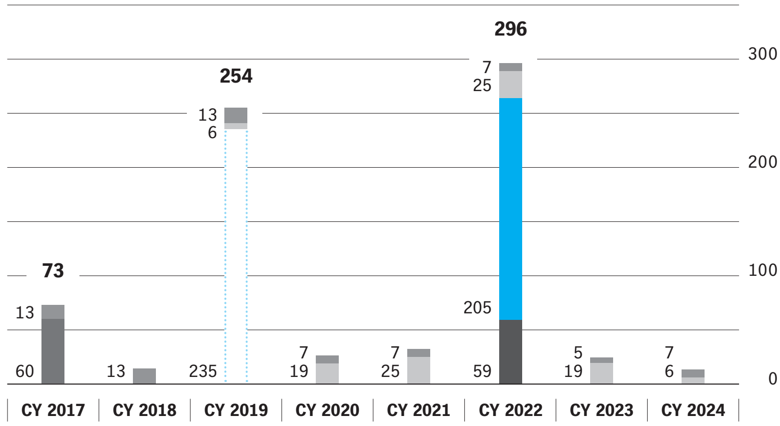
Financing instruments and maturity profile

Figures in € millions

Total volume of around € 730 million



Maturity profile per calendar year



Note: Not including other financial liabilities and finance leases

- Other instruments | amortizing
- Convertible bond (July 2017)
- Convertible bond (March 2022; put option in 2020)
- Syndicated credit line (June 2019)
- Corporate bond (May 2022)
- EIB loan | amortizing

Segment Report

- Heidelberg Equipment: Sales and earnings increased
- Heidelberg Services: Sales stable, incoming orders up
- Heidelberg Financial Services: Successful cooperation with financing partners

Heidelberg Equipment segment: Sales and earnings increased

At € 1,355 million (previous year: € 1,332 million), the Heidelberg Equipment segment increased its sales slightly in the financial year 2016/2017 thanks in part to drupa. The North America and EMEA regions contributed to this in particular. The Heidelberg Equipment segment accounted for 54 percent of consolidated sales in the year under review. Incoming orders were also above the level of the previous year at € 1,395 million (€ 1,336 million).

The ORDER BACKLOG was € 424 million as of the end of the reporting period and therefore slightly higher than the prior-year figure of € 411 million.

The segment's EBITDA excluding special items was € 69 million and its margin was around 5 percent, putting it within the target corridor of 4 to 6 percent. Special items of € – 9 million were recognized in the segment in the year under review. These predominantly relate to partial retirement agreements. The Heidelberg Equipment segment had a total of 7,201 employees as of March 31, 2017 (previous year: 7,194). INVESTMENTS in the segment amounted to € 84 million in the year under review. In addition to replacement investments, we primarily invested in the expansion of our digital business and in equipping our demo centers.

Heidelberg Equipment

Figures in € millions	2015/2016	**2016/2017**
Incoming orders	1,336	1,395
Sales	1,332	1,355
Order backlog	411	424
EBITDA [1]	63	69
Result of operating activities [1]	10	20
Special items	– 18	– 9
Investments	47	84
Employees [2]	7,194	7,201

[1] Excluding special items
[2] Number of employees excluding trainees

Heidelberg Services segment: Sales stable, incoming orders up

The Heidelberg Services segment's SALES were on a par with the previous year's level at € 1,164 million (€ 1,174 million). Incoming orders increased slightly to € 1,194 million (previous year: € 1,150 million). EBITDA excluding special items was € 104 million (previous year: € 124 million, including the one-time income from the acquisition of PSG). Thus, the operating result of the segment, at around 9 percent, was also within the target corridor of 9 to 11 percent. Special items of € – 8 million were incurred in this segment, which also predominantly resulted from partial retirement agreements.

INVESTMENTS in the Heidelberg Services segment were stable year-on-year at € 20 million and predominantly related to replacement investments and equipment for demo centers.

Heidelberg Services

Figures in € millions	2015/2016	**2016/2017**
Incoming orders	1,150	1,194
Sales	1,174	1,164
Order backlog	49	74
EBITDA [1]	124	104
Result of operating activities [1]	104	83
Special items	– 3	– 8
Investments	15	20
Employees [2]	4,330	4,269

[1] Excluding special items
[2] Number of employees excluding trainees

Heidelberg Financial Services segment: Customer financing delivers positive earnings contribution; favorable financing environment supports further reduction of capital commitment

In a capital-intensive sector like the printing industry, financing solutions are crucial to our customers' success. Heidelberg Financial Services has been successfully supporting print shops in implementing their planned investments for a number of years, 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 the past financial year, economic conditions in Brazil – a market with a historically high level of demand for direct financing solutions – deteriorated. In addition, the largely positive financing environment in the industrialized nations persisted. Against this backdrop, overall demand for new direct financing was low, and we were able to further reduce our receivables from sales financing, in part as a result of repayments, from € 65 million in the previous year to € 58 million. As expected, the decline in the volume of receivables was accompanied by lower interest income of € 5 million (previous year: € 6 million). The volume of counter-liabilities assumed increased by € 3 million to € 21 million (previous year: € 18 million).

The segment result (EBITDA) amounted to € 6 million and was therefore well in excess of the previous year's result (€ 2 million). We benefited from a positive risk provisioning result which, in addition to the 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.

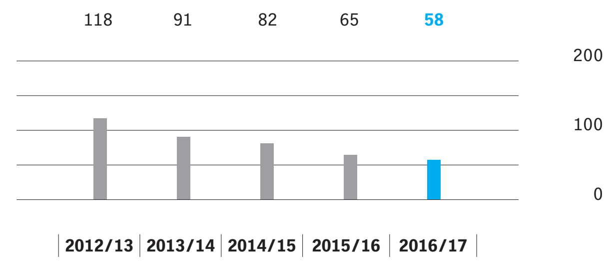
Heidelberg Financial Services

Figures in € millions	2015/2016	**2016/2017**
Sales	6	5
EBITDA [1]	2	6
Result of operating activities [1]	2	5
Employees [2]	41	41

[1] Excluding special items
[2] Number of employees excluding trainees

Receivables from sales financing

Figures in € millions



Report on the Regions

- Increase in EMEA and North America regions
- Asia/Pacific region affected by slowdown in China business
- Recession in Brazil overshadows South America region

Europe, Middle East and Africa (EMEA): Incoming orders and sales up again year-on-year

In the year under review, the order volume in the EMEA region increased significantly from € 1,058 million in the previous year to € 1,129 million, while the sales volume rose from € 1,050 million to € 1,088 million. This was due in part to the volume of the drupa trade show held in June 2016. Germany in particular reported increases in incoming orders thanks to the trade show and remained the largest single market in terms of sales. Incoming orders and sales also developed positively in Italy – aided by a further government investment program –, Spain and Benelux, i. e. the markets of the former PSG companies. The UK saw declines in incoming orders and sales due to the uncertainty of the forthcoming Brexit.

Asia/Pacific: Slowdown in growth momentum in China affects region's sales

In the Asia/Pacific region, incoming orders (€ 667 million; previous year: € 665 million) were stable year-on-year, while sales fell short of the previous year at € 646 million (previous year: € 694 million). In particular, the economic slowdown in China and the associated purchase restraint for new machinery caused a decline in incoming orders and sales over the financial year. The Japanese market remained stable year-on-year thanks to improved service and consumables business. The markets of South Korea, India and

Vietnam reported a positive development in the year under review. However, there were significant reductions in sales in Australia and New Zealand. We have further examined our cost structure here and initiated improvements.

Eastern Europe: Sales in decline, incoming orders rising

With incoming orders of € 284 million (previous year: € 246 million), the Eastern Europe region was up significantly year-on-year in the year under review. By contrast, there was a slight decline in sales to € 254 million (previous year: € 262 million). The Russian market recovered considerably over the course of the financial year and increased both figures at a low level. The Czech Republic also developed positively; Poland was able to increase its incoming orders, but its sales remained well below the previous year's figure. The Turkish market reported notable declines in both incoming orders and sales due to political and economic uncertainty.

North America: Sales up again, high level of incoming orders maintained

The North America region maintained the previous year's high level of incoming orders with € 440 million (previous year: € 439 million) in the year under review. There was a clear increase in sales at € 453 million (previous year: € 419 million), due in particular to strong new machinery business in the US and Canada. Despite negative currency effects, the Mexican market was able to match the previous year's level for incoming orders and sales.

South America: Business situation remains unsatisfactory – Brazil and Argentina weak

At € 73 million, incoming orders in the South America region were again down significantly year-on-year (€ 84 million), and sales decreased from € 87 million in the previous year to € 83 million in the year under review. This was mainly caused by the ongoing economic crises in Brazil and Argentina.

Incoming orders by region

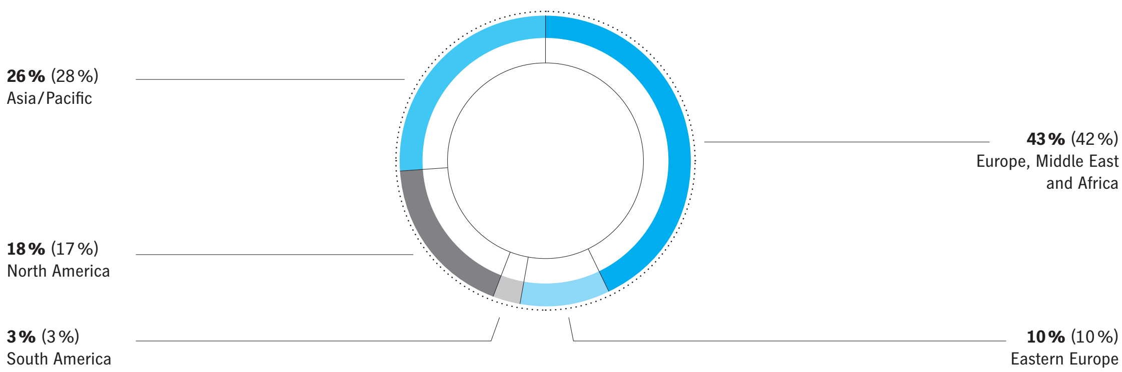
Figures in € millions	2015/2016	**2016/2017**
EMEA	1,058	1,129
Asia/Pacific	665	667
Eastern Europe	246	284
North America	439	440
South America	84	73
Heidelberg Group	**2,492**	**2,593**

Sales by region

Figures in € millions	2015/2016	**2016/2017**
EMEA	1,050	1,088
Asia/Pacific	694	646
Eastern Europe	262	254
North America	419	453
South America	87	83
Heidelberg Group	**2,512**	**2,524**

Sales by region

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



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 special items plus net investment income to average capital employed. The cost of capital is determined using the weighted average cost of capital before taxes of currently around 6.6 percent (previous year: 7.3 percent). Although the debt ratio is down, the cost of capital has been reduced by around a tenth. This is due to lower borrowing costs. Overall, the cost of capital is 10 percent lower than in the previous year at € 68 million with similar average operating assets.

ROCE was clearly positive for the year under review at € 106 million, thereby confirming the prior-year figures. Through active management of capital commitments, average tied-up assets were again kept at a low level.

The low capital commitment largely benefited from the net working capital program and low receivables from sales financing (due to the ready availability of external financing partners). The net average operating assets are almost equal to the previous year’s level at € 1,034 million (€ 1,035 million).

ROCE as a percentage of average operating assets therefore changed from 10.8 percent in the previous year to 10.2 percent in the year under review and, with lower costs of capital, contributed to a positive **VALUE ADDED** of € 38 million.

Five-year overview: ROCE and value added

Figures in € millions	2012/2013	2013/2014	2014/2015[4]	2015/2016	**2016/2017**
Operating assets (average) [1]	1,136	1,068	1,024	1,035	1,034
ROCE [2]	– 4	73	116	112	106
in percent of operating assets	– 0.4	6.8	11.3	10.8	10.2
Cost of capital	103	97	92	76	68
in percent of operating assets	9.1	9	9.0	7.3	6.6
Value added [3]	– 108	– 24	24	36	38
in percent of operating assets	– 9.5	– 2.2	2.3	3.5	3.7

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

Employees

- Preparing employees for forthcoming digitization
- Shaping demographic change
- Promoting integration

Motivated and qualified employees are Heidelberg's greatest asset. Challenges such as demographic change and rising digitization must therefore be successfully overcome. In the reporting period we launched key initiatives to prepare our workforce for the future requirements of their rapidly changing work environment. Awards received for such projects confirm to us that we are on the right path.

"ProfessionalTraining@Heidelberg": Safeguarding the future with quality

Training is a top priority at Heidelberg and it relies on premium quality. In the year under review, several trainees at our Company were once again named as the best in their respective fields. The training department itself has repeatedly won multiple awards. 90 young people began their training with Heidelberg at four production sites in Germany on September 1, 2016. Our range of training and study opportunities is constantly reviewed and adjusted to reflect changing conditions. Training is a long-term provision for the future to develop skilled workers and to address demographic change. We have recently integrated aspects of digital change more intensively into training concepts. "Industry 4.0" also demands that we begin preparing for these changes in vocational training with the appropriate content. With an augmented reality framework agreement, we have laid the foundations for integrating state-of-the-art learning elements.

In Germany, we provide training in 15 occupations and offer various bachelor programs in the areas of engineering, media and business at our four production sites in Wiesloch, Amstetten, Ludwigsburg and Brandenburg. Through a range of initiatives such as internships, the "Long Night of Training" or "Girls' Day", we are attempting to increase the share of female trainees, especially in technical vocations. We showed more than 100 schoolgirls just how varied technical professions can be at our Wiesloch-Walldorf, Brandenburg and Amstetten production sites to inspire them to pursue such vocations. We maintain a friendly partnership with schools and vocational colleges in our regions.

The quality of Heidelberg training is highly attractive for smaller businesses as well. As part of collaborative and contract training, more and more new companies are signing up for cooperation agreements. Currently around 20 companies are using Heidelberg's training capacity and the expertise of our training department. This also creates the opportunity for smaller companies to invest in training and helps to tap the value of this investment in the future through networking and cooperations.

Prestigious EU award for demographic project

In the last few years we comprehensively took stock of our demographic change as part of the "Shaping Change" project and have implemented the changes derived from this. Heidelberg faced a very specific demographic challenge on account of the downsizing in recent years. One in every two employees is older than 50, and keeping them fit for work has led to a comprehensive approach to occupational health care. The "House of Work Fitness" promotes the maintenance of health and work fitness, and supports ergonomic approaches. With a comprehensive training approach, we aim to ensure that the qualifications are sufficient for the necessary changes. With the backing of the European Social Fund, aided by the social partners for employers (Südwestmetall) and employees (IG Metall) and scientific support, we have implemented a number of initiatives in day-to-day working life in practical terms. A committee that includes the Works Council coordinates the individual measures and ensures that they are established in operational practice.

Heidelberg is one of eight European prizewinners who received awards for good, practical solutions for the holistic design of healthy workplaces. In April 2017 the award for our demographic management was presented by the EU Council Presidents of Social Ministers. The Presidency of the EU Council and EU-OSHA (European Agency for Safety and Health at Work), as one of the EU's decentralized agencies, are thus promoting efforts to maintain fitness for work and actively address the demographic challenge. The personnel policy approaches of occupational health management are exemplary for the EU agency because a comprehensive and holistic approach was chosen.

"WIEfit": Health center officially opened in Wiesloch

We opened our own health center ("WIEfit") on the grounds of the Wiesloch-Walldorf production site in April 2017. "WIEfit" reinforces Heidelberg's role as a health-oriented employer. In light of operational requirements, the focus is on preserving health and the therapeutic treatment of muscular and skeletal diseases of aging employees. The health center is run by an external operator according to the latest physiotherapeutic insight. Health insurance funds pay for the personal contribution of each individual employee to the extent permitted by the German Prevention Act. Medical support is made visible in a practical manner with further activities as part of a "health week".

Heidelberg: "Partner to Top Sport"

We have once again been named a "Partner to Top Sport" by the Baden-Württemberg Ministry of Economic Affairs and the State Sporting Association. Promoting talented people, supporting excellence and awarding success is important to us. Every year, we honor the best-in-class of the individual vocations and reward top performance with the "Sternberg Prize". The training content also includes social aspects that each training class defines for itself. For us, this form of thinking outside the box is an important aspect in fully preparing young people for the world of work.

Social responsibility for refugee integration

The integration of refugees is also a highly important issue for us. Heidelberg launched various projects for the integration of refugees into the labor market. Places were offered at the Wiesloch-Walldorf production site as an aid year. This year, which also includes additional German classes, is intended to facilitate an entry to the world of work or subsequent training. The Amstetten production site is participating in a partial qualification program. Together with the employment agency, associations, chambers and other companies, this "TQplus" project was launched to provide an entry option on the local labor market with additional language teaching, theoretical teaching and practical training in the metalworking sector.

"Listening" as a guideline for the employee-supervisor dialogue

The involvement of employees and intensive communication between management and employees is a guideline for our HR policy concepts. With the annual employee-supervisor dialogue, we make the principle of listening, of promoting discussion, of formulating common goals and discussing supporting steps a fixed feature in the calendar. The focus here is jointly reflecting on cooperation, taking steps for the improved implementation of agreed goals and developing suitable concepts. Measurement against defined management criteria and the relationship to the individual value added is also an established practice for management. Our "Performance Leadership Evaluation" tool grants an overview of the management portfolio and the leadership qualities of senior management. This cyclical process is an important component in individually understanding and further improving management culture.

HR development: Tailored and goal-oriented

Heidelberg is undergoing an intensive process of change. This challenge is supported by HR management and HR development. Specific concepts for implementing our strategy in day-to-day management, running and moderating departmental workshops, the definition of qualification and strategy projects and their implementation are elements of our HR development. The Company's own experts from HR and organizational development are familiar with the specific tasks and devise tailored implementation concepts. The portfolio comprises management training such as employee qualification, training offers

Five-year overview: Social key figures

	2012/2013	2013/2014	2014/2015	2015/2016	**2016/2017**
Number of employees (at balance sheet date; excluding trainees)	13,694	12,539	11,951	11,565	11,511
Trainees	521	502	427	351	323
Specialized training days[1]	11,780	12,823	12,615	11,059	12,831
Turnover rate in percent[2]	12.7	6.5	8.2	5.9	1.6
Average seniority (in years)	16.8	17.1	17.9	18.6	19.3
Percentage of female employees	14.6	14.8	14.8	15.7	15.8
Percentage of part-time employees (excluding partial retirement)	3.8	4.0	4.6	5.0	5.2

[1] The figures for financial years 2014/2015 and 2015/2016 have been restated to reflect subsequent notifications from foreign companies.
[2] Employees leaving the Company not including temporary contracts coming to an end, not including transfers, including those entering the resting phase of partial retirement at Heidelberger Druckmaschinen Aktiengesellschaft and including operational redundancies

and seminars on the implementation of corporate strategy, in addition to individual coaching and external qualification modules. To make our employees active participants in the future of Heidelberg, we place these requirements at the heart of our HR development mission.

Heidelberg idea management: Good ideas pay off

Idea management has been an established and self-evident part of the corporate culture at Heidelberg for years. It is an important pillar for saving costs and motivating employees at the same time. Heidelberg's idea management generated savings of € 3.9 million in the year under review. We were able to maintain the high level with more than 1,000 ideas implemented in the financial year. The more than 1,500 new ideas received in the period under review highlight the great commitment and creativity of our employees. The idea management process will be made even more profitable and attractive for all involved in the future thanks to the launch of new software.

Employees by region

Number of employees[1]	31-Mar-2016	**31-Mar-2017**
EMEA	8,369	8,440
Asia/Pacific	1,821	1,754
Eastern Europe	494	487
North America	747	733
South America	134	97
Heidelberg Group	**11,565**	**11,511**

[1] Excluding trainees

Sustainability

For Heidelberg, sustainability means taking ecology, economy and social responsibility into account simultaneously. Sustainability targets form part of our standards of conduct and our environmental standards – with regard to our products and our production processes alike. Compliance with standards of conduct and environmental standards is mandatory throughout the Group and is set out in the Heidelberg Group's environmental policy, which can be found on Heidelberg's website under "Company" > "Sustainability", and in the Code of Conduct, which was revised in the reporting period. Suppliers and contracting parties are included in our targets at all our production sites and are asked to comply with similar standards, including with regard to social and ethical issues. For example, Heidelberg refuses to tolerate discrimination or the use of child labor.

Protecting employees from accidents, occupational illness or other health impairment is a top priority at Heidelberg. The necessary regulations and measures are jointly developed and implemented at the German production sites for this purpose. The average accident rate per 1 million working hours rose slightly from 10.5* (2015) to 11.0 (2016) at the largest Heidelberg production sites in Europe. Heidelberg is therefore still significantly below the industry's average accident rate of 14.2 in 2015 (source: German Employers' Liability Insurance Association of the Wood and Metal Industry (BGHM)).

Organizational establishment

Environmental protection and sustainability issues are integrated into Heidelberg's Group-wide organization. The Group's ecological goals are set by the Eco Council, which is led by the head of Heidelberg Digital Technology (since April 1, 2017; previously: the CEO) and whose members include the Chief Executive Officer and representatives from Production, Product Development and Product Safety, Product Management, Service/Consumables, Quality and Investor Relations/Communications. The interdisciplinary eco working group advises the Eco Council, proposes an environmental program and oversees its implementation in individual areas.

Social and ecological projects from the start

Heidelberg puts its social commitment into practice primarily in education projects and by supporting integrative social facilities at its respective production sites. As part of its involvement in the "Knowledge Factory – Companies for Germany" initiative, Heidelberg is actively involved in the "Education" working group and, with the help of its trainees, supports projects at around 15 schools that give children hands-on experience of technology and science. Heidelberg's Brandenburg production site is committed to the "Round Table for Youth and Business for Brandenburg", whose goal is to improve the development prospects of young people, and is a member of the state jury for "Youth Science" as a regional sponsor company in Brandenburg for Germany's biggest school competition "Starke Schule" (Strong School). We also support local projects and institutions at our international production sites.

The educational concept at Heidelberg encompasses not just subject-based learning but also the social and personal aspects of education. For this reason, a joint project work week for all new trainees and students is held at the beginning of each training year and the social projects developed here are subsequently implemented. A number of projects with kindergartens, zoos, a day care center and a nursing home were implemented in the reporting year. There were also various Christmas activities at training locations. The proceeds are donated and regularly benefit the region's needy.

At our production site in Amstetten, the headquarters of Heidelberg Manufacturing Deutschland GmbH, trainees have been taking part in a project in cooperation with the Ulm Chamber of Industry and Commerce since 2015. In their role as "Energy Scouts", they identify and analyze energy-saving potential and oversee its implementation. Specifically, one task derived from energy management was handled: The replacement of the indoor lighting in the foundry led to significant five-figure savings in energy costs and improved environmental impact accordingly. Two trainees were successfully deployed as energy scouts at the Wiesloch production site as well in the reporting period to improve data center energy efficiency.

* Reported prior-year figure: 10.7. Reflecting the recognition procedure of the German employers' liability insurance association, the number of notifiable on-the-job accidents decreased by one following the publication date.

Environmentally friendly design of our products

Our product development focuses on both the development of energy-efficient products and the ecological selection of materials. We have undertaken to comply with prohibitions and bans on substances that go beyond legal requirements in our selection of materials. To this end, we have compiled rules for our suppliers that Heidelberg must adhere to as a manufacturer, and bundled voluntary obligations as house rules that suppliers must obey. The Heidelberg standard SN 780 regulates prohibited constituents in materials and those that must be declared, and is one of the requirements for materials. It applies worldwide and supports the implementation of statutory requirements. Regulations that exceed SN 780 may apply to special applications. Compliance with them must be ensured by suitable measures. In order to meet our responsibilities, we have begun to systematically scrutinize the supply chain for its use of materials. With the help of a service provider, all suppliers are regularly asked whether the material composition of the products supplied to us has changed. We can react promptly in the event of deviations from the substances we have specified. The goal is to only allow materials that meet the requirements of SN 780.

Prinect Automatic Paper Stretch Compensation saves resources, time and money

Paper stretches when ink and moisture are applied under compression in the printing process. As inks are applied to the paper successively, they shift against each other. The printed image becomes less focused. To date, this problem has been compensated for by several corrections by means of mechanical stretching on the printing plate, which led to longer downtimes when setting up and then required reprinting. This is repeated several times with correspondingly high paper consumption until the desired printed image is achieved. With our new “Prinect Automatic Paper Stretch Compensation” software, the distortion caused in the paper is calculated and automatically compensated before the printing plate is exposed. This saves on both setup time and a lot of wasted paper as it is no longer necessary to stop, correct and restart several times over. The software is thus a component in a digital print shop in the sense of Industry 4.0/Smart Factory, because prediction and compensation are performed automatically on the basis of individually measured process parameters of the press before an error occurs. Up to 80 sheets of waste paper per job can be avoided. With 6,000 jobs per year, this adds up to 480,000 sheets. This means a savings of 49 metric tons of paper using a Speedmaster XL 106. As paper accounts for most of the carbon footprint of printed products, 63 metric tons of CO_2 can therefore be saved per year. With Prinect Automatic Paper Stretch Compensation, Heidelberg is offering an innovative component for environmental protection in print shops.

New unlabeled Saphira ECO coating series

As part of the adjustment of the European CLP (Classification, Labeling and Packaging) Regulation at the beginning of 2017, Heidelberg has been working to develop a special, unlabeled Eco coating series. The coatings are currently in the final testing phase and will be launched on the market in the current financial year.

Award for resource efficiency

In October 2016 the Heidelberg customer and packaging manufacturer August Faller GmbH & Co. KG., from Waldkirch and Heidelberg, who together developed an environmentally friendly offset printing application for folding carton printing, were named as being among the “100 Companies for Resource Efficiency”. With the help of Heidelberg’s Anicolor technology, Faller saves 37 metric tons of CO_2 and 80,000 kilowatt hours per year, as well as around € 155,000 due to less waste.

Projects at production sites

The continuation of DIN EN ISO 14001 with the new 2015 revision is a major challenge for all production sites. In the past financial year, preparations had to be made to identify the new requirements as quickly as possible, communicate them internally and implement them in the new financial year before the recertification audit in September 2017.

The St. Gallen production site is an excellent example of the integration of various management systems. The responsible business unit has been operating the certified management system for occupational health and safety according to the OHSAS 18001 standard at the Swiss production sites since 2005. The systematic interpretation of these requirements and their further development make a significant contribution to the business success and improvement of these facilities: Frequency and severity of accidents have improved significantly and are now well below the average level for comparable business in Switzerland (industry average). The premium for occupational accident insurance fell by 39 percent during this period. Processes were kept lean and synergies were leveraged by combining the management sub-systems for quality, environmental and occupational safety/health protection into an integrated management system. The transition of OHSAS 18001 into the 9001/14001 family with its uniform high-level structure (HLS) supports this approach and offers further potential for improvement in the future.

A wastewater treatment system (vacuum evaporation technology) was installed in the surface technology production segment at the Wiesloch-Walldorf site. This system centrally treats the oily wastewater from the paint shop, hardening, gluing and burnishing areas and feeds the softened fresh water back to pretreatment processes. The area is thus “wastewater-free” and ecologically and economically well positioned for the future.

Further progress was made converting lighting to LED technology. Power requirements were further reduced at the production site thanks to the modernization of the street lighting and the use of LED lights.

2016 drupa trade show participation entirely carbon-neutral

Heidelberg’s appearance at the drupa 2016 trade show in Düsseldorf in May/June was carbon-neutral. All activities and materials for the entire function hall – including the partner companies exhibiting there – were assessed and compensated with a gold standard certificate. This included the construction of stands, the IT equipment and the equipment on display, the materials used such as inks and paper, the energy used and the catering for the staff and guests.

The resulting CO_2 emissions were compensated by planting around 10,700 trees and building a meeting house in Fokpo, Togo, in the traditional round design, which will mainly be used for meetings by all the villagers and for workshops (work safety, first aid courses, etc.). In a second phase the meeting house will be fitted with a solar system with storage batteries so that the school children from Fokpo can do their homework in a bright environment after darkness has fallen. Heidelberg has been supporting projects by the natureOffice organization in Fokpo in West African Togo with CO_2 offsetting for equipment and events for around five years. The restoration area has thus been greatly increased from the original 1,000 hectares to 8,000 hectares, and there has been a number of social projects such as the construction of a well in 2012.

Positive development of ecological key figures continuing

Heidelberg has introduced and implemented numerous measures at its production sites to improve its environmental performance in recent years. The figures now available tell a mixed story. While some production sites were able to slightly reduce their electricity consumption even more, the foundry at the Amstetten site saw an increase in absolute electricity consumption on account of its higher production due to the processes involved. However, energy efficiency was improved by around 6 percent here as well.

Waste volumes were up in absolute terms in line with this, but were reduced in relation to metric tons of output.

The past year was colder than the previous year in the heating period, which makes it all the more gratifying that gas consumption was reduced slightly across all production sites. After adjustment for weather effects, there was a further decline in total energy consumption and water consumption.

The above factors have the biggest impact on "Energy consumption per metric ton of output" – this figure is improving significantly, not least due to the increased output of the foundry in Amstetten.

The trend towards renewable energies is also evident in the analysis of CO_2 emissions. Thanks to the high share of renewable energies in the electricity mix, CO_2 emissions have fallen more than they have done in years.

Unlike in the previous year, the Nove Mesto production site is no longer included.

Five-year overview: Ecological key figures (calendar years)

	2012	2013	2014	2015 [7]	**2016 [8]**
Input					
Energy in GWh/a [1]	353	336	307	300	302
Energy in GWh/a [1] (weather-adjusted) [1, 2]	350	324	325	304	299
Water in m^3/a	313,013	283,027	322,041	270,240	247,586
Output					
CO_2 emissions in metric tons [3, 6]	115,675	100,815	97,656	98,665	86,020
Waste in metric tons	37,415	36,953	35,086	32,966	34,935
Key figures					
Energy consumption (kWh/a) per produced metric ton of output (weather-adjusted) [2, 4, 5]	5,706	5,641	6,128	5,546	4,865
Recycling rate in percent	96.17	95.59	95.03	95.32	95.15
CO_2 (in metric tons) per produced ton of output [2, 3, 4, 5, 6]	1.91	1.73	1.94	1.86	1.40

[1] Total energy consumption of sites including car fleet and the Wiesloch-Walldorf Company filling station
[2] In accordance with VDI 2067, heating energy consumption was adjusted based on the degree days figure of the Heidelberg site
[3] CO_2 emissions resulting from energy consumption have been based on information from the respective electric utility at the particular production site; other emissions are based on GEMIS
[4] Excluding Gallus, HTC, car fleet and the Wiesloch-Walldorf Company filling station
[5] Taking into account printing presses, prepress, postpress and external business activities (Amstetten foundry)
[6] Prior-year figures adjusted retrospectively due to updated assessment and calculation procedures
[7] Excluding Leipzig production site
[8] Excluding the sold Nove Mesto production site

Note: Owing to changes in general conditions, the ecological key figures for 2012 were redefined, recalculated and restated at the end of 2013. For this reason, the five-year overview now also takes into account contract manufacturing for external customers.

RISKS AND OPPORTUNITIES

As an international 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, Human Resources, IT, Legal and Finance there is a risk officer who reports risks to central Group Risk Management (GRM) in a standardized form. 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 (GRM) 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.

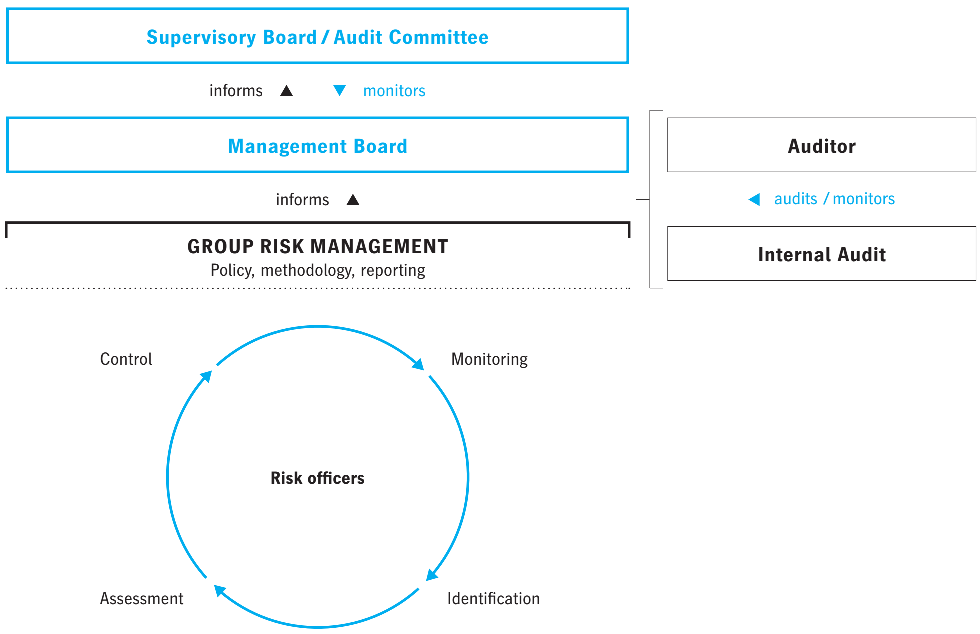
Heidelberg's risk and opportunity management process comprises the elements of risk identification, assessment, control and monitoring (see diagram below).

Identification of risks and opportunities

The Group-wide risk officers perform ongoing monitoring of the general economic environment, which leads 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.

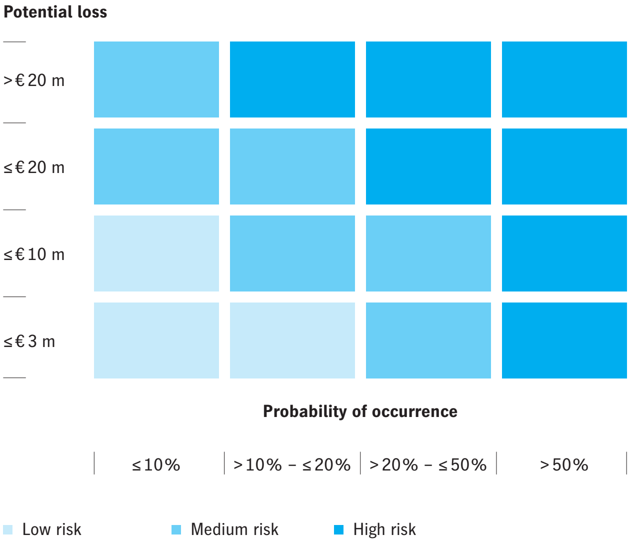
Assessment of risks and opportunities

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 on which forecasts are based, and are therefore not part of the risk report.



The categories for extent of damage are represented as a "possible loss" with quantitative figures in € millions, 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, risk transfer with the aim of reducing the consequences of the occurrence of the risk and risk acceptance, in which a 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 CFO 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 examined and 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	Higher
Industry	High	Constant
Operational		
Economy, market development	Medium	Constant
Sales financing	Medium	Constant
Procurement	Low	Constant
Production	Low	Constant
Sales partnerships	Low	Constant
IT, information, data protection	Low	Constant
HR	Medium	Higher
Financial		
Currency and interest	Medium	Constant
Pension obligations	Medium	Constant
Taxation and reform projects	Medium	Higher
Liquidity	Low	Constant
Refinancing	Low	Constant
Rating	Low	Constant
Legal and compliance	Medium	Constant

Strategic risks and opportunities

Political risks

The political and economic uncertainties in the Middle East and the related refugee crisis can impair business in the Europe, Middle East and Africa region. Additional uncertainty in the Americas region is being created by US reforms and the current security situation on the Korean peninsula, alongside its effects on the Asia/Pacific region.

The ongoing debt crisis in Europe, the announcement of the UK’s withdrawal from the EU and the increasingly nationalist outlook of individual countries in the EU also represent an unquantifiable potential risk to the stability of the euro area and therefore to political and economic development in Europe.

However, in its forecast and the planning on which the risk and opportunity report is based, Heidelberg assumes that the general conditions for free world trade remain unchanged and the protectionist tendencies that can currently be observed will have no material effect.

Political risks are therefore currently regarded as high.

Industry-specific risks and opportunities

Manufacturer capacity was scaled back further in the 2017 financial year as well. We also adjusted capacity in the Heidelberg Equipment segment in particular as a result of our reorganization. For the coming year, VDMA economists forecast that the production level of the previous year can be maintained despite the many economic and political risks in BRIC nations in particular. Against this backdrop, the risk of not achieving the planned sales and margin targets in the sheetfed area is considered to be high.

The industrialization of the sector is still on the increase, with the result that mostly international print media service providers are growing in industrialized countries while the number of medium and small printing companies is shrinking. On the emerging markets – particularly in the Asia/Pacific region – we anticipate further growth in the printing volume, whereas in the industrialized nations we generally see a growing need for individualized and elaborately processed printed products. In light of this, in our core business, sheetfed offset printing, our activities in this financial year were again dedicated in particular to reducing manufacturing costs in order to improve profitability, but also to reducing set-up times and increasing the energy efficiency of presses so as to offer print shops quantifiable cost and competitive advantages. In addition, Heidelberg’s new “Push to Stop” operating philosophy allows its customers to significantly increase net productivity in industrial print production.

As part of our strategic reorientation, we view digital business as an important growth market for Heidelberg. Heidelberg will therefore also invest in new business applications in the future and cooperate with innovative partners who are the leaders in their respective segment. Heidelberg presented new digital products in the Primefire 106, the Omnifire and Versafire at drupa 2016. It has therefore laid the foundations for the digital printing age.

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 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 always 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 then protect the results of our research and development work with our own property rights, 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. For example, the Fed raising the interest rate indicates appreciation by the US dollar, which will boost the competitive capability of German companies. We are seeking to reduce the influence of exchange rate developments by expanding our procurement and production outside the euro zone.

The risk that prices in the industry could come under pressure from increased competition, thereby threatening our sales and margin targets, has decreased in our view. Nonetheless, there is a risk that price increases on the market, particularly for new machinery, may be possible only to a limited extent – especially given that the euro may be stronger moving ahead. Furthermore, there could be synergies from possible business combinations, which may lead to a rise in price pressure on account of the higher market share.

The risks arising from the market environment and competition are considered to be medium.

Operational risks and opportunities

Economic and market development risks

In the business planning for the Digital Technology (HDT) and Digital Business & Service (HDB) segments, we are assuming moderate growth in the global economy. If the global economy were to grow less than expected, or if key markets were to suffer an unexpected economic downturn, there would be a risk that the planned sales performance will not be achieved, particularly in new machinery business (above all in the HDT segment in the sheetfed and label printing product area, but also in the HDB segment in the digital printing product area). The Digital Business & Service 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 has increased in recent years and thus economic fluctuations within the Group have been reduced.

Particular attention must be paid to the BRIC countries as the handling of the economic situation on these emerging markets constitutes a challenge. Above all, the economies of the raw material exporters Brazil and Russia were still particularly impacted by low raw material prices. The economy in China was less dynamic, but incoming orders nevertheless developed at a stable level in the last four quarters. The moderate growth in industrialized countries is expected to continue at a slightly faster rate.

Overall, operational risks from the economy and the markets are considered to be medium.

Sales financing

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 increased slightly year-on-year. Overall, however, losses on sales financing were below the average level for previous years in the past financial year.

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.

Intensive cooperation with external financing partners has allowed Heidelberg to significantly scale back the financing it has taken on in recent years. 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 comprise (like the Basel standards) 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 (natural hedging). We increased our procurement activities in foreign currency in the year under review as well in order to reduce currency risks. A dual vendor strategy is pursued for consumables to avoid unilateral dependencies. This is deviated from only in cases where mutual exclusivity is assured and, under appropriate market and competitive conditions, the sale of our partners' entire product range is also assumed.

Procurement risks are considered to be low.

Production risks

Production disruptions or downtime, not to mention disruptions in transport and logistics, are a 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.

IT, information and data protection risks

Heidelberg could suffer damage if the availability of data and systems or the confidentiality of sensitive information were violated or restricted. This could 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, though this cannot be quantified.

Comprehensive protective measures are 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. Furthermore, high demands are made of integrity and reliability when selecting IT service providers. Systems, procedures and the organization are regularly checked for possible risks and adapted if necessary. The IT infrastructure underwent a comprehensive overhaul in the year under review, improving both performance and system security.

IT risks are currently considered to be low.

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. The Company has responded to the changes entailed by an aging workforce by improving its preventive healthcare and adapting its pension schemes.

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 international 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 32 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) 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 taxes and reforms

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 can have consequences for Heidelberg's tax positions. Some Heidelberg companies, including Heidelberger Druckmaschinen Aktiengesellschaft and the Heidelberg companies in the US, have considerable tax loss carryforwards that have not all been reported as deferred tax assets. The use of these loss carryforwards will have positive effects for Heidelberg in the future.

The US economic, financial and tax reforms currently being discussed could have implications for Heidelberg. The tax reform plan presented by the Trump administration at the end of April is the subject of intensive debate at this time. Experts are expecting difficult, controversial and protracted negotiations in the legislative bodies; hence we think it relatively unlikely that the reform packages will be fully implemented in the 2017 calendar year. It is more likely that the implementation of the reform measures will be delayed until the 2018 calendar year, and that their final form will not be apparent until towards the end of the legislative process. Experts suspect that a cut in tax rates will only be approved to the extent that this can be financed elsewhere, and is therefore revenue-neutral. In light of this, a reduction of the corporate tax rate of up to 10 percent is currently considered to be realistic.

Reduced tax rates would necessitate a remeasurement of deferred tax assets in the US. Depending on the final nature of the reforms, this entails the risk of a one-time, non-cash tax expense at Heidelberg. A reduction of the relevant tax rate by 10 percentage points would result in a non-cash write-down on deferred tax assets of around € 15 million. In the medium and long term, the lowering of corporate tax rates after the utilization of loss carryforwards would mean significantly lower tax payments in the US. Together with the implementation of the other reform measures (economic and financial policy), the US tax reform should have a stimulative effect on the investment behavior of our customers and lead to corresponding revenues for Heidelberg.

The tax risk is considered to be medium overall, particularly given the expected compensatory effects.

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, the 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 created a stable financing base with a broadly diversified financing structure (banks, capital market and other financing commitments) and a balanced, long-term maturity profile beyond 2022. 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 28 and 29. Notes 29 and 38 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, the financial covenants could not be modified, 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 B3 with outlook positive since July 2016. 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. Other risks – with a probability of less than or equal to 50 percent – are discussed in the risk report and are monitored closely. 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. Risks will be reduced further by systematic controls of compliance with our comprehensive policies in all areas and the introduction of an updated Code of Conduct, which also reflects the ten guiding principles of the UN Global Compact. Furthermore, an ombudsman system was set up for the Heidelberg Group at the level of Heidelberger Druckmaschinen Aktiengesellschaft in the past financial year, and is now being established further among employees and external third parties through ongoing communication measures.

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 slightly elevated compared to the previous year.

The strategic risks are considered to be high. In addition to the political risks (in particular with regard to changes in US corporate taxation and the nationalist tendencies that can be seen in Europe), there are also technical risks in connection with the development and launch of new digital printing presses or risks regarding the assessment of the sales market.

There is a high risk of not achieving our earnings targets in the future economic situation in the BRIC nations. A weaker than expected performance by these countries could have a negative impact on sales and margins in the Heidelberg Digital Technology (HDT) segment, especially in the sheetfed area. 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 barriers to entry in sheetfed offset printing are high and therefore 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. 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 various scenarios. This procedure will be followed in the coming year especially in connection with potentially attractive acquisition projects in the area of consumables and digital solutions. This goes hand-in-hand with another important business objective, that of organic growth. Partnerships allow Heidelberg to bundle the innovative strength of partners with its own in order to respond more quickly to current market conditions.

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.

There are OPPORTUNITIES for Heidelberg arising in particular from the strategic measures as described in detail in the “Strategy” section on pages 16 to 18. This includes the continued transformation from being a technology-oriented company to being a more customer-oriented one with a focus on expansion in the growth areas of packaging, digital, service and software with a continuous improvement in cost structures.

With new digital printing presses and other products developed as part of cooperations and the company’s own research and development activities in the future, Heidelberg anticipates the opportunity to establish itself more strongly in the area of digital printing. Thanks to Heidelberg’s global service and logistics network and the integration of independent providers into this network, there is growth potential in the more profitable and less cyclical area of service and consumables, and in greater value added for customers.

Above and beyond this, a major opportunity for Heidelberg lies in the possibility of more positive economic performance than is currently forecast. In the BRIC nations there is a possibility that economic growth will be higher than anticipated. In China, for example, reform efforts by the government could improve the country’s economic stability and initiate a further growth phase. The 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 – that social and political changes, government intervention, customs regulations and changes in legislation could influence our business development in several countries.

Internal control and risk management system for the Group accounting process in accordance with section 289 (5) and section 315 (2) no. 5 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 profitably, 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 Financial Steering and Reporting on behalf of the entire Group. Financial Steering and Reporting 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-wide uniform IT system. If a unit is examined by the internal auditors, these authorization models and their implementation are also reviewed. Automated controls and plausibility checks ensure the completeness and accuracy of data inputs, and in some cases data 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

The rise in international production will gradually grow stronger and the rate of growth in global gross domestic product will increase to 2.7 percent in 2017. Economic expansion on the emerging markets is expected to gradually intensify. While the Chinese government is set to keep the increase in total economic production at a level above 6 percent, Brazil should be able to break out of its recession during the year thanks to the tangible recovery of commodity prices. The economy is also gathering momentum in the industrialized countries. This should be made possible by a slight recovery in Japan and the US. The German economy is expected to see only minor growth in 2017, and the German Council of Economic Experts is forecasting GDP growth of 1.9 percent after adjustment for inflation. VDMA economists are projecting growth in German mechanical production of 1 percent in real terms in 2017.

However, given the high level of uncertainty around the world, the increase in investment will be limited. The reform process in the EU is ongoing. This could have a positive effect on demand for engineering. However, it remains to be seen whether, for instance, the elections in Germany – and possibly Italy – will slow the economy. The possible impact of Brexit on German mechanical engineering can also not be assessed conclusively at this time. The extensive ambiguity over further economic and political developments in Europe and the UK alone could lead to investments being postponed for the time being. Overall, our assumptions are based on the premise that the euro area will continue to exist and experience moderate growth.

The possible implementation of the US economic, financial and tax policy reforms being considered could significantly influence sales opportunities for German mechanical engineering and, as described in the risk and opportunity report, would have specific positive and negative repercussions for Heidelberg. In the medium and long term, reduced tax rates would mean lower tax payments after the utilization of loss carryforwards, but in the short term would necessitate a remeasurement of deferred tax assets. Depending on the timing of any legislative proceedings and the nature of the reforms, this could lead to a one-time, non-cash tax expense at Heidelberg. On the other hand, higher infrastructure spending and the greater relocation of production to the US could also stimulate sales for German mechanical engineering in the short and medium term. The implementation of the intended economic, financial and tax reforms should therefore have a positive effect on the economy as a whole and stimulate the investment behavior of our customers.

Growth on the Chinese market above the projected level would also have a positive effect on sales on this key market for Heidelberg.

Future Prospects

Our planning is based on the economic and political conditions for our markets as presented here and the expected development of our industry. In financial year 2017/2018 we are focusing our corporate strategy on expanding the portfolio in growing markets, such as packaging and label printing, digital printing, selected consumables and software, also through targeted acquisitions. With the intelligent networking of our range of solutions, we are advancing the digitization of all printing operations for our customers and aligning ourselves to customers' life cycles with new digital business models. The effects of this will not be noticeable in financial year 2017/2018, but are expected to lead to continuous growth in sales from financial year 2018/2019.

With our investments and innovations in the area of digitization, autonomous printing, packaging, label and digital printing and data-driven services, we maintained the Group's leading market position in the year under review and, bucking industry trends, generated an increase in orders that should allow sales to remain stable year-on-year in financial year 2017/2018. Thanks to product developments in planning, some on the verge of being launched, there will be future sales opportunities and new customer groups will be cultivated. The solutions marketed are increasingly serving as data providers for the establishment of new business possibilities. Given the investments and initiatives planned and underway, and the focus on growth areas, we are confirming our medium- to long-term goal of consolidated sales of up to € 3 billion.

With measures to enhance efficiency, we are aiming for an EBITDA margin in a range of 7 to 7.5 percent in financial year 2017/2018. The Heidelberg Digital Technology segment is set to contribute between 5 and 7 percent to this result, and the Heidelberg Digital Business and Services segment between 8 and 10 percent. The Heidelberg Financial Services segment should continue to make a positive contribution to EBITDA.

The newly developed digital print portfolio and the transformation of our business model towards new offerings for our customers are expected to have a noticeably positive impact from financial year 2018/2019. With rising sales in growing markets and product areas, and with new, digital business models, we intend to increase our profitability on an ongoing basis. In the medium term, we are striving to increase the EBITDA margin in the Heidelberg Digital Technology segment to between 6 and 9 percent, and to between 8 and 11 percent in the Heidelberg Digital Business and Services segment. This should lead to an improvement in the EBITDA margin to up to 10 percent at Group level. As a result of the forthcoming transformation activities and the optimization of processes and structures, Heidelberg is assuming special items in the financial year ahead to be at the same level as in the year under review.

Thanks to the continuous optimization of our financing framework, the financing costs are to be reduced further in financial year 2017/2018, thus further improving the financial result. Against this backdrop and subject in particular to the tax risks described in the conditions section, Heidelberg is again targeting a moderate increase in its result after taxes, which should continue to increase in the years ahead.

On the basis of the stable and long-term financial framework, the further increase in profitability and the positive free cash flow, we have already reduced our leverage to significantly less than the target still in place of 2. We will therefore still have the financial flexibility moving ahead to finance acquisitions and continue Heidelberg's strategic development.

LEGAL DISCLOSURES

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

- Structure of the compensation system for the Management Board unchanged since previous year
- Compensation structure for the Management Board will continue to comply with statutory requirements (German Stock Corporation Act) and requirements of the German Corporate Governance Code in the future

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 also done in connection with the agreement and review of agreements on objectives with Management Board members. With the introduction of the new compensation system in financial year 2012/2013, the procedure and the parameters 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. This practice continued in the year under review.

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

The remuneration of the Management Board consists firstly of a fixed annual salary 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, and secondly of benefits in kind and Company pension provisions.

The one-year variable compensation is dependent on the Group’s success in the respective financial year, the benchmarks for which have been defined as EBIT and free cash flow. In addition, each member of the Management Board receives a personal, performance-based bonus that is determined by the Supervisory Board at the recommendation of the 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 bonus can amount to up to 30 percent of the basic annual salary; the Company bonus can also account for up to 30 percent or 60 percent if objectives are exceeded. 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 Supervisory Board determines the objectives for the multi-year variable compensation for the forthcoming financial years based on the respective business situation. Objectives are therefore set each financial year for a new three-year period for the multi-year variable compensation. The achievement of objectives is also checked and ascertained each year. However, the multi-year variable compensation for the achievement of objectives will be disbursed only after the end of the respective three-year period. Multi-year variable compensation can amount to 90 percent of the basic annual salary if objectives are met in full.

Once an agreed minimum objective is attained, a minimum threshold of 25 percent is applied, with the result that the achievement of an objective is assessed within a corridor of 25 percent to 100 percent.

This means that the previous structure of Management Board compensation was unchanged in the year under review.

The members of the Management Board have undertaken to each invest 10 percent of both the one-year variable and multi-year variable compensation (before deduction of personal taxes) in shares of Heidelberger Druckmaschinen Aktiengesellschaft that they may dispose of only after a holding period of 24 months. As such, the one-year variable compensation and the multi-year variable compensation alike provide an additional long-term per-

[1)] This remuneration report also forms part of the corporate governance report formance incentive, increasingly gearing the compensation structure towards sustainable business development. The corresponding shares of the one-year variable compensation paid for financial year 2015/2016 and the multi-year variable compensation for financial years 2013/2014, 2014/2015 and 2015/2016 were invested in shares of Heidelberger Druckmaschinen Aktiengesellschaft by Dr. Gerold Linzbach, Dirk Kaliebe, Stephan Plenz and Harald Weimer (for the one-year variable compensation for financial year 2015/2016 only) on August 11, 2016 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 four Management Board members and published on the Heidelberger Druckmaschinen Aktiengesellschaft website on August 12, 2016.

Fringe benefits primarily consist of the value of the private use of a company car and the assumption of travel expenses with the private car and the costs of overnight accommodation.

For the period from November 14, 2016 to November 30, 2019, the Supervisory Board of the company appointed RAINER HUNDSDÖRFER as the Chief Executive Officer, a member of the Management Board and Chief Human Resources Officer, and DR. ULRICH HERMANN as a member of the Management Board.

The BENEFITS TO MEMBERS OF THE MANAGEMENT BOARD WHO LEFT IN THE REPORTING YEAR are as follows:

The term in office of DR. GEROLD LINZBACH as Chief Executive Officer, member of the Management Board and Chief Human Resources Officer ended on November 13, 2016; his service agreement with Heidelberger Druckmaschinen Aktiengesellschaft ends on August 31, 2017 (end of contract). He served Heidelberger Druckmaschinen Aktiengesellschaft in an advisory capacity from November 14, 2016 to March 31, 2017. He has been released from work for the period from April 1, 2017 to August 31, 2017; this release also compensates his remaining vacation entitlement. Specifically, the termination agreement of October 27, 2016 stipulates the following for the period from November 14, 2016 to August 31, 2017: Dr. Gerold Linzbach receives his basic compensation of € 452 thousand, one-year variable compensation of € 406 thousand (of which: disbursement as of end of contract: € 212 thousand) and variable multi-year remuneration of € 406 thousand (of which: disbursement as of end of contract: € 212 thousand). Moreover, the variable multi-year remuneration will be settled as contractually agreed and disbursed at the same time as for the active members of the Management Board of Heidelberger Druckmaschinen Aktiengesellschaft. Furthermore, Heidelberger Druckmaschinen Aktiengesellschaft has paid the social security contributions (employer and employee share plus wage and church tax and solidarity surcharge) for the period from November 14, 2016 to March 31, 2017 of € 9 thousand. The pension contribution for the defined contribution pension commitment for financial year 2016/2017 will be paid by Heidelberger Druckmaschinen Aktiengesellschaft by the due date of July 1, 2017, and for financial year 2017/2018 pro rata temporis by the end of the contract on September 1, 2017, in the amount of 22 percent of his eligible compensation in each case (€ 99 thousand), provided that the payment of benefits has not yet commenced in accordance with the provisions of the pension plan at that time. To compensate his entitlement to share-based pension benefits for the period from November 14, 2016 to August 31, 2017, Dr. Gerold Linzbach will receive compensation of € 475 thousand from Heidelberger Druckmaschinen Aktiengesellschaft (disbursement together with entitlement already vested as of the end of the contract).

The term in office of HARALD WEIMER as a member of the Management Board ended on November 13, 2016; his service agreement with Heidelberger Druckmaschinen Aktiengesellschaft ended as agreed on March 31, 2017. The cash compensation for the period from November 14, 2016 to March 31, 2017 comprises his basic salary of € 153 thousand, fringe benefits of € 14 thousand (including: employer and employee share of social security contributions, wage and church tax and solidarity surcharge of € 9 thousand), one-year variable compensation of € 138 thousand and variable multi-year remuneration of € 138 thousand plus the costs of placement consulting of € 77 thousand (including statutory VAT). The variable multi-year remuneration for the year under review will be settled as contractually agreed and disbursed at the same time as for the active members of the Management Board of Heidelberger Druckmaschinen Aktiengesellschaft. The pension contribution for the defined contribution pension commitment for the period from November 14, 2016 to March 31, 2017 amounts to € 53 thousand.

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

Figures in € thousands	Rainer Hundsdörfer Chief Executive Officer [2]				Dr. Gerold Linzbach Chief Executive Officer [3]				Dirk Kaliebe Chief Financial Officer and Financial Services			
	2016/ 2017	2015/ 2016	2016/ 2017 (Min)	2016/ 2017 (Max)	**2016/ 2017**	2015/ 2016	2016/ 2017 (Min)	2016/ 2017 (Max)	**2016/ 2017**	2015/ 2016	2016/ 2017 (Min)	2016/ 2017 (Max)
Fixed compensation [7]	247	–	247	247	343	550	343	343	396	390	396	396
Fringe benefits	7	–	7	7	17	6	17	17	16	14	16	16
Total	254	–	254	254	360	556	360	360	412	404	412	412
One-year variable compensation	223	–	62	223	308	395	86	308	356	401 [8]	99	356
Multi-year variable compensation	464	–	116	464	103	495	26	103	360	351	90	360
2015/2016 [9] tranche	–	–	–	–	–	495	–	–	–	351	–	–
2016/2017 [9] tranche	464	–	116	464	103	–	26	103	360	–	90	360
Total fixed and variable compensation elements	941	–	432	941	771	1,446	472	771	1,128	1,156	601	1,128
Cost of benefits	90	–	90	90	674	264	674	674	137	137	137	137
Total compensation	1,031	–	522	1,031	1,445	1,710	1,146	1,445	1,265	1,293	738	1,265

Figures in € thousands	Dr. Ulrich Hermann Member of the Board Services [4]				Stephan Plenz Member of the Board Equipment [5]				Harald Weimer Member of the Board Services [6]			
	2016/ 2017	2015/ 2016	2016/ 2017 (Min)	2016/ 2017 (Max)	**2016/ 2017**	2015/ 2016	2016/ 2017 (Min)	2016/ 2017 (Max)	**2016/ 2017**	2015/ 2016	2016/ 2017 (Min)	2016/ 2017 (Max)
Fixed compensation [7]	152	–	152	152	396	390	396	396	243	390	243	243
Fringe benefits	8	–	8	8	16	12	16	16	8	12	8	8
Total	160	–	160	160	412	402	412	412	251	402	251	251
One-year variable compensation	137	–	38	137	356	376 [8]	99	356	219	376 [8]	61	219
Multi-year variable compensation	286	–	71	286	360	351	90	360	73	351	18	73
2015/2016 [9] tranche	–	–	–	–	–	351	–	–	–	351	–	–
2016/2017 [9] tranche	286	–	71	286	360	–	90	360	73	–	18	73
Total fixed and variable compensation elements	583	–	269	583	1,128	1,129	601	1,128	543	1,129	330	543
Cost of benefits	61	–	61	61	137	137	137	137	85	137	85	85
Total compensation	644	–	330	644	1,265	1,266	738	1,265	628	1,266	415	628

[1] In accordance with section 4.2.5 (3) of the German Corporate Governance Code in the version published on April 24, 2017
[2] Chief Executive Officer, member of the Management Board and Chief Human Resources Officer since November 14, 2016
[3] The term in office of Dr. Gerold Linzbach as Chief Executive Officer, member of the Management Board and Chief Human Resources Officer ended on November 13, 2016; his service agreement ends on August 31, 2017. The figures for financial year 2016/2017 relate to the period April 1, 2016 to November 13, 2016
[4] Member of the Management Board since November 14, 2016. From April 1, 2017: Member of the Board Digital Business & Services
[5] From April 1, 2017: Member of the Board Digital Technology
[6] The term in office of Harald Weimer as a member of the Management Board ended on November 13, 2016; his service agreement ended on March 31, 2017. The figures for financial year 2016/2017 relate to the period April 1, 2016 to November 13, 2016
[7] The monthly basic salaries of Dr. Gerold Linzbach, Dirk Kaliebe, Stephan Plenz and Harald Weimer were each increased by 3 percentage points from October 1, 2016
[8] Including premium: Dirk Kaliebe: € 50 thousand; Stephan Plenz and Harald Weimer: € 25 thousand each
[9] Term: 3 years

Allocation [1]

Figures in € thousands	**Rainer Hundsdörfer** Chief Executive Officer [2]		**Dr. Gerold Linzbach** Chief Executive Officer [3]		**Dirk Kaliebe** Chief Financial Officer and Financial Services	
	2016/2017	2015/2016	**2016/2017**	2015/2016	**2016/2017**	2015/2016
Fixed compensation [7]	247	–	343	550	396	390
Fringe benefits	7	–	17	6	16	14
Total	254	–	360	556	412	404
One-year variable compensation	223	–	308	395	356	401 [8]
Multi-year variable compensation	–	–	433	495	353	345
2013/2014 [9] tranche	–	–	–	495	–	345
2014/2015 [9] tranche	–	–	433	–	353	–
Total fixed and variable compensation components	477	–	1,101	1,446	1,121	1,150
Service cost [10]	90	–	674	264	137	137
Total compensation	567	–	1,775	1,710	1,258	1,287
of which: agreed personal investment	22	–	–	89	71	70

Figures in € thousands	**Dr. Ulrich Hermann** Member of the Board Services [4]		**Stephan Plenz** Member of the Board Equipment [5]		**Harald Weimer** Member of the Board Services [6]	
	2016/2017	2015/2016	**2016/2017**	2015/2016	**2016/2017**	2015/2016
Fixed compensation [7]	152	–	396	390	243	390
Fringe benefits	8	–	16	12	8	12
Total	160	–	412	402	251	402
One-year variable compensation	137	–	356	376 [8]	219	376 [8]
Multi-year variable compensation	–	–	353	345	287	–
2013/2014 [9] tranche	–	–	–	345	–	–
2014/2015 [9] tranche	–	–	353	–	287	–
Total fixed and variable compensation components	297	–	1,121	1,123	757	778
Service cost [10]	61	–	137	137	85	137
Total compensation	358	–	1,258	1,260	842	915
of which: agreed personal investment	14	–	71	70	–	35

[1] Payments made or yet to be made to the members of the Management Board for the respective financial year
[2] Chief Executive Officer, member of the Management Board and Chief Human Resources Officer since November 14, 2016
[3] The term in office of Dr. Gerold Linzbach as Chief Executive Officer, member of the Management Board and Chief Human Resources Officer ended on November 13, 2016; his service agreement ends on August 31, 2017. The figures for fixed compensation, fringe benefits and one-year variable compensation for financial year 2016/2017 relate to the period April 1, 2016 to November 13, 2016; this applies accordingly to the annual component for financial year 2016/2017 for the multi-year variable compensation from the 2014/2015 tranche
[4] Member of the Management Board since November 14, 2016. From April 1, 2017: Member of the Board Digital Business & Services
[5] From April 1, 2017: Member of the Board Digital Technology
[6] The term in office of Harald Weimer as a member of the Management Board ended on November 13, 2016; his service agreement ended on March 31, 2017. The figures for fixed compensation, fringe benefits and one-year variable compensation for financial year 2016/2017 relate to the period April 1, 2016 to November 13, 2016; this applies accordingly to the annual component for financial year 2016/2017 for the multi-year variable compensation from the 2014/2015 tranche
[7] The monthly basic salaries of Dr. Gerold Linzbach, Dirk Kaliebe, Stephan Plenz and Harald Weimer were each increased by 3 percentage points from October 1, 2016
[8] Including premium: Dirk Kaliebe: € 50 thousand; Stephan Plenz and Harald Weimer: € 25 thousand each
[9] Term: 3 years
[10] Not yet allocated in the financial year

Payments 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
		Basic salary[1)]	Benefits in kind	One-year variable compensation	Multi-year variable compensation	
Rainer Hundsdörfer[2)]	**2016/2017**	247	7	223	74	551
	2015/2016	–	–	–	–	–
Dr. Gerold Linzbach[3)]	**2016/2017**	343	17	308	308	976
	2015/2016	550	6	395	495	1,446
Dirk Kaliebe	**2016/2017**	396	16	356	356	1,124
	2015/2016	390	14	401[4)]	351	1,156
Dr. Ulrich Hermann[5)]	**2016/2017**	152	8	137	46	343
	2015/2016	–	–	–	–	–
Stephan Plenz	**2016/2017**	396	16	356	356	1,124
	2015/2016	390	12	376[4)]	351	1,129
Harald Weimer[6)]	**2016/2017**	243	8	219	219	689
	2015/2016	390	12	376[4)]	234	1,012
Total	**2016/2017**	1,777	72	1,599	1,359	4,807
	2015/2016	1,720	44	1,548	1,431	4,743

[1)] The monthly basic salaries of Dr. Gerold Linzbach, Dirk Kaliebe, Stephan Plenz and Harald Weimer were each increased by 3 percentage points from October 1, 2016.
[2)] Chief Executive Officer, member of the Management Board and Chief Human Resources Officer since November 14, 2016
[3)] The term in office of Dr. Gerold Linzbach as Chief Executive Officer, member of the Management Board and Chief Human Resources Officer ended on November 13, 2016; his service agreement ends on August 31, 2017. The figures for financial year 2016/2017 relate to the period April 1, 2016 to November 13, 2016.
[4)] Including premium: Dirk Kaliebe: € 50 thousand; Stephan Plenz and Harald Weimer: € 25 thousand each
[5)] Member of the Management Board since November 14, 2016
[6)] The term in office of Harald Weimer as a member of the Management Board ended on November 13, 2016; his service agreement ended on March 31, 2017. The figures for financial year 2016/2017 relate to the period April 1, 2016 to November 13, 2016.

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

RAINER HUNDSDÖRFER, DR. ULRICH HERMANN, DIRK KALIEBE and STEPHAN PLENZ have each been appointed as ordinary members of the Management Board for periods of three years (RAINER HUNDSDÖRFER: Chief Executive Officer and Chief Human Resources Officer). The pension agreement provides for a defined contribution for pension provisions that is essentially consistent with the defined contribution plan for executive staff. On July 1 of each year, the Company pays a corresponding contribution based on the relevant basic salary retroactively for the previous financial year into an investment fund. The fixed pension contribution is 35 percent of the corresponding basic salary.

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 basic 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 with the Company, with a maximum pension percentage of 60 percent due to the attributable time for Dirk Kaliebe and Stephan Plenz. If the contract of employment expires prior to the start of benefit payments, the claim to the established pension capital at that point in time remains valid. The other pension benefits (disability and surviving dependents' benefits) earned in accordance with section 2 of the German Company Pension Act (BetrAVG) remain valid on a pro rata temporis basis. In a departure from section 1b BetrAVG, the benefits of Rainer Hundsdörfer and Dr. 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. 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 payments received by a then former member of the Management Board, which this former member has agreed to disclose to the Company, must be offset in accordance with sections 326 (2) sentence 2 and 615 (2) BGB mutatis mutandis during the originally agreed residual term. If a member of the Management Board becomes unable to work due to disability, the benefits stipulated in the respective pension agreement will be paid.

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

Each member of the Supervisory Board receives fixed compensation of € 40,000.00. The Chairman of the Supervisory Board receives three times this amount, the Deputy

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

Figures in € thousands		Accrued pension funds as of the balance sheet date	Pension contribution during the reporting year [2]	Defined benefit obligation	Service cost
Rainer Hundsdörfer [3]	**2016/2017**	85	85 [4]	90	90 [5]
	2015/2016	–	–	–	–
Dr. Gerold Linzbach [6]	**2016/2017**	–	673 [7]	–	674 [7]
	2015/2016	1,818	260	1,842	264
Dirk Kaliebe	**2016/2017**	1,430	139	1,635	137
	2015/2016	1,254	137	1,505	137
Dr. Ulrich Herman [8]	**2016/2017**	53	53 [4]	61	61 [5]
	2015/2016	–	–	–	–
Stephan Plenz	**2016/2017**	1,346	139	1,544	137
	2015/2016	1,172	137	1,411	137
Harald Weimer [9]	**2016/2017**	–	86 [7]	–	85 [7]
	2015/2016	336	137	432	137

[1] The pension entitlement that can be achieved by the age of 65 (Rainer Hundsdörfer; Dr. Ulrich Hermann; Dirk Kaliebe; Stephan Plenz) is dependent on personal salary 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 capital is expected to be as follows: Rainer Hundsdörfer: approx. 9 percent, Dr. Ulrich Hermann: approx. 21 percent, Dirk Kaliebe: approx. 35 percent and Stephan Plenz: approx. 33 percent of the respective last fixed compensation
[2] For Rainer Hundsdörfer, Dr. Gerold Linzbach, Dr. Ulrich Hermann, Dirk Kaliebe, Stephan Plenz and Harald Weimer 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
[3] Chief Executive Officer, member of the Management Board and Chief Human Resources Officer since November 14, 2016
[4] For the period November 14, 2016 to March 31, 2017
[5] As the service cost amounts to € 0 thousand, the addition to the defined benefit obligation for the period from November 14, 2016 to March 31, 2017 is shown here
[6] The term in office of Dr. Gerold Linzbach as Chief Executive Officer, member of the Management Board and Chief Human Resources Officer ended on November 13, 2016; his service agreement ends on August 31, 2017
[7] For the period April 1, 2016 to November 13, 2016
[8] Member of the Management Board since November 14, 2016
[9] The term in office of Harald Weimer as a member of the Management Board ended on November 13, 2016; his service agreement ended on March 31, 2017

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 eleven 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 €	2016/2017				2015/2016			
	Fixed annual compensation	Attendance fees	Committee compensation	Total	Fixed annual compensation	Attendance fees	Committee compensation	Total
Dr. Siegfried Jaschinski [1]	120,000	6,500	8,000	134,500	106,667	7,000	12,500	126,167
Rainer Wagner [2]	80,000	6,500	10,500	97,000	80,000	8,000	12,000	100,000
Ralph Arns	40,000	3,000	0	43,000	40,000	4,500	0	44,500
Edwin Eichler [3]	13,333	1,000	0	14,333	40,000	4,000	0	44,000
Mirko Geiger	40,000	6,000	7,500	53,500	40,000	7,500	7,500	55,000
Karen Heumann [4]	40,000	2,500	0	42,500	3,333	0	0	3,333
Robert J. Köhler [5]	0	0	0	0	20,000	500	0	20,500
Kirsten Lange [6]	40,000	6,000	4,500	50,500	40,000	3,500	0	43,500
Dr. Herbert Meyer	40,000	6,000	22,500	68,500	40,000	5,500	22,500	68,000
Beate Schmitt	40,000	4,000	3,000	47,000	40,000	5,000	4,500	49,500
Prof. Dr.-Ing. Günther Schuh	95,417 [7]	4,500	3,000	102,917	95,749 [7]	4,500	4,500	104,749
Christoph Woesler	40,000	3,000	0	43,000	40,000	4,500	0	44,500
Roman Zitzelsberger	40,000	2,000	0	42,000	40,000	4,500	0	44,500
Total	628,750	51,000	59,000	738,750	625,749	59,000	63,500	748,249

1) Chairman of the Supervisory Board since June 2, 2015
2) Deputy Chairman of the Supervisory Board
3) Member of the Supervisory Board until July 31, 2016
4) Member of the Supervisory Board since March 24, 2016
5) Chairman of the Supervisory Board until May 17, 2015
6) Member of the Supervisory Board since February 2, 2015
7) of which: fixed compensation for membership in the Board of Directors of a foreign subsidiary: € 55,417 (previous year: € 55,749)

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

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

As of March 31, 2017, the **ISSUED CAPITAL** (share capital) of Heidelberger Druckmaschinen Aktiengesellschaft amounted to € 659,040,714.24 and was divided into 257,437,779 no-par-value bearer shares that are not subject to any restriction on transferability. As of the end of the reporting period, the Company held 142,919 treasury shares, from which no rights arise for the Company in accordance with section 71 b of the German Stock Corporation Act (AktG).

The **APPOINTMENT AND DISMISSAL OF MEMBERS OF THE MANAGEMENT BOARD** is based on sections 84 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 26, 2012, the Annual General Meeting authorized the Management Board, with the approval of the Supervisory Board, to issue bearer or registered warrants or convertible bonds, profit-sharing rights or participating bonds, or a combination of these instruments (collectively referred to as "bonds") up to a total nominal amount of € 150,000,000.00, dated or undated, on one or several occasions by July 25, 2017, and to grant or impose on the bearers or creditors of option warrants or option profit-sharing rights or option participating bonds, option rights or obligations, or to grant or impose on the bearers or creditors of convertible bonds, convertible profit-sharing rights or convertible participating bonds, conversion rights or obligations to bearer shares of the Company with a pro rata amount of share capital of originally up to € 119,934,433.28 in total, in accordance with the further conditions of these bonds. Shareholders' pre-emptive subscription rights can be disapplied in accordance with the further conditions of this authorization. For this purpose, the share capital was originally contingently increased by up to € 119,934,433.28, divided into 46,849,388 bearer shares. Due to the conversion of five partial debentures resulting from the convertible bond issued in July 2013, the share capital was increased by € 488,547.84 utilizing Contingent Capital 2012. The Contingent Capital 2012 available was therefore reduced to € 119,445,885.44, divided into 46,658,549 bearer shares. On July 24, 2015, the Annual General Meeting resolved the cancellation of Contingent Capital 2012 to the extent that it is not intended to serve rights under the 2013 convertible bond. The share capital of Heidelberger Druckmaschinen Aktiengesellschaft is now contingently increased by up to € 58,625,953.28, divided into 22,900,763 bearer shares (**CONTINGENT CAPITAL 2012**), for this purpose; details of Contingent Capital 2012 can be found in Article 3 (3) of the Articles of Association.

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 up to € 58,625,953.28 in total, in accordance with the further conditions of these bonds. Shareholders' pre-emptive 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 (4) 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 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' pre-emptive 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 (5) 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 of Authorized Capital 2015 can be found in Article 3 (6) of the Articles of Association.

The credit facility signed on March 25, 2011 and extended until June 2019 by way of an agreement with several banks in July 2015, a bilateral loan agreement with the European Investment Bank dated March 31, 2016 and a promotional loan agreed with a syndicate of banks with refinancing by the KfW dated October 20, 2016, 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 July 3, 2013 and issued on July 10, 2013 also include a change of control clause. If there is a change of control as described in the bond terms, the bondholders 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 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.

Furthermore, an agreement concluded by Heidelberg with a manufacturer and supplier of inkjet printing systems, inkjet consumables, inkjet printheads and related services contains a change-of-control clause. The agreement relates to the development, manufacture and distribution of an inkjet digital printing machine including consumables and the provision of services for the machine. The change-of-control clause grants each party the right to terminate the agreement if a change of control happens at the other party. A change of control under this agreement occurs when (from the perspective of the terminating party) a third party acquires more than 50 percent of the voting rights of the other party and this third party offers products or services that significantly compete with the major products and services of the terminating party.

Corporate Governance Declaration

The Corporate Governance Declaration in accordance with section 289a HGB and section 315(5) HGB has been made permanently available at www.heidelberg.com under Company > About Us > Corporate Governance.

SUPPLEMENTARY REPORT

In April 2017, Heidelberger Druckmaschinen Aktiengesellschaft signed an agreement on the acquisition of the European paint and printing chemicals business of its strategic partner Fujifilm. Among other things, the transaction includes the acquisition of the two production sites in Reutlingen, Germany, and Kruibeke, Belgium, which have around 70 employees in total. With this acquisition, Heidelberg is expanding its market position for consumables in locations where demand is growing continuously thanks to the megatrend of increased finishing and customization of printed products. The transaction is expected to be completed by July 2017.

In May 2017, Heidelberger Druckmaschinen Aktiengesellschaft acquired docufy GmbH, Bamberg, Germany, which has around 80 employees. The acquisition of docufy GmbH forms part of the continued expansion of Heidelberg's smart factory product portfolio.

The two activities acquired will generate an additional sales volume in excess of € 30 million for Heidelberg.

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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SUPPLEMENTARY REPORT

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Financial section 2016/2017

Consolidated income statement 2016/2017

Figures in € thousands	Note	1-Apr-2015 to 31-Mar-2016	**1-Apr-2016 to 31-Mar-2017**
Net sales	8	2,511,719	2,524,101
Change in inventories		– 19,528	– 26,523
Other own work capitalized		27,345	58,914
Total operating performance		**2,519,536**	**2,556,492**
Other operating income	9	117,794	89,191
Cost of materials	10	1,178,546	1,159,519
Staff costs	11	821,974	847,073
Depreciation and amortization	12	73,063	71,129
Other operating expenses	13	447,417	460,138
Special items [1]	14	20,589	17,634
Result of operating activities		**95,741**	**90,190**
Financial income	16	12,968	6,921
Financial expenses	17	77,569	62,864
Financial result	15	**– 64,601**	**– 55,943**
Net result before taxes		**31,140**	**34,247**
Taxes on income	18	3,006	– 1,989
Net result after taxes		**28,134**	**36,236**
Basic earnings per share according to IAS 33 (in € per share)	35	**0.11**	**0.14**
Diluted earnings per share according to IAS 33 (in € per share)	35	**0.11**	**0.14**

[1] Of which income € 1,964 thousand (previous year: € 17,261 thousand) and expenses € 19,598 thousand (previous year: € 37,850 thousand). When special items are included other operating income is € 91,155 thousand (previous year: € 135,055 thousand), cost of materials € 1,159,519 thousand (previous year: € 1,178,800 thousand), staff costs € 861,961 thousand (previous year: € 852,096 thousand), depreciation and amortization € 72,268 thousand (previous year: € 75,613 thousand) and other operating expenses € 463,709 thousand (previous year: € 452,341 thousand).

Consolidated statement of comprehensive income 2016/2017

Figures in € thousands	Note	1-Apr-2015 to 31-Mar-2016	**1-Apr-2016 to 31-Mar-2017**
Net result after taxes		**28,134**	36,236
Other comprehensive income not reclassified to the income statement			
Remeasurement of defined benefit pension plans and similar obligations		87,974	16,179
Deferred income taxes	23	4,290	–3,238
		92,264	**12,941**
Other comprehensive income which may subsequently be reclassified to the income statement			
Currency translation			
Change in other comprehensive income		–33,821	9,069
Change in profit or loss		–	–
		–33,821	9,069
Available-for-sale financial assets			
Change in other comprehensive income		–453	145
Change in profit or loss		–	–
		–453	145
Cash flow hedges			
Change in other comprehensive income		7,153	–2,555
Change in profit or loss		8,517	–1,032
		15,670	–3,587
Deferred income taxes	23	–479	515
		–19,083	**6,142**
Total other comprehensive income		73,181	19,083
Total comprehensive income		**101,315**	**55,319**

Consolidated statement of financial position as of March 31, 2017

Assets

Figures in € thousands	Note	31-Mar-2016	**31-Mar-2017**
Non-current assets			
Intangible assets	19	221,637	239,418
Property, plant and equipment	20	478,119	476,710
Investment property	20	11,202	11,234
Financial assets	21	12,584	13,439
Receivables from sales financing	22	34,489	33,647
Other receivables and other assets [1]	22	17,824	34,209
Deferred tax assets	23	85,409	99,237
		861,264	907,894
Current assets			
Inventories	24	606,872	581,495
Receivables from sales financing	22	30,110	24,240
Trade receivables	22	360,959	374,732
Other receivables and other assets [2]	23	113,950	105,530
Income tax assets		7,662	7,477
Cash and cash equivalents	25	215,472	217,660
		1,335,025	1,311,134
Assets held for sale		5,705	–
Total assets		**2,201,994**	**2,219,028**

[1] Of which financial assets € 30,126 thousand (previous year: € 10,855 thousand) and non-financial assets € 4,083 thousand (previous year: € 6,969 thousand)
[2] Of which financial assets € 58,379 thousand (previous year: € 70,786 thousand) and non-financial assets € 47,151 thousand (previous year: € 43,164 thousand)

Consolidated statement of financial position as of March 31, 2017

Equity and liabilities

Figures in € thousands	Note	31-Mar-2016	**31-Mar-2017**
Equity	26		
Issued capital		658,676	658,676
Capital reserves, retained earnings and other reserves		– 400,270	– 354,825
Net result after taxes		28,134	36,236
		286,540	340,087
Non-current liabilities			
Provisions for pensions and similar obligations	27	534,353	488,253
Other provisions	28	162,016	170,384
Financial liabilities	29	453,011	371,891
Other liabilities [3]	31	34,228	38,966
Deferred tax liabilities	23	2,535	5,218
		1,186,143	1,074,712
Current liabilities			
Other provisions	28	234,111	239,609
Financial liabilities	29	43,275	98,208
Trade payables	30	179,397	190,392
Income tax liabilities		2,031	2,177
Other liabilities [4]	31	270,497	273,843
		729,311	804,229
Total equity and liabilities		**2,201,994**	**2,219,028**

[3] Of which financial liabilities € 640 thousand (previous year: € 875 thousand) and non-financial liabilities € 38,326 thousand (previous year: € 33,353 thousand)
[4] Of which financial liabilities € 91,761 thousand (previous year: € 86,990 thousand) and non-financial liabilities € 182,082 thousand (previous year: € 183,507 thousand)

Statement of changes in consolidated equity as of March 31, 2017 [1)]

Figures in € thousands	Issued capital	Capital reserves	Retained earnings
April 1, 2015	658,676	29,411	– 331,660
Loss carryforward	–	–	– 72,403
Total comprehensive income	–	–	92,264
Consolidation adjustments / other changes	–	–	1,751
March 31, 2016	**658,676**	**29,411**	**– 310,048**
April 1, 2016	658,676	29,411	– 310,048
Profit carryforward	–	–	28,134
Total comprehensive income	–	–	12,941
Consolidation adjustments / other changes	–	–	– 1,772
March 31, 2017	**658,676**	**29,411**	**– 270,745**

1) For further details please refer to note 26

Other reserves			Total other reserves	Total capital reserves, retained earnings and other reserves	Net result after taxes	Total
Currency translation	Fair value of other financial assets	Fair value of cash flow hedges				
– 87,537	– 360	– 12,653	– 100,550	– 402,799	– 72,403	183,474
–	–	–	–	– 72,403	72,403	0
– 33,821	– 443	15,181	– 19,083	73,181	28,134	101,315
–	–	–	–	1,751	–	1,751
– 121,358	**– 803**	**2,528**	**– 119,633**	**– 400,270**	**28,134**	**286,540**
– 121,358	– 803	2,528	– 119,633	– 400,270	28,134	286,540
–	–	–	–	28,134	– 28,134	0
9,069	1,904	– 4,831	6,142	19,083	36,236	55,319
–	–	–	–	– 1,772	–	– 1,772
– 112,289	**1,101**	**– 2,303**	**– 113,491**	**– 354,825**	**36,236**	**340,087**

Consolidated statement of cash flows 2016/2017 [1)]

Figures in € thousands	1-Apr-2015 to 31-Mar-2016	**1-Apr-2016 to 31-Mar-2017**
Net result after taxes	28,134	36,236
Depreciation, amortization and write-downs [2)]	85,056	74,967
Change in pension provisions	3,117	9,144
Change in deferred tax assets/deferred tax liabilities/tax provisions	– 18,023	– 13,853
Result from disposals [2)]	1,158	229
Cash flow	**99,442**	**106,723**
Change in inventories	32,062	30,146
Change in sales financing	10,500	9,064
Change in trade receivables/payables	– 4,099	4,358
Change in other provisions	– 59,709	– 28,714
Change in other items of the statement of financial position	– 36,651	17,661
Other operating changes	**– 57,897**	**32,515**
Cash generated by operating activities [3)]	**41,545**	**139,238**
Intangible assets/property, plant and equipment/investment property		
Investments	– 61,943	– 102,245
Income from disposals	10,943	16,040
Business acquisitions/corporate sales		
Investments	– 7,648	– 102
Income from disposals	49	674
Financial assets		
Investments	– 63	– 15
Income from disposals	–	127
Cash used in investing activities before cash investment	**– 58,662**	**– 85,521**
Cash investments	– 15,000	– 29,440
Cash used in investing activities	**– 73,662**	**– 114,961**
Borrowing of financial liabilities	218,803	125,386
Repayment of financial liabilities	– 249,988	– 150,019
Cash used in financing activities	**– 31,185**	**– 24,633**
Net change in cash and cash equivalents	**– 63,302**	**– 356**

Cash and cash equivalents at the beginning of the year	**285,961**	**215,472**
Changes in the scope of consolidation	1,001	–
Currency adjustments	– 8,188	2,544
Net change in cash and cash equivalents	– 63,302	– 356
Cash and cash equivalents at the end of the year	**215,472**	**217,660**

Cash generated by operating activities	41,545	139,238
Cash used in investing activities	– 73,662	– 114,961
Free cash flow	**– 32,117**	**24,277**

1) For further details please refer to note 36
2) Relates to intangible assets, property, plant and equipment, investment property and financial assets
3) Includes income taxes paid and refunded of € 15,557 thousand (previous year: € 14,936 thousand) and € 4,103 thousand (previous year: € 10,576 thousand) respectively. The included interest expenses and interest income amount to € 41,135 thousand (previous year: € 63,247 thousand) and € 6,821 thousand (previous year € 9,128 thousand) respectively

Financial section 2016/2017

Notes to the consolidated financial statements for the financial year April 1, 2016 to March 31, 2017

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**
2015/2016							
Intangible assets							
Goodwill	126,441	698	–	–	– 616	–	126,523
Development costs	274,253	–	18,729	35	– 22	1,260	291,735
Software/other rights	111,800	7,516	5,489	–	– 1,021	10,959	112,825
	512,494	**8,214**	**24,218**	**35**	**– 1,659**	**12,219**	**531,083**
Property, plant and equipment							
Land and buildings	651,410	10,833	3,207	1,296	– 9,549	9,273	647,924
Technical equipment and machinery	590,927	7,399	9,911	2,445	– 2,109	30,025	578,548
Other equipment, operating and office equipment	678,245	1,474	21,115	9,291	– 6,248	53,318	650,559
Advance payments and assets under construction	9,211	93	6,476	– 7,927	– 23	990	6,840
	1,929,793	**19,799**	**40,709**	**5,105**	**– 17,929**	**93,606**	**1,883,871**
Investment property	**12,442**	**3,136**	**–**	**70**	**– 371**	**277**	**15,000**
2016/2017							
Intangible assets							
Goodwill	126,523	–	–	–	– 472	–	126,051
Development costs	291,735	–	34,673	–	34	–	326,442
Software/other rights	112,825	–	3,338	–	– 351	1,580	114,232
	531,083	**–**	**38,011**	–	**– 789**	**1,580**	**566,725**
Property, plant and equipment							
Land and buildings	647,924	–	2,261	– 545	1,671	20,333	630,978
Technical equipment and machinery	578,548	–	10,341	1,450	553	27,645	563,247
Other equipment, operating and office equipment	650,559	–	44,270	4,429	2,385	33,354	668,289
Advance payments and assets under construction	6,840	–	9,652	– 5,939	2	261	10,294
	1,883,871	**–**	**66,524**	**– 605**	**4,611**	**81,593**	**1,872,808**
Investment property	**15,000**	**–**	**–**	**880**	**– 181**	**–**	**15,699**

[1] Includes reclassifications to “Assets held for sale” of € 0 thousand (previous year: € 3,084 thousand)
[2] Including write-downs of € 1,902 thousand (previous year: € 19 thousand), see note 12
[3] Including special items of € 1,139 thousand (previous year: € 2,550 thousand)

							Cumulative depreciation and amortization	**Carrying amounts**
As of start of financial year	Change in scope of consolidation	Depreciation and amortization[2), 3)]	Reclassifications[1)]	Currency adjustments	Disposals	Reversals	**As of end of financial year**	**As of end of financial year**
1,604	–	–	–	–	–	–	1,604	124,919
213,565	–	13,806	–	–	1,260	–	226,111	65,624
86,868	–	6,211	–	–744	10,604	–	81,731	31,094
302,037	**–**	**20,017**	**–**	**–744**	**11,864**	**–**	**309,446**	**221,637**
441,955	–	12,851	–140	–4,049	8,920	–	441,697	206,227
453,485	–	16,760	–47	–1,751	25,919	–	442,528	136,020
546,949	–	25,952	406	–4,482	47,298	–	521,527	129,032
–	–	–	–	–	–	–	–	6,840
1,442,389	**–**	**55,563**	**219**	**–10,282**	**82,137**	**–**	**1,405,752**	**478,119**
3,763	**–**	**33**	**140**	**–138**	**–**	**–**	**3,798**	**11,202**

1,604	–	–	–	–	–	–	1,604	124,447
226,111	–	13,413	–	–	–	–	239,524	86,918
81,731	–	5,983	–	–142	1,393	–	86,179	28,053
309,446	**–**	**19,396**	**–**	**–142**	**1,393**	**–**	**327,307**	**239,418**
441,697	–	12,689	–472	1,180	16,478	–	438,616	192,362
442,528	–	15,336	–1,006	508	24,749	–	432,617	130,630
521,527	–	24,578	1,155	1,762	24,157	–	524,865	143,424
–	–	–	–	–	–	–	–	10,294
1,405,752	**–**	**52,603**	**–323**	**3,450**	**65,384**	**–**	**1,396,098**	**476,710**
3,798	**–**	**269**	**472**	**–74**	**–**	**–**	**4,465**	**11,234**

General notes

1 Basis for the preparation of the consolidated financial statements

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 315a (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 euros (see note 5).

These consolidated financial statements relate to financial year 2016/2017 (April 1, 2016, to March 31, 2017). They were approved for publication by the Management Board of Heidelberger Druckmaschinen Aktiengesellschaft on May 22, 2017.

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 2016/2017.

Standards	Publication by the IASB / IFRS IC	Date of adoption [1]	Published in Official Journal of the EU	Effects
Amendments to standards				
Amendment to IAS 1: Disclosure Initiative	18-Dec-2014	1-Jan-2016	19-Dec-2015	No material effects
Amendment to IAS 16: Property, Plant and Equipment and IAS 38: Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortization	12-May-2014	1-Jan-2016	3-Dec-2015	None
Amendment to IAS 16 and IAS 41: Agriculture: Bearer Plants	30-Jun-2014	1-Jan-2016	24-Nov-2015	None
Amendment to IAS 27: Equity Method in Separate Financial Statements	12-Aug-2014	1-Jan-2016	23-Dec-2015	None
Amendment to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exemption	18-Dec-2014	1-Jan-2016	23-Sep-2016	None
Amendment to IFRS 11: Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations	6-May-2014	1-Jan-2016	25-Nov-2015	None
Annual Improvements to IFRS 2012 – 2014 Cycle	25-Sep-2014	1-Jan-2016	16-Dec-2015	No material effects

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

New accounting provisions

The IASB and the IFRS IC approved and amended other standards and interpretations, whose application is not yet compulsory in financial year 2016/2017 or which have not yet been endorsed by the European Union (EU). Heidelberg is not currently planning to apply these standards at an early date.

Standards	Publication by the IASB / IFRS IC	Effective date [1]	Published in Official Journal of the EU	Content	Expected effects
Amendments to standards					
Amendments to IAS 7: Disclosure Initiative	29-Jan-2016	1-Jan-2017	Outstanding	The amendments introduce additional disclosures to enable users of financial statements to evaluate changes in liabilities arising from financing activities.	Currently being examined
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	19-Jan-2016	1-Jan-2017	Outstanding	The amendments comprise clarifications regarding the recognition of deferred tax assets for unrealized losses that arise from changes in the fair value of debt instruments and are recognized in other comprehensive income.	Currently being examined
Amendments to IAS 40: Transfers of Investment Property	8-Dec-2016	1-Jan-2018	Outstanding	The amendments clarify that transfers to or from investment property are only permissible when there is evidence of a change in use. In addition, it is clarified that the list of indicators for a change in use in IAS 40 is not exhaustive.	None
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	20-Jun-2016	1-Jan-2018	Outstanding	The amendments include clarifications on accounting for cash-settled share-based payment transactions and for modifications of commitments when a previously cash-settled share-based payment transaction is reclassified as an equity-settled share-based payment transaction.	None
Amendments to IFRS 4: Applying IFRS 9 “Financial Instruments” with IFRS 4 “Insurance Contracts”	12-Sep-2016	1-Jan-2018	Outstanding	The amendments provide an option either to recognize the volatility from IFRS 9 before the application of IFRS 4 in other comprehensive income or, if the activities are primarily linked to insurance, to delay the first-time application of IFRS 9 until 2021.	None
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	11-Sep-2014 and 17-Dec-2015	Outstanding	Outstanding	The amendments clarify how the results of transactions between an investor and an associate or joint venture must be recognized. If the transaction relates to a business in accordance with IFRS 3, the profit or loss must be recognized in full. Otherwise there is partial recognition of the result. The effective date of the changes was postponed indefinitely in December 2015.	To be examined in due time
Annual Improvements to IFRS 2014–2016 Cycle	8-Dec-2016	1-Jan-2017 and 1-Jan-2018	Outstanding	Minor and non-urgent improvements are made to IFRS as part of the IASB’s annual improvement project. These relate to the standards IFRS 1, IFRS 12 and IAS 28.	No material effects

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

Standards	Publication by the IASB / IFRS IC	Effective date [1]	Published in Official Journal of the EU	Content	Expected effects
New standards					
IFRS 9: Financial Instruments	24-Jul-2014	1-Jan-2018	29-Nov-2016	¬ IFRS 9 replaces the previous standard IAS 39. ¬ IFRS 9 contains new regulations on the recognition and measurement of financial instruments. The basis for accounting are the cash flow properties and the business model by which the financial asset is managed. In the future, impairment on financial assets is to be based on forecast credit losses. IFRS 9 also contains revised regulations on hedge accounting.	Please refer to remarks below this table
IFRS 14: Regulatory Deferral Accounts	30-Jan-2014	1-Jan-2016	Outstanding	¬ According to IFRS 14, rate-regulated entities adopting IFRS for the first time can continue to account for rate regulations according to the local accounting policies used previously. ¬ Regulatory deferral accounts and their effects are to be reported separately in the statement of financial position and statement of profit or loss and in other comprehensive income. In addition, IFRS 14 requires disclosures in the notes regarding these items.	None
IFRS 15: Revenue from Contracts with Customers	28-May-2014, 11-Sep-2015 and 12-Apr-2016	1-Jan-2018	29-Oct-2016	¬ IFRS 15 provides a uniform, five-step model for calculating and recognizing revenue to be applied to all contracts with customers. It replaces the previous standards IAS 18 and IAS 11 and various revenue-related interpretations. ¬ Basically, revenues should reflect the transfer of goods or services at the amount that the company expects to receive as consideration (payment) for these goods or services. ¬ IFRS 15 contains extended guidelines on issues including multi-component agreements, service agreements and contractual amendments in addition to extended disclosures in the notes. ¬ In September 2015, it was stipulated that application of IFRS 15 will be mandatory for the first time for financial years that begin on or after January 1, 2018. ¬ In April 2016, the IASB published various clarifications regarding IFRS 15.	Please refer to remarks below this table
IFRS 16: Leases	13-Jan-2016	1-Jan-2019	Outstanding	¬ 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

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

Standards	Publication by the IASB / IFRS IC	Effective date [1]	Published in Official Journal of the EU	Content	Expected effects
New interpretation					
IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration	8-Dec-2016	1-Jan-2018	Outstanding	The interpretation clarifies that the date of the transaction, for the purpose of determining the exchange rate for the translation of transactions in foreign currencies that include the receipt or payment of advance consideration, is the date of initial recognition of the asset or liability resulting from the advance consideration.	Currently being examined

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

The effects of the introduction of IFRS 9: Financial Instruments are currently being analyzed in a project on the implementation of the new standard. This is focusing on the analysis of the effects of the new impairment model and the revised hedge accounting requirements. The new requirements for classification are expected to lead largely to recognition of financial assets in the "at amortized cost" category. On the basis of the new impairment model, expected losses from financial assets will generally have to be expensed earlier than before. IFRS 9 also stipulates extensive new disclosures in the notes, especially on expected credit losses and hedge accounting. The precise effects cannot yet be conclusively assessed on the basis of the analyses so far.

The effects of the new requirements of IFRS 15: Revenue from Contracts with Customers are currently still being analyzed in a project on the implementation of the new standard. In particular, this comprises qualitative and quantitative analyses, contractual analyses and surveys of the sales-related areas. Changes are expected in the statement of financial position due to the separate recognition of contractual assets and liabilities. Additional qualitative and quantitative disclosures will be shown in the notes to the consolidated financial statements. Their ascertainment and structure are currently being analyzed as part of the implementation project. Overall, however, the findings so far suggest that the initial application of IFRS 15 will have no material effects on the Group's net assets, financial position and results of operations. Heidelberg will probably choose the modified retrospective method as a transitional method for the initial application.

The initial adoption of IFRS 16: Leases is expected to lead to an increase in non-current assets and liabilities, particularly as the rights and obligations resulting from operating leases will be accounted for as rights of use and lease liabilities in the future. There may be shifts in the income statement between the result of operating activities (EBIT) and the financial result as, in contrast to the previous recognition of operating lease expenses, write-downs of right-of-use assets and the interest cost of discounting lease liabilities will be required to be recognized in future. The exact effects on the consolidated financial statements are currently still being investigated.

3 Scope of consolidation

The consolidated financial statements of Heidelberger Druckmaschinen Aktiengesellschaft include a total of 70 (previous year: 73) domestic and foreign companies controlled by Heidelberger Druckmaschinen Aktiengesellschaft within the meaning of IFRS 10. Of these companies, 61 (previous year: 62) are located outside Germany.

	2015/2016	**2016/2017**
April 1	66	73
Additions (of which: 5 PSG companies in the previous year)	7	–
Disposals (including mergers)	–	3
March 31	73	70

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 136 to 139).

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

- According to a resolution by the Shareholders' Meeting of Heidelberger Druckmaschinen Vermögensverwaltungsgesellschaft mbH, Walldorf, the latter withdrew from Heidelberger Druckmaschinen Real Estate GmbH & Co. KG, Walldorf, as general partner as of April 1, 2016. Consequently, all assets and liabilities accrued to Heidelberger Druckmaschinen Aktiengesellschaft as the sole remaining shareholder as of April 1, 2016. Heidelberger Druckmaschinen Vermögensverwaltungsgesellschaft mbH is thus leaving the scope of consolidation.

- In addition, Printing Systems Group Holding B.V., Almere, Netherlands, was merged into Heidelberg Benelux B.V., Almere, the Netherlands, effective April 29, 2016.

SABAL GmbH & Co. Objekt FEZ Heidelberg KG is a structured entity that was founded to manage, let and utilize the research and development center in Heidelberg, and in which Heidelberger Druckmaschinen Aktiengesellschaft is the limited partner with an interest of 99.9 percent of the capital. In 2007 Heidelberger Druckmaschinen Aktiengesellschaft sold the research and development center to SABAL GmbH & Co. Objekt FEZ Heidelberg KG and rented the center from it. SABAL GmbH & Co. Objekt FEZ Heidelberg KG is not included in consolidation as Heidelberger Druckmaschinen Aktiengesellschaft does not control it. The carrying amount of the interest in SABAL GmbH & Co. Objekt FEZ Heidelberg KG is reported in financial assets and is around € 10 thousand.

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	
	2015/2016 €1 =	**2016/2017 €1 =**	31-Mar-2016 €1 =	**31-Mar-2017 €1 =**
AUD	1.5045	1.4563	1.4807	1.3982
CAD	1.4489	1.4376	1.4738	1.4265
CHF	1.0763	1.0827	1.0931	1.0696
CNY	7.0233	7.3725	7.3514	7.3642
GBP	0.7358	0.8417	0.7916	0.8555
HKD	8.5632	8.4854	8.8282	8.3074
JPY	132.6142	118.5267	127.9000	119.5500
USD	1.1040	1.0936	1.1385	1.0691

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

6 General accounting policies

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

General principles

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

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

Uniform accounting policies

The consolidated financial statements are prepared on the basis of accounting policies that are applied uniformly throughout the Group. 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

PRODUCT SALES are recognized when the material risks and rewards of ownership of the merchandise and products sold are transferred to the buyer. Neither a continuing managerial involvement nor effective control over the sold merchandise and products remain. The revenue amount can be reliably determined; the inflow of economic benefit from the sale is sufficiently probable.

Sales from SERVICES are recognized when the services are rendered provided that the amount of income can be reliably determined and the inflow of economic benefit arising from the transaction is sufficiently probable. Sales from long-term service contracts are generally distributed on a straight-line basis.

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

Intangible assets

With the exception of goodwill, all intangible assets have a limited useful life and are therefore amortized on a straight-line basis over their expected useful life. In accordance with the option provided under IAS 38, intangible assets are measured at amortized cost. In accordance with IFRS 3 in conjunction with IAS 36, goodwill is tested for impairment on an annual basis 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 property

Investment property (IAS 40: Investment Property) is recognized at cost less cumulative straight-line depreciation and cumulative impairment in line with the option provided under IAS 40. The fair value of investment property is disclosed in the notes to the consolidated financial statements. Around half of 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):

	2015/2016	**2016/2017**
Development costs	5 to 12	3 to 12
Software/other rights	3 to 9	3 to 9
Buildings	15 to 50	25 to 50
Technical equipment and machinery	12 to 31	12 to 31
Other equipment, operating and office equipment	5 to 27	4 to 26
Investment property	15 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. There is a separate rule if the asset is part of a cash-generating unit. If an intangible asset (including capitalized development costs) is part of a cash-generating unit, impairment is determined on the basis of the recoverable amount of the unit. 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 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. Valuations are generally determined on the basis of the weighted average cost method.

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

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

The risks of holding inventories arising from reduced usability are taken into account by appropriate write-downs. These write-downs are recognized on the basis of the future production program or actual consumption. Individual periods are used for different inventory items, which are monitored and adjusted based on appropriate criteria. Measurement takes into account lower realizable net selling prices at the end of the reporting period. If the reasons for a lower valuation no longer apply to inventories that have formerly been written down and the net selling price has therefore risen, the reversal of the write-down is recognized as a reduction of 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 IAS 39: Financial Instruments: Recognition and Measurement. Under IAS 39, on first-time recognition financial assets and liabilities can be designated as financial instruments in the fair value through 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.

In accordance with IAS 39, an impairment loss is recognized when there is sufficient objective evidence of impairment of a financial asset. Such evidence may lie in a deterioration of the customer's creditworthiness, delinquency or default, the restructuring of contract terms, or the increased probability that insolvency proceedings will be opened. The calculation of the amount of impairment needed takes into account historical default rates, the extent to which payment is past due, any collateral pledged and regional conditions. Financial assets are examined for impairment requirements individually (specific allowances for impairment losses). Appropriate risk provisioning was recognized for all discernible risks of default. The theoretically maximum remaining risk of default of financial assets is the same as their recognized carrying amounts.

For loans and receivables the amount of impairment is equal to the difference between the carrying amount and the present value of the expected future cash flows, discounted at the original effective interest rate of the financial asset. Impairment is either recognized directly in income by reducing the carrying amount of the financial asset or by using an allowance account. The way in which the impairment is shown is dependent on the estimated probability of the risk of default. The carrying amount of uncollectible receivables is derecognized. If the amount of the impairment is objectively reduced in subsequent reporting periods due to an event occurring after recognition of the impairment, the impairment recognized is reversed accordingly in income.

Impairment on financial assets available for sale measured at fair value is recognized in the consolidated income statement as the difference between cost (net of any principle repayments or amortization) and current fair value, less any impairment previously recognized in profit or loss. Reversals of impairment losses on equity instruments are not recognized in profit or loss. If the amount of the impairment on debt instruments is objectively reduced in subsequent reporting periods due to an event occurring after recognition of the impairment, the impairment recognized is reversed accordingly in income.

Impairment on financial assets available for sale carried at cost is recognized in profit or loss as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the current rate of return for similar financial assets. These impairment losses are not reversed.

Financial assets are derecognized when the contractual rights to cash flows end or substantially all the risks and rewards of ownership are transferred to another party. Financial liabilities are derecognized when the contractual obligation is discharged or legally 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 32 and to the Risk and Opportunity Report in the Group management report.

Investments and securities

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

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

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

Loans

Loans are credit that we extend and are classified as loans and receivables under IAS 39. Non-current non-interest-bearing and low-interest-bearing loans are carried at net present value. After initial recognition, financial assets in the measurement category of financial assets available for sale are measured at fair value; unrealized gains and losses are recognized outside profit or loss. A reclassification from equity is performed by recognizing the accumulated losses in profit or loss only when the assets are sold or there is objective evidence of impairment. Measurement in subsequent periods is at amortized cost using the effective interest rate method.

Receivables from sales financing

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

Finance leases include leased installations considered as sales under non-current financing. In line with IAS 17, these receivables are carried at the net investment value, i. e. 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 IAS 39 category loans and receivables and carried at fair value. Measurement in subsequent periods is at amortized cost using the effective interest rate method.

Trade receivables

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

Receivables and other assets

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

Cash and cash equivalents

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

Financial liabilities

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

In accordance with IAS 39, primary liabilities are stated at fair value. Directly attributable transaction costs are included for financial liabilities not carried at fair value through profit or loss. Measurement in subsequent periods is at amortized cost using the effective interest rate method. Liabilities from finance leases are recognized in the amount of the present value of the minimum lease payments. Financial guarantees are recognized at the higher of the amount calculated in line with IAS 37 and the initial amount carried as a liability less any amortization. They are reported under other provisions.

Derivative financial instruments

Derivative financial instruments in the Heidelberg Group comprise hedging instruments used to manage interest 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. At present, these are exclusively forward exchange transactions.

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

In accordance with IAS 39, derivatives meet the recognition criteria for assets and liabilities, as a result of which they must be capitalized (other assets) or expensed (other liabilities) at fair value. First-time recognition is as of the settlement date.

Under IAS 39, the distinction between a fair value hedge and a cash flow hedge is of fundamental importance for hedge accounting.

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

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

Hedging instruments that do not satisfy the documentation requirements of IAS 39 for hedge accounting or whose underlying hedged items no longer exist are classified as held for trading.

Hybrid financial instruments

Financial instruments that contain both a liability and an equity component are recognized in different items in the statement of financial position according to their 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 standard international liability method (IAS 12). Under this method, deferred taxes are recognized for all temporary differences between IFRS carrying amounts and the tax carrying amounts of the individual companies or Group companies and on corresponding consolidation adjustments. In addition, deferred tax assets for future benefits from tax loss carryforwards are also taken into account. Deferred tax assets for accounting differences and for tax loss carryforwards are recognized in the amount for which it is probable that taxable income will be available, i.e. for which utilization seems reasonably assured. Deferred taxes are measured on the basis of the income tax rates of the respective countries. A tax rate of 28.19 percent (previous year: 28.36 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.

Assets and liabilities held for sale

Non-current assets and liabilities are classified as held for sale when disposal is highly likely and the asset is available for immediate sale in its present condition. In addition, the owner must have resolved to sell the individual asset or disposal group within one year.

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

Provisions for pensions and similar obligations

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

In the case of defined benefit plans, the pension obligations are calculated using the projected unit credit method (IAS 19). Under this method, expert actuarial reports are commissioned each year. The discount rate used for the present values of defined benefit obligations is based on the yields of high-quality corporate bonds with matching maturities and currencies and ratings of AA on the basis of the information provided by Bloomberg. This discount rate is also used to determine the net interest on the net liability/asset from defined benefit plans. Mortality and retirement rates are calculated in Germany according to the current 2005 G 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 (IAS 37). This means that the probability must exceed 50 percent. They are measured either at the most likely settlement amount or, if probabilities are equal, at the expected settlement amount. Provisions are only recognized for legal or constructive obligations in respect of third parties. Provisions are measured at 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.

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 19. As in the previous year, increasing the discount rate before taxes by one percentage point to 7.8 percent (previous year: 8.9 percent) for the cash-generating unit Heidelberg Equipment and 7.9 percent (previous year: 9.2 percent) for the cash-generating unit Heidelberg Services would not result in any impairment requirements. The same applies to a reduction in the growth factor used to calculate the perpetual annuity by one percentage point either way and 5 percent for the reduction in the result of operating activities.

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

Credit and default risks arise for trade receivables and receivables from sales financing to the extent that customers do not meet their payment obligations and assets are lost as a result. The necessary impairment is calculated in line with the creditworthiness of customers, any collateral pledged and experience based on historical default rates. The customer's actual default may differ from the expected default on account of the underlying factors.

The amount and probability of utilization are estimated in the recognition and measurement of other provisions. They are measured either at the most likely settlement amount or, if probabilities are equal, at the expected settlement amount. The amount of the actual utilization can deviate from estimates. Please refer to note 27 for information on the sensitivity analysis regarding provisions for pensions and similar obligations.

The assumptions and estimates are based on the information and data currently available. Actual developments 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 sales of products and services, sales include income from commission, finance and operating leases totaling € 6,247 thousand (previous year: € 9,271 thousand) and interest income from sales financing and finance leases amounting to € 4,651 thousand (previous year: € 5,614 thousand).

Further information on sales can be found in the segment report and the report on the regions in the Group management report. The classification of sales by segment and sales by region is shown in note 37.

9 Other operating income

	2015/2016	**2016/2017**
Reversal of other provisions and accruals	35,162	40,033
Income from operating facilities	11,735	10,982
Hedging/exchange rate gains	10,702	7,343
Recoveries on loans and other assets previously written down	5,636	6,076
Income from disposals of intangible assets, property, plant and equipment and investment property	556	643
Reversal of negative difference from first-time consolidation of PSG Holding B.V.	18,761	–
Other income	35,242	24,114
	117,794	**89,191**

The other income item contains a large number of individual matters.

10 Cost of materials

	2015/2016	**2016/2017**
Cost of raw materials, consumables and supplies, and of goods purchased and held for resale	1,064,211	1,038,359
Cost of purchased services	112,458	120,069
Interest expense of Heidelberg Financial Services	1,877	1,091
	1,178,546	**1,159,519**

The ratio of the cost of materials to total operating performance is 45.4 percent (previous year: 46.8 percent).

11 Staff costs and number of employees

	2015/2016	**2016/2017**
Wages and salaries	679,548	702,926
Cost of/income from pension scheme	19,861	19,979
Other social security contributions and expenses	122,565	124,168
	821,974	**847,073**

The number of EMPLOYEES [1] was:

	Average		As of	
	2015/2016	**2016/2017**	31-Mar-2016	**31-Mar-2017**
Europe, Middle East and Africa	8,429	8,392	8,369	8,440
Asia/Pacific	1,871	1,772	1,821	1,754
Eastern Europe	497	492	494	487
North America	748	739	747	733
South America	156	114	134	97
	11,701	11,509	11,565	11,511
Trainees	426	364	351	323
	12,127	**11,873**	**11,916**	**11,834**

[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 € 71,129 thousand (previous year: € 73,063 thousand) relate to intangible assets (€ 19,396 thousand; previous year: € 20,017 thousand), property, plant and equipment (€ 51,464 thousand; previous year: € 53,013 thousand) and investment property (€ 269 thousand; previous year: € 33 thousand).

Impairment of € 1,902 thousand (previous year: € 19 thousand) essentially relates to land and buildings and is attributable to the Heidelberg Services segment.

13 Other operating expenses

	2015/2016	**2016/2017**
Other deliveries and services not included in the cost of materials	122,836	143,190
Special direct sales expenses including freight charges	98,364	96,128
Rent and leases	51,100	47,741
Travel expenses	40,599	41,259
Additions to provisions and accruals relating to several types of expense	5,011	24,662
Insurance expense	10,806	10,592
Hedging/exchange rate losses	12,417	6,242
Costs of car fleet (excluding leases)	6,195	5,859
Bad debt allowances and impairment on other assets	12,660	5,564
Other overheads	87,429	78,901
	447,417	**460,138**

14 Special items

The income and expenses reported under special items relate to the following items of the consolidated income statement:

	2015/2016	**2016/2017**
Other operating income	17,261	1,964
Income from special items	**17,261**	**1,964**
Cost of materials	254	–
Staff costs	30,122	14,888
Depreciation and amortization	2,550	1,139
Other operating expenses	4,924	3,571
Expenses from special items	**37,850**	**19,598**
Special items	**20,589**	**17,634**

At € 1,905 thousand (previous year: € 116 thousand), most of the other operating income in the reporting period results from the reversal of provisions for HR measures recognized in the previous year, which essentially related to our portfolio adjustments and the Focus efficiency program. In the previous year, these included the sale of the real estate at the former headquarters in Heidelberg in financial year 2015/2016 at € 6,317 thousand.

The staff costs in the reporting period relate primarily to partial retirement agreements concluded in line with the adjustment of personnel capacities at the Company sites in Germany; the resulting expense of € 10,552 thousand (previous year: € 21,620 thousand) is due to the necessary allocation of the total costs.

Including special items, the items of the consolidated income statement are as follows:

	2015/2016	**2016/2017**
Other operating income	135,055	91,115
Cost of materials	1,178,800	1,159,519
Staff costs	852,096	861,961
Depreciation and amortization	75,613	72,268
Other operating expenses	452,341	463,709

15 Financial result

	2015/2016	**2016/2017**
Financial income	12,968	6,921
Financial expenses	77,569	62,864
Financial result	**– 64,601**	**– 55,943**

16 Financial income

	2015/2016	**2016/2017**
Interest and similar income	4,399	3,840
Income from financial assets/loans/securities	8,569	3,081
Financial income	**12,968**	**6,921**

17 Financial expenses

	2015/2016	2016/2017
Interest and similar expenses	64,738	56,149
of which: net interest cost of pensions	(9,929)	(11,653)
Expenses for financial assets/ loans/securities	12,831	6,715
Financial expenses	**77,569**	**62,864**

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

The cost of financial assets/loans/securities includes write-downs of € 2,713 thousand (previous year: € 9,449 thousand).

18 Taxes on income

Taxes on income are broken down as follows:

	2015/2016	2016/2017
Current taxes	34,130	8,124
of which Germany	(13,613)	(1,286)
of which abroad	(20,517)	(6,838)
Deferred taxes	– 31,124	– 10,113
of which Germany	(4,029)	(– 100)
of which abroad	(– 35,153)	(– 10,013)
	3,006	**– 1,989**

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 (12.36 percent; previous year: 12.53 percent) and comparable taxes of the foreign subsidiaries. The nominal total German tax rate is 28.19 percent for the financial year (previous year: 28.36 percent).

No deferred tax liabilities were recognized for temporary differences on shares in subsidiaries of € 185,534 thousand (previous year: € 169,597 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 € 459 thousand (previous year: € 6,771 thousand) and € 3,206 thousand (previous year: € 15,392 thousand) respectively.

Total tax loss carryforwards for which no deferred tax assets were recognized amount to € 1,277,236 thousand (previous year: € 1,237,376 thousand). Of these, € 7,517 thousand can be used by 2020 (previous year: € 0 thousand by 2019), € 2 thousand by 2021 (previous year: € 11,641 thousand by 2020) € 593 thousand by 2022 (previous year: € 10,344 thousand by 2021) and € 1,269,124 by 2023 and later (previous year: € 1,215,391 by 2022 and later).

For interest carryforwards amounting to € 73,996 thousand (previous year: € 54,545 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 € 840 thousand in the year under review (previous year: € 540 thousand). Deferred tax assets totaling € 7,270 thousand (previous year: € 16,895 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 € 1,126 thousand (previous year: € 5,699 thousand) were recognized in profit or loss.

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

Deferred tax assets of € 76,070 thousand (previous year: € 4,201 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 was assumed that positive taxable income will be available in the foreseeable future.

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

Unutilized tax credit for which no deferred tax assets have been recognized in the consolidated statement of financial position amounted to € 4,752 thousand (previous year: € 7,308 thousand).

Current taxes were reduced in the reporting year by € 2,424 thousand (previous year: € 11,123 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 € 1,813 thousand (previous year: expenses of € 17,859 thousand).

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

	2015/2016	**2016/2017**
Net result before taxes	31,140	34,247
Theoretical tax rate in percent	28.36	28.19
Theoretical tax income/expense	**8,831**	**9,654**
Change in theoretical tax income/expense due to:		
Differing tax rate	346	– 2,246
Tax loss carryforwards [1]	– 17,362	13,971
Reduction due to tax-free income	– 7,848	– 15,425
Tax increase due to non-deductible expenses	15,983	9,527
Change in tax provisions/taxes attributable to previous years/impairment or reversal of deferred tax assets on temporary differences	3,397	– 17,724
Other	– 341	254
Taxes on income	**3,006**	**– 1,989**
Tax rate in percent	**9.65**	**– 5.81**

[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

19 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 37). The carrying amounts of the goodwill associated with the cash-generating units Heidelberg Equipment and Heidelberg Services total € 64,948 thousand (previous year: € 64,960 thousand) and € 59,499 thousand (previous year: € 59,959 thousand) respectively.

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

As a result, and as in the previous year, there were no impairment requirements for the Heidelberg Equipment, Heidelberg Services or Heidelberg Financial Services cash-generating units.

The calculated cash flows were discounted on the basis of market data using weighted average costs of capital (WACC) before taxes of 6.8 percent (previous year: 7.9 percent) for the Heidelberg Equipment cash-generating unit and of 6.9 percent (previous year: 8.2 percent) for the Heidelberg Services cash-generating unit. As in the previous year Heidelberg uses constant growth rates of 1 percent to show expected inflation to extrapolate cash flows beyond the detailed planning period.

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

Capitalized **DEVELOPMENT COSTS** mainly relate to the development of machinery in the digital printing sector in the Heidelberg Equipment segment. Non-capitalized development costs from all segments – including research expenses – amount to € 84,038 thousand in the reporting year (previous year: € 103,510 thousand).

20 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 € 1,204 thousand (previous year: € 1,642 thousand) for land and buildings and € 3,946 thousand (previous year: € 3,022 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 € 10,779 thousand (previous year: € 11,842 thousand). These assets are reported under technical equipment and machinery. These assets are printing presses leased to customers. The gross carrying amounts were € 30,763 thousand (previous year: € 33,083 thousand) and cumulative depreciation amounted to € 19,983 thousand (previous year: € 21,241 thousand). Depreciation of € 4,039 thousand (previous year: € 5,710 thousand) was recognized in the reporting year. Future lease income of € 3,280 thousand (previous year: € 3,482 thousand) is anticipated from operating leases. Payments with maturities of up to one year, between one and five years and more than five years amount to € 1,236 thousand (previous year: € 1,156 thousand), € 2,021 thousand (previous year: € 2,263 thousand) and € 23 thousand (previous year: € 62 thousand) respectively.

In connection with a loan received (carrying amount: € 9,082 thousand; previous year: € 17,462 thousand), the lender was granted usufructuary rights on three developed plots of land (carrying amount: € 32,062 thousand; previous year: € 31,531 thousand). In connection with the refinancing of the Heidelberg Group (see note 29), property, plant and equipment, investment property and assets held for sale were pledged as collateral by way of assignment and the appointment of a collective land charge. The carrying amounts of this collateral as of the end of the reporting period were € 331,156 thousand (previous year: € 325,295 thousand), € 5,064 thousand (previous year: € 4,656 thousand) and € 0 thousand (previous year: € 0 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 € 12,879 thousand (previous year: € 14,309 thousand). Investment property with a fair value of € 6,942 thousand (previous year: € 9,053 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.

21 Financial assets

Financial assets include shares in subsidiaries totaling € 5,920 thousand (previous year: € 5,661 thousand), other investments of € 3,388 thousand (previous year: € 3,458 thousand) and securities of € 4,131 thousand (previous year: € 3,465 thousand). Information on the fair value of the financial assets is included in note 32.

22 Receivables and other assets

			31-Mar-2016			31-Mar-2017
	Current	Non-current	Total	Current	Non-current	**Total**
Receivables from sales financing	**30,110**	**34,489**	**64,599**	**24,240**	**33,647**	**57,887**
Trade receivables	**360,959**	**–**	**360,959**	**374,732**	**–**	**374,732**
Other receivables and other assets						
Other tax assets	16,588	83	16,671	19,323	4	19,327
Loans	600	9,761	10,361	3,468	28,565	32,033
Derivative financial instruments	5,177	–	5,177	3,386	–	3,386
Deferred income	11,957	3,852	15,809	13,549	666	14,215
Other assets	79,628	4,128	83,756	65,804	4,974	70,778
	113,950	**17,824**	**131,774**	**105,530**	**34,209**	**139,739**

In the reporting year, plan assets of € 2,433 thousand (previous year: € 2,079 thousand) are included in non-current other assets (see note 27).

In connection with the refinancing of the Heidelberg Group (see note 29), trade receivables, receivables from sales financing and other receivables and other assets were assigned as collateral by way of undisclosed assignment. The carrying amounts of this collateral as of the end of the reporting period were € 92,814 thousand (previous year: € 104,076 thousand), € 33,029 thousand (previous year: € 43,154 thousand) and € 1,889 thousand (previous year: € 3,271 thousand) respectively. Other assets include time deposits of € 20,000 thousand (previous year: € 15,000 thousand).

Receivables from sales financing

RECEIVABLES FROM SALES FINANCING are shown in the following table:

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 amount. This fair value is based upon expected cash flows and interest rates with matching maturities taking into account the customer-specific credit rating.

A specific allowance for impairment losses of € 6,113 thousand (previous year: € 9,146 thousand) was recognized for receivables from sales financing with a gross carrying amount of € 22,100 thousand (previous year: € 29,856 thousand). The derived market value of the collateral held for receivables from sales financing was € 49,954 thousand (previous year: € 58,775 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.

Contract currency	Carrying amount 31-Mar-2016 in € thousands	Remaining term in years	Effective interest rate in percent	Carrying amount **31-Mar-2017** in € thousands	Remaining term in years	Effective interest rate in percent
EUR	39,838	up to 7	up to 14	31,231	up to 7	up to 14
KRW	13,743	up to 7	up to 9	16,181	up to 7	up to 9
AUD	5,496	up to 6	up to 11	5,158	up to 7	up to 9
USD	1,289	up to 3	up to 10	325	up to 2	up to 10
Various	4,233			4,992		
	64,599			**57,887**		

The carrying amount of receivables from sales financing not subject to a specific impairment allowance which are also offset by rights of recourse to the delivered products was past due as follows as of the end of the reporting period:

	31-Mar-2016	**31-Mar-2017**
Receivables from sales financing neither past due nor impaired	36,267	35,860
Receivables past due but not impaired		
less than 30 days	2,482	2,027
between 30 and 60 days	451	1,397
between 60 and 90 days	199	58
between 90 and 180 days	2,035	632
more than 180 days	2,455	1,926
Total	7,622	6,040
	43,889	**41,900**

The total impairment loss in the period for receivables from sales financing was € 1,152 thousand (previous year: € 3,906 thousand). Of this, impairment amounts booked to allowance accounts developed as follows:

	2015/2016	**2016/2017**
As of the start of the financial year	10,100	9,146
Additions	3,757	1,054
Utilization	– 1,995	– 830
Reversals	– 2,218	– 3,270
Change in scope of consolidation, currency adjustments, other changes	– 498	13
As of the end of the financial year	**9,146**	**6,113**

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 € 663 thousand (previous year: € 1,458 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

A specific allowance for impairment losses of € 17,714 thousand (previous year: € 30,045 thousand) was recognized for trade receivables with a gross carrying amount of € 79,763 thousand (previous year: € 91,428 thousand).

The carrying amount of trade receivables not subject to a specific impairment allowance was past due as follows as of the end of the reporting period:

	31-Mar-2016	**31-Mar-2017**
Trade receivables neither past due nor impaired	217,544	238,807
Receivables past due but not impaired		
less than 30 days	48,178	41,757
between 30 and 60 days	13,831	14,074
between 60 and 90 days	5,677	3,935
between 90 and 180 days	7,154	6,922
more than 180 days	7,192	7,188
Total	82,032	73,876
	299,576	**312,683**

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

The derived market value of the collateral held for receivables from machinery sales was € 175,507 thousand (previous year: € 169,071 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 € 4,967 thousand (previous year: € 6,974 thousand). Of this, impairment amounts booked to allowance accounts developed as follows:

	2015/2016	**2016/2017**
As of the start of the financial year	28,663	30,045
Additions	5,214	4,103
Utilization	– 2,887	– 12,179
Reversals	– 3,910	– 3,612
Change in scope of consolidation, currency adjustments, other changes	2,965	– 643
As of the end of the financial year	**30,045**	**17,714**

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 € 4,648 thousand (previous year: € 6,715 thousand) and € 6,521 thousand (previous year: € 5,495 thousand) relate to loans (gross carrying amount: € 36,681 thousand; previous year: € 17,076 thousand) and other financial assets (gross carrying amount: € 59,607 thousand; previous year: € 70,495 thousand) respectively.

Of the impairment recognized on loans in the previous year, € 6 thousand (previous year: € 75 thousand) was utilized and € 0 thousand (previous year: € 0 thousand) was reversed. Additions to impairment losses of € 32 thousand were required (previous year: € 1,740 thousand).

Of the impairment recognized on other financial assets in the previous year, € 428 thousand (previous year: € 398 thousand) was utilized and € 660 thousand (previous year: € 1,774 thousand) was reversed. Additions of € 94 thousand were required (previous year: € 1,775 thousand).

€ 1,364 thousand (previous year: € 2,207 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 € 1,699 thousand (previous year: € 4,689 thousand) and asset fair value hedges of € 1,687 thousand (previous year: € 488 thousand).

23 Deferred tax assets and deferred tax liabilities

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

	31-Mar-2016		**31-Mar-2017**	
	Assets	Liabilities	Assets	Liabilities
Tax loss carry-forwards	25,687	–	32,094	–
Assets:				
Intangible assets/ property, plant and equipment/ investment property/ financial assets	824	6,575	1,580	5,986
Inventories, receivables and other assets	11,478	1,881	9,749	2,043
Securities	–	–	52	–
Liabilities:				
Provisions	35,593	1,701	38,954	1,135
Liabilities	19,512	63	20,911	157
Gross amount	93,094	10,220	103,340	9,321
Offsetting	7,685	7,685	4,103	4,103
Carrying amount	**85,409**	**2,535**	**99,237**	**5,218**

Deferred tax assets include non-current deferred taxes of € 60,484 thousand (previous year: € 47,346 thousand). Deferred tax liabilities include non-current deferred taxes of € 3,739 thousand (previous year: € 1,824 thousand).

Due to currency translation, deferred tax assets increased by € 3,755 thousand (previous year: decreased by € 4,125 thousand) in the reporting year. There was no change in deferred tax assets due to the change in the scope of consolidation (previous year: increase of € 527 thousand).

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

			2015/2016			**2016/2017**
	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	87,974	4,290	92,264	16,179	– 3,238	12,941
Currency translation	– 33,821	–	– 33,821	9,069	–	9,069
Financial assets available for sale	– 453	10	– 443	145	1,759	1,904
Cash flow hedges	15,670	– 489	15,181	– 3,587	– 1,244	– 4,831
Total other comprehensive income	**69,370**	**3,811**	**73,181**	**21,806**	**– 2,723**	**19,083**

24 Inventories

	31-Mar-2016	**31-Mar-2017**
Raw materials and supplies	126,028	124,956
Work and services in progress	227,475	220,217
Finished goods and goods for resale	251,976	232,747
Advance payments	1,393	3,575
	606,872	**581,495**

In order to adjust inventories to the net realizable value, impairment of € 1,432 thousand was recognized in the year under review (previous year: € 4,530 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 € 1,340 thousand (previous year: € 400 thousand) was reported under finished goods and goods held for resale. The repossession of this collateral resulted in cash and cash equivalents of € 717 thousand (previous year: € 2,153 thousand) at German companies in the reporting period.

The carrying amount of the inventories pledged as collateral in connection with the refinancing of the Heidelberg Group (see note 29) was € 356,637 thousand (previous year: € 360,601 thousand).

25 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 € 35,564 thousand (previous year: € 30,529 thousand). Bank balances are exclusively held for short-term cash management purposes.

26 Equity

Share capital/number of shares outstanding/treasury stock

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

As in the previous year, the share capital of Heidelberger Druckmaschinen Aktiengesellschaft amounts to € 659,040,714.24 and is divided into 257,437,779 shares.

As of March 31, 2017, 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 0.06 percent as of March 31, 2017 (previous year: 0.06 percent).

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

Contingent capital

Contingent Capital 2012

On July 26, 2012, the Annual General Meeting authorized the Management Board, with the approval of the Supervisory Board, to issue bearer or registered warrants or convertible bonds, profit-sharing rights or participating bonds, or a combination of these instruments (collectively referred to as "bonds") up to a total nominal amount of € 150,000,000.00 dated or undated, on one or several occasions by July 25, 2017, and to grant or impose on the bearers or creditors of option warrants or option profit-sharing rights or option participating bonds option rights or obligations, or to grant or impose on the bearers or creditors of convertible bonds, convertible profit-sharing rights or convertible participating bonds conversion rights or obligations to bearer shares of the Company with a pro rata amount of share capital of up to € 119,934,433.28 in total, in accordance with the further conditions of these bonds. Shareholders' preemptive subscription rights can be disapplied in accordance with the further conditions of this authorization. For this purpose, the share capital was contingently increased originally by up to € 119,934,433.28, divided into 46,849,388 shares (CONTINGENT CAPITAL 2012).

On July 10, 2013, Heidelberger Druckmaschinen Aktiengesellschaft issued an unsecured, unsubordinated convertible bond with an option for conversion into shares in Heidelberger Druckmaschinen Aktiengesellschaft (convertible bond 2013). This convertible bond has an original issue volume of € 60,000,000.00, a term of four years (maturity date: July 10, 2017) and a coupon of 8.50 percent per annum, which is distributed at the end of every quarter. As a result of the conversion of five partial bonds on November 18, 2013, 190,839 new shares were issued from Contingent Capital 2012. Accordingly, the available Contingent Capital 2012 then amounted to only € 119,445,885.44, divided into 46,658,549 shares. The original total nominal amount of the convertible bond 2013 decreased by € 500,000.00 from € 60,000,000.00 to € 59,500,000.00.

Since July 30, 2014, Heidelberger Druckmaschinen Aktiengesellschaft has been entitled to repay the 2013 convertible bond in full ahead of schedule 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.

On July 24, 2015, the Annual General Meeting resolved the cancellation of Contingent Capital 2012 to the extent that it is not intended to serve rights under the 2013 convertible bond. The share capital of Heidelberger Druckmaschinen Aktiengesellschaft has now been contingently increased by up to € 58,625,953.28, divided into 22,900,763 shares, through Contingent Capital 2012; details on Contingent Capital 2012 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 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’ 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 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 2015). 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 2015 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 2015 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 (4) 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 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 shares, for this purpose (CONTINGENT CAPITAL 2015); details on Contingent Capital 2015 can be found in Article 3(5) 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. Details on Authorized Capital 2015 can be found in Article 3(6) of the Articles of Association. The authorization became effective on entry in the commercial register of the Mannheim Local Court on October 2, 2015.

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 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 the 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 IAS 39 fair value changes outside profit or loss.

Appropriation of the net result of Heidelberger Druckmaschinen Aktiengesellschaft

In the previous year, the HGB net profit of € 85,913,753.82 generated in financial year 2015/2016 was offset against the loss carryforward from financial year 2014/2015 of € 126,518,459.51. The net accumulated loss of € 40,604,705.69 for financial year 2015/2016 was carried forward to new account in the previous year.

The HGB net profit of € 70,743,201.99 generated in the 2016/2017 financial year is offset against the loss carryforward from the previous year of € 40,604,705.69. In accordance with section 50 (1) and (2) AktG, € 1,506,924.82 of the remaining net profit of € 30,138,496.30 will be transferred to the legal reserve and € 28,631,571.48 to other retained earnings.

27 Provisions for pensions and similar obligations

The Heidelberg Group operates pension schemes – either directly or through premium payments to schemes financed by private institutions – for the majority of employees for the time after their retirement. The amount of benefit payments depends on the conditions in particular countries. The amounts are generally based on the term of employment and the salary of the employees. Liabilities include both those arising from current pensions and vested pension rights for pensions payable in the future. 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 WIESLOSCH, GERMANY) accounted for € 905 million (previous year: € 947 million) of the present value of the defined benefit obligation (DBO) and € 472 million (previous year: € 481 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 € 250 million (previous year: € 245 million) of the present value of the defined benefit obligation (DBO) and € 233 million (previous year: € 229 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 at March 31, 2015 and – on the basis of the assumptions at this date determined by the trustee – identified a technical funding deficit of GBP 14.0 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, 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 € 153 million (previous year: € 159 million) of the present value of the defined benefit obligation (DBO) and € 150 million (previous year: € 139 million) of plan assets. These obligations are based on retirement, disability and surviving dependents benefits. The retirement benefits are usually a pension. This is determined based on the individual pension credit saved by the employee by the time of retirement and the regulatory conversion rates. However, at the discretion of the employee, pension credit can also be drawn in the form of a lump-sum payment. Disability and surviving dependents benefits are calculated from the pension credit projected at regulatory retirement age and/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 an event, the Swiss companies would be legally required to pay at least as much as the respective employee contributions.

The HEIDELBERG AUSTRALIA SUPERANNUATION FUND in Australia comprises defined benefit and defined contribution plans. The Heidelberg Australia Superannuation Fund accounts for € 9 million (previous year: € 8 million) of the present value of the defined benefit obligation (DBO) and € 12 million (previous year: € 10 million) of plan assets. The defined benefit component is based on the average final salary and the length of employment. As their pension benefit, some entitled members of this plan receive the higher of the respective defined benefit obligation and an obligation accrued during the qualifying period based on the individual contributions by the employee and corresponding capital gains; entitlement to this is dependent on when employees joined the plan. The Heidelberg Australia Superannuation Fund is subject to the statutory minimum benefit obligation as per the superannuation guarantee legislation, which provides for a gradual increase in minimum obligations from July 1, 2013. It is managed by an independent trustee, the board of which is equally appointed by the Company and elected by the members of the plan. The trustee is required to act in the best interests of the plan members.

Notes on risks

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

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

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

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

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

The information on pensions 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-2016	**31-Mar-2017**
Provisions for pensions and similar obligations	534,353	488,253
Assets from defined benefit pension plans	2,079	2,433
Net carrying amounts at the end of the financial year	**532,274**	**485,820**

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, 2015	**1,509,457**	**30,354**	**1,539,811**	**– 937,407**	**602,404**
Current service cost	11,642	3,095	14,737	–	14,737
Interest expense (+)/income (–)	28,067	1,109	29,176	– 19,247	9,929
Past service cost/gains (–)/losses (+) from settlements and curtailments	– 2,878	– 761	– 3,639	–	– 3,639
Remeasurements:					
Gains (–)/losses (+) from changes in demographic assumptions	7,683	– 87	7,596	–	7,596
Gains (–)/losses (+) from changes in financial assumptions	– 106,715	– 5,791	– 112,506	–	– 112,506
Gains (–)/losses (+) from experience-based adjustments	– 14,184	– 3,702	– 17,886	–	– 17,886
Difference between interest income recognized in profit or loss and actual income from plan assets	–	–	–	34,822	34,822
Currency translation differences	– 29,269	– 38	– 29,307	27,372	– 1,935
Contributions:					
Employers	–	–	–	– 7,890	– 7,890
Pension plan participants	2,967	–	2,967	– 2,280	687
Payments made	– 54,786	– 3,983	– 58,769	48,063	– 10,706
Changes in the scope of consolidation, other changes	– 16,984	44,838	27,854	– 11,193	16,661
As of March 31, 2016	**1,335,000**	**65,034**	**1,400,034**	**– 867,760**	**532,274**

	Funded benefit obligations	Unfunded benefit obligations	Present value of the defined benefit obligations	Fair value of plan assets	**Total**
As of April 1, 2016	**1,335,000**	**65,034**	**1,400,034**	**– 867,760**	**532,274**
Current service cost	7,630	2,696	10,326	–	10,326
Interest expense (+)/income (–)	30,785	1,188	31,973	– 20,320	11,653
Past service cost/gains (–)/losses (+) from settlements and curtailments	128	4	132	–	132
Remeasurements:					
Gains (–)/losses (+) from changes in demographic assumptions	– 16,256	7	– 16,249	–	– 16,249
Gains (–)/losses (+) from changes in financial assumptions	39,998	179	40,177	–	40,177
Gains (–)/losses (+) from experience-based adjustments	– 5,067	481	– 4,586	–	– 4,586
Difference between interest income recognized in profit or loss and actual income from plan assets	–	–	–	– 35,521	– 35,521
Currency translation differences	– 14,788	1,218	– 13,570	13,662	92
Contributions:					
Employers	–	–	–	– 5,800	– 5,800
Pension plan participants	3,393	204	3,597	– 2,100	1,497
Payments made	– 49,052	– 2,127	– 51,179	42,514	– 8,665
Changes in the scope of consolidation, other changes	– 40,022	512	– 39,510	–	– 39,510
As of March 31, 2017	**1,291,749**	**69,396**	**1,361,145**	**– 875,325**	**485,820**

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

In percent	2015/2016		**2016/2017**	
	Domestic	Foreign	Domestic	Foreign
Discount rate	2.40	2.47	2.40	1.89
Expected future salary increases	2.75	0.63	2.75	0.44
Expected future pension increases	1.60	1.68	1.60	1.77

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-2016	of which:		**31-Mar-2017**	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	14,452	14,406	46	20,382	20,326	56
Equity instruments	135,057	134,573	484	155,777	155,463	314
Debt instruments	317,327	310,060	7,267	265,267	259,132	6,135
Real estate	20,875	–	20,875	21,309	–	21,309
Derivatives	3,538	896	2,642	517	98	419
Securities funds	322,467	267,281	55,186	358,119	293,669	64,450
Qualifying insurance policies	31,155	–	31,155	29,413	–	29,413
Other	22,889	22,872	17	24,541	24,541	–
	867,760	**750,088**	**117,672**	**875,325**	**753,229**	**122,096**

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 € 47,666 thousand (previous year: € 45,801 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-2016	Change in %	**31-Mar-2017**	Change in %
Present value of the essential defined benefit obligations [1]	1,358,260		1,317,372	
Present value of the essential defined benefit obligations assuming that				
the discount rate was				
0.50 percentage point higher	1,257,538	– 7.4	1,220,236	– 7.4
0.50 percentage point lower	1,472,406	+ 8.4	1,427,359	+ 8.3
the expected future salary increase was				
0.25 percentage point higher	1,358,991	+ 0.1	1,317,911	0.0
0.25 percentage point lower	1,357,548	– 0.1	1,316,851	0.0
the expected future pension increase was				
0.25 percentage point higher	1,396,624	+ 2.8	1,353,544	+ 2.7
0.25 percentage point lower	1,325,082	– 2.4	1,285,812	– 2.4
Increase in life expectancy per entitled beneficiary [2]	1,403,897	+ 3.4	1,372,109	+ 4.2

[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 € 8.5 million in financial year 2017/2018 (previous year: € 7.9 million). With regard to the essential defined benefit obligations, undiscounted pension payments amounting to € 44.5 million (previous year: € 45.4 million) are anticipated for financial year 2017/2018. The weighted average duration of the material defined benefit obligations is 16.5 years (previous year: 16.6 years).

28 Other provisions

	31-Mar-2016			31-Mar-2017		
	Current	Non-current	Total	Current	Non-current	**Total**
Tax provisions	13,345	57,880	**71,225**	11,275	56,867	**68,142**
Other provisions						
Staff obligations	52,668	14,270	66,938	57,061	34,223	91,284
Sales obligations	79,497	8,952	88,449	77,164	5,080	82,244
Other	88,601	80,914	169,515	94,109	74,214	168,323
	220,766	104,136	**324,902**	228,334	113,517	**341,851**
	234,111	162,016	**396,127**	239,609	170,384	**409,993**

	As of 1-Apr-2016	Change in scope of consolida-tion, currency adjustments, reclassification	Utilization	Reversal	Addition	**As of 31-Mar-2017**
Tax provisions	**71,225**	657	5,464	7,443	9,167	**68,142**
Other provisions						
Staff obligations	66,938	38,436	43,735	17,775	47,420	91,284
Sales obligations	88,449	1,609	29,258	24,954	46,398	82,244
Other	169,515	5,618	53,665	14,279	61,134	168,323
	324,902	45,663	126,658	57,008	154,952	**341,851**
	396,127	46,320	132,122	64,451	164,119	**409,993**

Additions include accrued interest and the effects of the change in discount rates of € 1,886 thousand (previous year: € 2,746 thousand). These relate to expenses of € 358 thousand (previous year: € 595 thousand) for staff obligations, € 30 thousand (previous year: € 40 thousand) for sales obligations and expenses of € 1,498 thousand (previous year: € 2,111 thousand) for miscellaneous other provisions.

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

STAFF PROVISIONS essentially relate to bonuses (€ 53,838 thousand; previous year: € 29,882 thousand) and the cost of early retirement payments and partial retirement programs (€ 9,276 thousand; previous year: € 10,604 thousand).

SALES PROVISIONS mainly relate to warranties, reciprocal liability and buyback obligations (€ 46,751 thousand; previous year: € 51,692 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 € 3,038 thousand (previous year: € 3,051 thousand) relate entirely to financial guarantees (previous year: € 2,876 thousand) 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 € 21,724 thousand (previous year: € 15,727 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 € 58,663 thousand (previous year: € 52,035 thousand) and provisions for legal disputes of € 16,526 thousand (previous year: € 24,400 thousand). Furthermore, there are provisions of € 66,244 thousand (previous year: € 73,424 thousand) essentially relating to our portfolio adjustments and the Focus efficiency program. 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.

29 Financial liabilities

	31-Mar-2016				31-Mar-2017			
	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 bonds [1]	12,584	113,785	195,475	321,844	6,208	–	196,735	202,943
Convertible bonds [1]	25,689	29,315	–	55,004	27,152	71,918	45,805	144,875
Amounts due to banks [1]	1,156	110,514	–	111,670	60,410	53,545	–	113,955
From finance leases	1,644	3,922	–	5,566	2,178	3,888	–	6,066
Other	2,202	–	–	2,202	2,260	–	–	2,260
	43,275	257,536	195,475	**496,286**	98,208	129,351	242,540	**470,099**

[1] Including deferred interest

Corporate bonds

Heidelberg issued an unsecured corporate bond of € 304 million with a seven-year term and a coupon of 9.25 percent p.a. (2011 corporate bond) on April 7, 2011, and increased it by € 51 million to € 355 million on December 10, 2013. The increase was made with the same conditions as the issue of the bond in 2011; the issue price was 105.75 percent.

On May 5, 2015, Heidelberger Druckmaschinen Aktiengesellschaft issued a further unsecured corporate bond of € 205 million with a maturity of seven years and a coupon of 8.00 percent (2015 corporate bond). With the full utilization of the net issue proceeds from the convertible bond issued on March 30, 2015, and this additional corporate bond, the existing 2011 corporate bond was repaid early in the first quarter of the previous year to a level of approximately € 115 million.

With further repayments of around € 64.5 million in April 2016 and € 50 million in June 2016, the 2011 corporate bond was repaid ahead of schedule in full. Each repayment was made in cash. The further early partial repayment of this bond in April 2016 had already been initiated as of March 31, 2016.

The fair value of the 2015 corporate bond on the basis of the stock exchange listing is € 222,555 thousand (previous year: € 203,693 thousand) compared to the carrying amount of € 202,943 thousand (previous year: € 201,682 thousand). In both cases, 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 bonds

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

From July 30, 2014, Heidelberger Druckmaschinen Aktiengesellschaft is entitled to repay the convertible bond 2013 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.

The liability component of the 2013 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 € 369 thousand in the year under review.

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 2015). 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 2015 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).

The liability component of the 2015 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 € 1,109 thousand in the year under review.

The fair value of the 2013 convertible bond on the basis of the stock exchange listing corresponds to the first level of the IFRS 13 measurement hierarchy and is € 60,196 thousand (previous year: € 61,694 thousand) compared to the carrying amount of € 60,393 thousand (previous year: € 59,551 thousand). The fair value of the 2015 convertible bond on the basis of the stock exchange listing also corresponds to the first level of the IFRS 13 measurement hierarchy and is € 61,487 thousand (previous year: € 55,528 thousand) compared to the carrying amount of € 53,562 thousand (previous year: € 52,119 thousand).

Amounts due to banks

Amounts due to banks are shown in the table below:

Type	Contract currency	Carrying amount 31-Mar-2016 in € thousands	Remaining term in years	Effective interest rate in %	Carrying amount **31-Mar-2017** in € thousands	Remaining term in years	Effective interest rate in %
Loans	EUR	46,843	up to 4	up to 6.74	135,325	up to 7	up to 6.74
Loans	Various	6,629	up to 1	up to 16.00	8,001	up to 1	up to 16.20
Other	Various	1,532	up to 1	up to 3.50	1,549	up to 1	up to 2.50
		55,004			**144,875**		

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.

In connection with the borrowing of a long-term loan in 2008 (March 31, 2017: € 9,082 thousand; previous year: € 17,462 thousand), the lender was granted usufructuary rights to three developed properties. The basis of this is a sale (usufructuary rights) and leaseback transaction in accordance with SIC 27, which provides for a fixed basic term for the lease agreement of ten years and two renewal options of four years each. The usufructuary rights each have an original term of 18 years. The usufructuary rights can be commuted after ten years. The fair value of this loan calculated on the basis of the discounted cash flow method using market interest rates corresponds to the second level in the fair value hierarchy according to IFRS 13 and is € 9,265 thousand (previous year: € 17,917 thousand).

The Heidelberg Group was able to meet its financial obligations at all times in the reporting year. The CREDIT LINES not yet fully utilized in our Group of € 286,096 thousand (previous year: € 367,170 thousand) can be used as financing for general business purposes and for measures in connection with our portfolio adjustments (see note 14).

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. In July 2015, the early extension of the revolving credit facility with an initial volume of € 250 million to the end of June 2019, with the volume declining to € 235 million over the term, was agreed with a consortium of banks.

An amortizing loan funded by the KfW in the amount of € 20 million maturing in December 2018 was issued in April 2014. Its fair value on the basis of the discounted cash flow method using market interest rates corresponds to the second level of the IFRS 13 fair value hierarchy and is € 8,521 thousand (previous year: € 17,527 thousand) compared to the carrying amount of € 7,368 thousand (previous year: € 16,081 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 on the basis of the discounted cash flow method using market interest rates corresponds to the second level of the IFRS13 fair value hierarchy and is € 88,360 thousand (previous year: € 0 thousand) compared to the carrying amount of € 100,739 thousand (previous year: € 0 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 will be disbursed over the course of construction. Heidelberger Druckmaschinen Aktiengesellschaft called an initial tranche of € 5.1 million from this development loan in March 2017. Its fair value on the basis of the discounted cash flow method using market interest rates corresponds to the second level of the IFRS 13 fair value hierarchy and is € 4,968 thousand compared to the carrying amount of € 5,138 thousand.

The financing agreements for the revolving credit facility, the European Investment Bank loan and the loans funded by the KfW contain standard financial covenants regarding the financial situation of the Heidelberg Group.

With the existing financing portfolio, Heidelberg has total credit facilities with balanced diversification and a balanced maturity structure until 2024.

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

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

Liabilities from finance leases

Liabilities from finance leases are as follows:

				31-Mar-2016				**31-Mar-2017**
	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	–	–	–	13,950	–	–	–	14,903
Lease payments already made	–	–	–	–7,765	–	–	–	–8,395
Outstanding lease payments	1,943	4,242	–	6,185	2,440	4,068	–	6,508
Interest portion of outstanding lease payments	–299	–320	–	–619	–262	–180	–	–442
Present value of outstanding lease payments (carrying amount)	1,644	3,922	–	**5,566**	2,178	3,888	–	**6,066**

30 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.

31 Other liabilities

				31-Mar-2016				**31-Mar-2017**
	Up to 1 year	Between 1 and 5 years	More than 5 years	Total	Up to 1 year	Between 1 and 5 years	More than 5 years	**Total**
Deferred liabilities (staff)	52,271	–	–	52,271	54,110	–	–	54,110
Advance payments on orders	97,682	–	–	97,682	98,962	–	–	98,962
From derivative financial instruments	2,672	–	–	2,672	3,170	–	–	3,170
From other taxes	30,927	–	–	30,927	31,488	–	–	31,488
For social security contributions	5,813	813	–	6,626	7,022	622	–	7,644
Deferred income	47,529	15,563	3,281	66,373	44,949	22,019	3,113	70,081
Other	33,604	62	14,509	48,175	34,142	18	13,194	47,354
	270,498	16,438	17,790	**304,726**	273,843	22,659	16,307	**312,809**

Derivative financial instruments

Derivative financial instruments include liabilities from cash flow hedges of € 2,343 thousand (previous year: € 1,369 thousand) and from fair value hedges of € 827 thousand (previous year: € 1,303 thousand).

Deferred income

Deferred income includes taxable investment subsidies of € 819 thousand (previous year: € 985 thousand), tax-free investment allowances of € 682 thousand (previous year: € 965 thousand) and other deferred income of € 68,579 thousand (previous year: € 64,424 thousand).

The TAXABLE SUBSIDIES item essentially relates to subsidies for an investment at the Shanghai/Qingpu production site in China of € 732 thousand (previous year: € 760 thousand). These are 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 € 682 thousand (previous year: € 965 thousand) for the Brandenburg production site.

OTHER DEFERRED INCOME essentially includes advance payments for future maintenance and services and non-recurring payments for heritable building rights under sale-and-leaseback agreements. These amounts are reversed to profit or loss over the term of the agreement.

Miscellaneous other liabilities

Recognized liabilities are essentially the undiscounted contractual cash flows. The carrying amount of the remaining miscellaneous other financial liabilities is primarily to be taken as an appropriate estimate of the fair value.

32 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:

Reconciliation > Assets

Items in statement of financial position	IAS 39 measurement category[1]	Carrying amounts 31-Mar-2016 Current	Non-current	Total	Carrying amounts 31-Mar-2017 Current	Non-current	Total
Financial assets							
Shares in affiliated companies	AfS	–	5,661	5,661	–	5,920	5,920
Other investments	AfS	–	3,458	3,458	–	3,388	3,388
Securities	AfS	–	3,465	3,465	–	4,131	4,131
		–	12,584	12,584	–	13,439	13,439
Receivables from sales financing							
Receivables from sales financing not including finance leases	LaR	29,639	33,502	63,141	24,026	33,198	57,224
Receivables from finance leases	n. a.	471	987	1,458	214	449	663
		30,110	34,489	64,599	24,240	33,647	57,887
Trade receivables	LaR	360,959	–	360,959	374,732	–	374,732
Other receivables and other assets							
Derivative financial instruments	n. a.[2]	5,177	–	5,177	3,386	–	3,386
Miscellaneous financial assets	LaR	65,609	10,855	76,464	51,933	7,015	58,948
Miscellaneous financial assets	AfS	–	–	–	3,060	23,111	26,171
		70,786	10,855	81,641	58,379	30,126	88,505
Miscellaneous other assets		43,164	6,969	50,133	47,151	4,083	51,234
		113,950	17,824	131,774	105,530	34,209	139,739
Cash and cash equivalents	LaR	215,472	–	215,472	217,660	–	217,660

[1] Information on abbreviations of the IAS 39 measurement categories: AfS: available-for-sale financial assets, LaR: loans and receivables, n. a.: no IAS 39 measurement category
[2] As in the previous year, derivative financial instruments include no short-term hedges assigned to the IAS 39 measurement category of financial instruments held for trading

Reconciliation > Equity and liabilities

Items in statement of financial position	IAS 39 measurement category [1]	Carrying amounts			Carrying amounts		
				31-Mar-2016			**31-Mar-2017**
		Current	Non-current	Total	Current	Non-current	**Total**
Financial liabilities							
Corporate bonds	FLaC	12,584	309,260	321,844	6,208	196,735	202,943
Convertible bonds	FLaC	1,156	110,514	111,670	60,410	53,545	113,955
Amounts due to banks	FLaC	25,689	29,315	55,004	27,152	117,723	144,875
Liabilities from finance leases	n. a.	1,644	3,922	5,566	2,178	3,888	6,066
Other financial liabilities	FLaC	2,202	–	2,202	2,260	–	2,260
		43,275	453,011	496,286	98,208	371,891	470,099
Trade payables	FLaC	179,397	–	179,397	190,392	–	190,392
Other liabilities							
Derivative financial instruments	n. a. [2]	2,672	–	2,672	3,170	–	3,170
Miscellaneous financial liabilities	FLaC	84,318	875	85,193	88,591	640	89,231
		86,990	875	87,865	91,761	640	92,401
Miscellaneous other liabilities		183,507	33,353	216,860	182,082	38,326	220,408
		270,497	34,228	304,725	273,843	38,966	312,809

[1] Information on abbreviations of the IAS 39 measurement categories: FLaC: financial liabilities at amortized cost, n. a.: no IAS 39 measurement category
[2] As in the previous year, derivative financial instruments include no short-term hedges assigned to the IAS 39 measurement category of financial instruments held for trading

Liquidity risk from 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 June 2019.

	31-Mar-2016[1]	**31-Mar-2017**
Up to 1 year	338,560	398,062
Between 1 and 5 years	306,672	224,747
More than 5 years	291,725	260,839
	936,957	**883,648**

[1] Figures for the previous year adjusted

Net gains and losses

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

	2015/2016	**2016/2017**
Financial assets available for sale	– 3,027	– 195
Loans and receivables	– 8,867	2,145
Financial liabilities at amortized cost	– 44,484	– 37,540

Changes in the value of financial assets available for sale of € – 145 thousand (previous year: € 453 thousand) were also recognized in other comprehensive income.

Net gains and losses include € 2,639 thousand (previous year: € 3,800 thousand) of interest income and € 40,183 thousand (previous year: € 50,644 thousand) of interest expenses for financial assets and financial liabilities not measured at fair value through profit or loss.

In addition, there are net gains of € 0 thousand (previous year: of € 1 thousand) from financial instruments held for trading. These financial instruments relate to hedges that do not satisfy the documentation requirements of IAS 39 for hedge accounting.

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.

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.

INTEREST RATE RISKS generally occur for floating rate refinancing transactions.

In hedge accounting, the derivative financial instruments designated as a hedge of these currency risks are shown as follows:

	Nominal volumes		Fair values	
	31-Mar-2016	**31-Mar-2017**	31-Mar-2016	**31-Mar-2017**
Currency hedging				
Cash flow hedge				
Forward exchange transactions	255,230	263,576	2,287	– 644
of which: assets	(172,769)	(96,516)	(3,656)	(1,699)
of which: liabilities	(82,461)	(167,060)	(– 1,369)	(– 2,343)
Currency options	22,265	–	1,033	–
of which: assets	(22,265)	–	(1,033)	–
of which: liabilities	–	–	–	–
	277,495	263,576	3,320	– 644
Fair value hedge				
Forward exchange transactions	175,272	263,887	– 815	860
of which: assets	(27,979)	(161,070)	(488)	(1,687)
of which: liabilities	(147,293)	(102,817)	(– 1,303)	(– 827)

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

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

The following table shows the contractually agreed, undiscounted incoming and outgoing payments for derivative financial instruments. The yield curves of the respective currencies valid as of the end of the reporting period were used to determine the variable interest payments from financial instruments. Where necessary, foreign currencies were translated at closing rates.

	31-Mar-2016	**31-Mar-2017**
	Total undiscounted cash flows [1]	Total undiscounted cash flows [1]
Derivative financial liabilities		
Outgoing payments	– 230,124	– 271,369
Associated incoming payments	227,580	269,568
Derivative financial assets		
Outgoing payments	– 219,363	– 256,334
Associated incoming payments	223,528	259,609

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

Currency hedging

Cash flow hedge

The forward exchange transactions outstanding as of the end of the reporting period essentially hedge highly likely currency risks expected from purchase volumes of our subsidiaries over the next 12 months. Therefore, the remaining term of these derivatives at the end of the reporting period was up to one year. Of the hedges, 24 percent (previous year: 32 percent) of the hedging volume relates to the US dollar and 27 percent (previous year: 32 percent) to the Swiss franc as of the end of the reporting period.

As of the end of the reporting period, hedges resulted in total assets of € 1,699 thousand (previous year: € 4,689 thousand) and liabilities of € 2,343 thousand (previous year: € 1,369 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 twelve 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 € – 21 thousand (previous year: € 8,677 thousand) and the translation of hedged items at closing rates of € – 377 thousand (previous year: € 9,404 thousand) are reported in the consolidated income statement.

Interest rate hedging

Cash flow hedge

The Heidelberg Group limits the risk from increasing interest expenses for refinancing by using interest rate swaps, under which Heidelberg receives variable-rate interest and pays fixed interest (payer interest rate swap). No interest rate swaps were held in the reporting year, which was also the case on March 31, 2016.

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 € 4,649 thousand (previous year: € 5,259 thousand) higher as of the end of the reporting period and the financial result would have been € 34 thousand (previous year: € 399 thousand) lower. Assuming a 10 percent decrease in the value of the euro, the hedge reserve would have been € 5,682 thousand (previous year: € 4,883 thousand) lower and the financial result would have been € 41 thousand higher (previous year: € 184 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 unchanged (previous year: € 6 thousand lower) as of the end of the reporting period and the financial result would have been € 764 thousand (previous year: € 584 thousand) higher. Assuming a decrease of 100 basis points in the market interest rate across all terms, the hedge reserve would have been unchanged (previous year: € 6 thousand higher) and the financial result would have been € 764 thousand (previous year: € 584 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 financial assets, securities 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 available for sale and recognized at fair value. 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 to the third level of the fair value hierarchy set out in IFRS 13 relate to a fixed-income cash investment classified as an available-for-sale financial asset that was made by Heidelberger Druckmaschinen Aktiengesellschaft in August 2016. The fair value is calculated using a standardized valuation method (discounted cash flow method). One of the key input parameters for calculating the fair value is the discount rate, which amounted to 13.09 percent as of March 31, 2017. If this had been 0.5 percentage points higher (lower), the fair value would have been € 191 thousand lower (€ 194 thousand higher) provided all other assumptions were unchanged.

The financial assets and financial liabilities recognized at fair value were assigned to the IFRS 13 fair value hierarchy as follows on March 31, 2017:

	31-Mar-2016 Level 1	Level 2	Level 3	Total	31-Mar-2017 Level 1	Level 2	Level 3	Total
Securities	3,024	–	–	3,024	3,647	–	–	3,647
Loans	–	–	–	–	–	–	26,171	26,171
Derivative financial assets	–	5,177	–	5,177	–	3,386	–	3,386
Assets carried at fair value	**3,024**	**5,177**	**–**	**8,201**	**3,647**	**3,386**	**26,171**	**33,204**
Derivative financial liabilities	–	2,672	–	2,672	–	3,170	–	3,170
Liabilities carried at fair value	**–**	**2,672**	**–**	**2,672**	**–**	**3,170**	**–**	**3,170**

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, 2017 (€ 26,171 thousand), is reconciled as follows:

Carrying amount as of April 1, 2016 (€ 0 thousand), addition (€ 26,996 thousand), disposal (€ 2,556 thousand), other changes recognized outside or in profit or loss (€ 1,731 thousand).

The shares in affiliated companies amounting to € 5,920 thousand (previous year: € 5,661 thousand) and other investments of € 3,388 thousand (previous year: € 3,458 thousand) are classified as financial assets available for sale and measured at cost, as their fair values cannot be reliably calculated due to the lack of a market for these shares.

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-2016					
Derivative financial instruments (assets)	5,177	–	5,177	–1,047	4,130
Trade receivables	361,224	–265	360,959	–	360,959
Derivative financial instruments (liabilities)	2,672	–	2,672	–1,047	1,625
Trade payables	179,662	–265	179,397	–	179,397
31-Mar-2017					
Derivative financial instruments (assets)	3,386	–	3,386	–1,697	1,689
Trade receivables	375,066	–334	374,732	–	374,732
Derivative financial instruments (liabilities)	3,170	–	3,170	–1,697	1,473
Trade payables	190,726	–334	190,392	–	190,392

33 Guarantees and contingent liabilities

Contingent liabilities from warranties and guarantees, amounting to € 3,750 thousand as of March 31, 2017 (previous year: € 4,236 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.

34 Other financial liabilities

Other financial liabilities break down as follows:

	31-Mar-2016				**31-Mar-2017**			
	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	36,973	99,671	26,073	162,717	36,884	80,189	10,756	127,829
Investments and other purchasing commitments	11,499	7,235	–	18,734	12,038	6,928	–	18,966
	48,472	**106,906**	**26,073**	**181,451**	**48,922**	**87,117**	**10,756**	**146,795**

The figures shown are nominal values.

The minimum lease payments for operating leases primarily comprise:

- the research and development center (Heidelberg) in the amount of € 17,560 thousand (previous year: € 21,066 thousand);
- the Print Media Academy (Heidelberg) in the amount of € 9,804 thousand (previous year: € 14,280 thousand);
- the World Logistics Center (WLC) (Wiesloch-Walldorf plant) in the amount of € 8,464 thousand (previous year: € 11,541 thousand);
- the X-House administrative building (Heidelberg) in the amount of € 1,509 thousand (previous year: € 3,213 thousand);
- the administrative and production building in Rochester, New York, USA, in the amount of € 3,036 thousand (previous year: € 15,236 thousand);
- the administrative and production building in Durham, USA, in the amount of € 7,762 thousand (previous year: € 9,524 thousand); and
- motor vehicles with a total value of € 22,912 thousand (previous year: € 23,158 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 and supplies.

Future payments for other financial liabilities are partially offset by future incoming payments for license agreements.

Additional information

35 Earnings per share in accordance with IAS 33

	2015/2016	**2016/2017**
Net result after taxes (€ thousands)	28,134	36,236
Number of shares in thousands (weighted average)	257,295	257,295
Basic earnings per share (€)	0.11	0.14
Diluted earnings per share (€)	0.11	0.14

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 257,295 thousand (previous year: 257,295 thousand). The weighted number of shares outstanding was influenced by the holdings of treasury shares. As in the previous year, there were still 142,919 treasury shares as of March 31, 2017.

The calculation of diluted earnings per share assumes conversion of outstanding debt securities (convertible bond) to shares. The convertible bonds are only included in the calculation of diluted earnings per share when they have a diluting effect in the respective reporting period.

Taking into account the corresponding number of shares from the convertible bonds issued on July 10, 2013, and March 30, 2015, there is no dilution of earnings per share, as the net result for the period is adjusted for the interest expense (coupon and accrued interest) recognized in the financial result for the convertible bonds. In the future, these instruments may have a fully dilutive effect. There were no circumstances leading to the dilution of earnings per share in the previous year.

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

	2016/2017	
	Potentially dilutive financial instruments (total)	Dilutive financial instruments applied in calculation
Numerator for basic earnings (€ thousands)	**36,236**	**36,236**
Plus effects from the convertible bond recognized in profit or loss (€ thousands)	10,429	0
Numerator for diluted earnings (€ thousands)	**46,665**	**36,236**
Number of shares (thousands)		
Denominator for basic earnings per share (weighted average number of shares, thousands)	**257,295**	**257,295**
Convertible bond 2013	22,710	0
Convertible bond 2015	18,840	0
Denominator for diluted earnings per share (thousands)	**–**	**257,295**
Denominator for potentially diluted earnings per share (thousands)	**298,845**	**–**
Basic earnings per share (€)	–	0.14
Diluted earnings per share (€)	–	0.14

36 Information on the consolidated statement of cash flows

The consolidated statement of cash flows shows the changes in the cash and cash equivalents of the Heidelberg Group during the financial year as a result of 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.

€ 38,011 thousand (previous year: € 24,218 thousand) of investments in intangible assets, property, plant and equipment and investment property relates to intangible assets, € 64,234 thousand (previous year: € 37,725 thousand) to property, plant and equipment. Investments do not include additions from finance leases of € 2,290 thousand (previous year: € 2,984 thousand). € 178 thousand (previous year: € 355 thousand) of income from the disposal of intangible assets, property, plant and equipment and investment property relates to intangible assets and € 15,862 thousand (previous year: € 10,588 thousand) to property, plant and equipment.

The payments from operating leases in which Heidelberg is the lessee are shown in the consolidated statement of cash flows under operating activities. The repayment portion of lease installments for finance leases in which Heidelberg is the lessee is reported under financing activities. The interest portion of lease installments is shown under operating activities.

Payments received from operating and finance leases in which Heidelberg is the lessor are reported under changes in cash from operating activities.

The carrying amounts of the collateral pledged in connection with the loan agreements as part of a collateral pool concept is shown under the appropriate notes. Please see note 29 for information on the unutilized credit lines.

Cash and cash equivalents include cash and cash equivalents only (€ 217,660 thousand; previous year: € 215,472 thousand).

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

37 Information on segment reporting

	Heidelberg Equipment		Heidelberg Services		Heidelberg Financial Services		**Heidelberg Group**	
	1-Apr-2015 to 31-Mar-2016	**1-Apr-2016 to 31-Mar-2017**	1-Apr-2015 to 31-Mar-2016	**1-Apr-2016 to 31-Mar-2017**	1-Apr-2015 to 31-Mar-2016	**1-Apr-2016 to 31-Mar-2017**	1-Apr-2015 to 31-Mar-2016	**1-Apr-2016 to 31-Mar-2017**
External sales	1,331,786	1,354,976	1,174,319	1,164,474	5,614	4,651	2,511,719	2,524,101
EBITDA excluding special items (segment result)	63,033	68,956	123,865	104,796	2,495	5,201	189,393	178,953
Depreciation and amortization [1]	52,516	48,959	19,933	21,527	614	643	73,063	71,129
EBIT excluding special items	10,517	19,997	103,932	83,269	1,881	4,558	116,330	107,824
Non-cash expenses	183,038	169,082	64,955	69,861	4,641	2,088	252,634	241,031

[1] 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.

The Heidelberg Group's structure is broken down in line with the internal organizational and reporting structure into the segments Heidelberg Equipment, Heidelberg Services and Heidelberg Financial Services. Heidelberg Equipment essentially comprises new machinery business. Services, consumables, service parts and remarketed equipment business are bundled in the Heidelberg Services segment. The Heidelberg Financial Services segment comprises sales financing business. Further information on the business activities, products and services of the individual segments can be found in the chapters "Management and Control" and "Segments and Business Areas" in the Group management report.

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 special items – the result of operating activity before interest, taxes and depreciation and amortization excluding special items.

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-2015 to 31-Mar-2016	**1-Apr-2016 to 31-Mar-2017**
EBITDA excluding special items (segment result)	189,393	178,953
Depreciation and amortization	73,063	71,129
EBIT excluding special items	116,330	107,824
Special items [1]	20,589	17,634
Financial income	12,968	6,921
Financial expenses	77,569	62,864
Financial result	– 64,601	– 55,943
Net result before taxes	**31,140**	**34,247**

[1] For further details to special items please refer to note 14.

Information by region

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

	1-Apr-2015 to 31-Mar-2016	**1-Apr-2016 to 31-Mar-2017**
Europe, Middle East and Africa		
Germany	338,576	382,982
Other Europe, Middle East and Africa region	711,643	705,210
	1,050,219	1,088,192
Asia/Pacific		
China	311,594	240,231
Other Asia/Pacific region	382,045	405,391
	693,639	645,622
Eastern Europe	261,624	254,412
North America		
USA	327,216	350,640
Other North America region	91,702	102,201
	418,918	452,841
South America	87,319	83,034
	2,511,719	**2,524,101**

Of the non-current assets, which comprise intangible assets, property, plant and equipment and investment property, € 489,109 thousand (previous year: € 465,451 thousand) relates to Germany and € 238,253 thousand (previous year: € 245,506 thousand) to other countries.

38 Capital management

In the context of implementing the holistic management approach, it is the task of capital management to provide the best possible support in the attainment of the Heidelberg Group's goals. 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 33). 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:

	2015/2016	**2016/2017**
Equity	286,540	340,087
Net deferred taxes	82,874	94,019
Adjusted equity	**203,666**	**246,068**
Annual average	167,802	224,867
Pension provisions	534,353	488,253
Tax provisions	71,225	68,142
Net tax receivables/liabilities	8,625	6,861
Non-operating financial liabilities	479,717	455,733
Liabilities	**1,093,920**	**1,018,989**
Annual average	1,141,699	1,056,455
Adjusted total capital	**1,297,586**	**1,265,057**
Annual average	1,309,501	1,281,322

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 € 286,540 thousand to € 340,087 thousand. Based on total assets, the equity ratio therefore rose from 13.0 percent to 15.3 percent.

Owing to the positive free cash flow in the year under review, net debt was down year on year at € 252,439 thousand (previous year: € 280,814 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.

In the previous year, the early extension of the revolving credit facility with an initial volume of € 250 million to the end of June 2019, with the volume declining to € 235 million over the term, was agreed with a consortium of banks. As of March 31, 2017, the financing of the Heidelberg Group mainly consists of an unsecured corporate bond with a maturity of seven years in a nominal amount of € 205 million (2015 corporate bond), a loan from the European Investment Bank of € 100 million with a staggered maturity until March 2024, a convertible bond totaling € 59.5 million with a maturity of four years (2013 convertible bond), another convertible bond of € 58.6 million with a maturity of seven years (2015 convertible bond), a development loan of € 42.1 million maturing in September 2024 arranged with a syndicate of banks refinanced by KfW, and a revolving credit facility with a banking syndicate currently totaling around € 244 million with a maturity until June 2019.

The financing agreements for the revolving credit facility, the European Investment Bank loan and the loans funded by the KfW contain standard financial covenants regarding the financial situation of the Heidelberg Group.

In the reporting year, the 2011 corporate bond was repaid ahead of schedule in full with a repayment of around € 64.5 million in April 2016, which was already initiated as of March 31, 2016, and a further repayment of € 50 million in June 2016.

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 29.

39 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.

40 Executive bodies of the Company

The basic characteristics of the remuneration system and amounts of remuneration for the members of the Management Board and Supervisory Board are presented in the remuneration report. The remuneration report is part of the Group management report (see pages 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 140 to 141 (Supervisory Board) and 142 (Management Board).

MEMBERS OF THE MANAGEMENT BOARD: The total cash remuneration (= total remuneration) according to HGB (for currently active members of the Management Board and for Dr. Gerold Linzbach and Harald Weimer for the period from April 1, 2016, to November 13, 2016) amounted to € 4,807 thousand (previous year: € 4,743 thousand), comprising the basic salary including fringe benefits of € 1,849 thousand (previous year: € 1,764 thousand), variable single-year remuneration of € 1,599 thousand (previous year: € 1,548 thousand) and variable multi year remuneration of € 1,359 thousand (previous year: € 1,431 thousand).

The total remuneration according to IFRS of € 8,411 thousand (previous year: € 5,418 thousand) relates to short-term benefits of € 3,448 thousand (previous year: € 3,312 thousand), post-employment benefits of € 1,184 thousand (previous year: € 675 thousand), other long-term benefits of € 1,359 thousand (previous year: € 1,431 thousand), termination benefits of € 2,420 thousand (previous year: € 0 thousand) and share-based remuneration of € 0 thousand (previous year: € 0 thousand).

As of March 31, 2017, Heidelberger Druckmaschinen Aktiengesellschaft had recognized provisions and liabilities for the remuneration of active members of the Management Board with short-term benefits of € 1,072 thousand (previous year: € 1,548 thousand), post-employment benefits of € 3,330 thousand (previous year: € 5,190 thousand) and other long-term benefits of € 1,534 thousand (previous year: € 2,714 thousand).

No loans or advances were made in the reporting period; the Heidelberg Group has not undertaken any contingent liabilities. As in the previous year, no stock options were held as of the end of the reporting period.

FORMER MEMBERS OF THE MANAGEMENT BOARD AND THEIR SURVIVING DEPENDENTS: The total cash remuneration (= total remuneration) amounted to € 5,811 thousand (previous year: € 3,630 thousand); this comprises € 911 thousand (previous year: € 911 thousand) in obligations to former members of the Management Board and their surviving dependents of Linotype-Hell Aktiengesellschaft, which were assumed in financial year 1997/1998 under the provisions of universal succession, and € 2,420 thousand (previous year: € 0 thousand) in benefits to the two Management Board members who departed in the reporting year, which were recognized as expenses. As in the previous year, no stock options were held as of the end of the reporting period. The pension obligations (defined benefit obligations as per IFRS) amounted to € 53,797 thousand (previous year: € 54,102 thousand); € 8,578 thousand (previous year: € 8,962 thousand) of this relates to pension obligations of the former Linotype-Hell Aktiengesellschaft, which were assumed in financial year 1997/1998 under the provisions of universal succession.

MEMBERS OF THE SUPERVISORY BOARD: For the year under review, fixed annual remuneration plus an attendance fee of € 500 per meeting day and remuneration for sitting on the Management Committee, the Audit Committee and the Committee on Arranging Personnel Matters were granted totaling € 739 thousand (previous year: € 748 thousand). In addition, one member of the Supervisory Board received fixed remuneration of € 56 thousand (previous year: € 56 thousand) for his/her membership on the Board of Directors of a foreign subsidiary. This remuneration does not include VAT. Members of the Supervisory Board received remuneration of € 431 thousand (previous year: € 409 thousand) from Heidelberger Druckmaschinen Aktiengesellschaft in the year under review under employment agreements. No loans or advances were made to members of the Supervisory Board in the reporting period; the Heidelberg Group has not undertaken any contingent liabilities for Supervisory Board members.

41 Related party transactions

Business relations exist between numerous companies and Heidelberger Druckmaschinen Aktiengesellschaft and its subsidiaries in the course of ordinary business. This also includes 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 € 3,620 thousand (previous year: € 4,143 thousand), receivables of € 6,389 thousand (previous year: € 11,722 thousand), expenses of € 5,709 thousand (previous year: € 15,476 thousand) and income of € 7,729 thousand (previous year: € 8,220 thousand), which essentially includes sales. Write-downs of € 94 thousand were recognized on receivables from related parties in the reporting year (previous year: € 1,737 thousand). All transactions were concluded at standard market terms and did not differ from trade relationships with other companies.

42 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 German Commercial Code (HGB) with regard to the preparation and disclosure of financial statements in the period under review:

- Gallus Druckmaschinen GmbH Langgöns-Oberkleen [1), 2)];
- Heidelberg Boxmeer Beteiligungs-GmbH, Wiesloch [2)];
- Heidelberg China-Holding GmbH, Wiesloch [2)];
- Heidelberg Consumables Holding GmbH, Wiesloch [2)];
- Heidelberger Druckmaschinen Vertrieb Deutschland GmbH, Wiesloch [1), 2)];
- Heidelberger Manufacturing Deutschland GmbH, Wiesloch [1), 2)];
- Heidelberg Postpress Deutschland GmbH, Wiesloch [1), 2)];
- Heidelberg Print Finance International GmbH, Wiesloch [3)].

1) Exempt from preparing a management report in accordance with Section 264 (3) / Section 264b HGB

2) Exempt from disclosing annual financial statements 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

43 Auditor's fees

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

	2015/2016	**2016/2017**
Fees for		
Audits of financial statements	910	834
Other assurance services	214	58
Tax advisory services	–	–
Other services	242	122
	1,366	**1,014**

44 Events after the end of the reporting period

In April 2017, Heidelberger Druckmaschinen Aktiengesellschaft signed an agreement on the acquisition of the European paint and printing chemicals business of its strategic partner Fujifilm. Among other things, the transaction includes the acquisition of the two production sites in Reutlingen, Germany, and Kruibeke, Belgium, which have around 70 employees in total. With this acquisition, Heidelberg is expanding its market position for consumables in locations where demand is growing continuously thanks to the megatrend of increased finishing and customization of printed products. The transaction is expected to be completed by July 2017.

In May 2017, Heidelberger Druckmaschinen Aktiengesellschaft acquired docufy GmbH, Bamberg, Germany, which has around 80 employees. The acquisition of docufy GmbH forms part of the continued expansion of Heidelberg's smart factory product portfolio.

The two activities acquired will generate an additional sales volume in excess of € 30 million for Heidelberg.

Heidelberg, May 22, 2017

HEIDELBERGER DRUCKMASCHINEN
AKTIENGESELLSCHAFT
The Management Board

Rainer Hundsdörfer　　Dirk Kaliebe

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 22, 2017

HEIDELBERGER DRUCKMASCHINEN
AKTIENGESELLSCHAFT
The Management Board

Rainer Hundsdörfer   Dirk Kaliebe

Dr. Ulrich Hermann   Stephan Plenz

Auditor's report

We have audited the consolidated financial statements prepared by Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg, comprising the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in consolidated equity, the statement of cash flows and the notes to the consolidated financial statements, together with the Group management report for the financial year from April 1, 2016, to March 31, 2017. The preparation of the consolidated financial statements and the Group management report in accordance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315a (1) of the Handelsgesetzbuch (HGB – German Commercial Code) are the responsibility of the Management Board of the Company. Our responsibility is to express an opinion on the consolidated financial statements and the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidated financial statements, the determination of the entities to be included in consolidation, the accounting policies and consolidation principles used, and significant estimates made by the Company's Management Board, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

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

Mannheim, May 23, 2017

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Martin Theben	Stefan Hartwig
Wirtschaftsprüfer	Wirtschaftsprüfer

Financial section 2016/2017

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					
Gallus Druckmaschinen GmbH[1]	D	Langgöns-Oberkleen	100	2,149	89
Heidelberg Boxmeer Beteiligungs-GmbH[1]	D	Wiesloch	100	127,091	2,151
Heidelberg China-Holding GmbH[1]	D	Wiesloch	100	58,430	11,069
Heidelberg Consumables Holding GmbH[1]	D	Wiesloch	100	20,025	445
Heidelberg Manufacturing Deutschland GmbH[1]	D	Wiesloch	100	42,561	1,432
Heidelberg Postpress Deutschland GmbH[1]	D	Wiesloch	100	25,887	2,690
Heidelberg Print Finance International GmbH[1]	D	Wiesloch	100	34,849	1,057
Heidelberg Web Carton Converting GmbH	D	Weiden	100	3,020	– 2,230
Heidelberger Druckmaschinen Vertrieb Deutschland GmbH[1]	D	Wiesloch	100	54,901	10,006
Outside Germany[2]					
Baumfolder Corporation	USA	Sidney, Ohio	100	1,308	– 780
BluePrint Products N.V.	BE	Sint-Niklaas	100	3,114	822
Europe Graphic Machinery Far East Ltd.	PRC	Hong Kong	100	756	280
Gallus Ferd. Rüesch AG	CH	St. Gallen	100	46,528	6,239
Gallus Holding AG	CH	St. Gallen	100	86,444	660
Gallus Inc.	USA	Philadelphia, Pennsylvania	100	6,152	654
Heidelberg Americas, Inc.	USA	Kennesaw, Georgia	100	104,674	– 6,270
Heidelberg Asia Pte. Ltd.	SGP	Singapore	100	9,331	667
Heidelberg Baltic Finland OÜ	EST	Tallinn	100	2,294	192
Heidelberg Benelux B.V.[3]	NL	Haarlem	100	46,044	582
Heidelberg Benelux BVBA	BE	Brussels	100	14,539	1,533
Heidelberg Boxmeer B.V.	NL	Boxmeer	100	42,421	178
Heidelberg Canada Graphic Equipment Ltd.	CDN	Mississauga	100	4,450	1,300
Heidelberg China Ltd.	PRC	Hong Kong	100	4,304	– 387
Heidelberg do Brasil Sistemas Graficos e Servicos Ltda.	BR	São Paulo	100	495	– 1,526
Heidelberg France S.A.S.	F	Roissy-en-France	100	7,311	438
Heidelberg Grafik Ticaret Servis Limited Sirketi	TR	Istanbul	100	3,878	– 467
Heidelberg Graphic Equipment (Shanghai) Co. Ltd.	PRC	Shanghai	100	87,990	2,895
Heidelberg Graphic Equipment Ltd. – Heidelberg Australia –	AUS	Notting Hill, Melbourne	100	20,010	– 3,559
Heidelberg Graphic Equipment Ltd. – Heidelberg New Zealand –	NZ	Auckland	100	1,837	– 300
Heidelberg Graphic Equipment Ltd. – Heidelberg UK –	GB	Brentford	100	22,100	5,960
Heidelberg Graphic Systems Southern Africa (Pty) Ltd.	ZA	Johannesburg	100	1,286	– 954
Heidelberg Graphics (Beijing) Co. Ltd.	PRC	Beijing	100	– 3,073	– 4,519
Heidelberg Graphics (Thailand) Ltd.	TH	Bangkok	100	7,696	103
Heidelberg Graphics (Tianjin) Co. Ltd.	PRC	Tianjin	100	8,934	2,124

Name	Country/Domicile		Shareholding in percent	Equity	Net result after taxes
Heidelberg Graphics Taiwan Ltd.	TWN	Wu Ku Hsiang	100	5,151	– 472
Heidelberg Group Trustees Ltd.	GB	Brentford	100	0	0
Heidelberg Hong Kong Ltd.	PRC	Hong Kong	100	14,974	– 81
Heidelberg India Private Ltd.	IN	Chennai	100	5,064	299
Heidelberg International Finance B.V.	NL	Boxmeer	100	35	– 8
Heidelberg International Ltd. A/S	DK	Ballerup	100	59,190	2,611
Heidelberg International Trading (Shanghai) Co. Ltd.	PRC	Shanghai	100	848	288
Heidelberg Italia S.r.L.	IT	Bollate	100	27,139	– 685
Heidelberg Japan K.K.	J	Tokyo	100	26,601	13,131
Heidelberg Korea Ltd.	ROK	Seoul	100	3,772	1,143
Heidelberg Magyarország Kft.	HU	Kalasch	100	4,673	465
Heidelberg Malaysia Sdn Bhd	MYS	Petaling Jaya	100	– 2,249	– 568
Heidelberg Mexico Services, S. de R.L. de C.V.	MEX	Mexico City	100	675	778
Heidelberg Mexico, S. de R.L. de C.V.	MEX	Mexico City	100	8,666	– 748
Heidelberg Philippines, Inc.	PH	Makati City	100	5,032	641
Heidelberg Polska Sp z.o.o.	PL	Warsaw	100	8,080	978
Heidelberg Praha spol s.r.o.	CZ	Prague	100	1,699	531
Heidelberg Print Finance Australia Pty Ltd.	AUS	Notting Hill, Melbourne	100	28,740	274
Heidelberg Print Finance Korea Ltd.	ROK	Seoul	100	18,715	275
Heidelberg Print Finance Osteuropa Finanzierungsvermittlung GmbH [1)]	A	Vienna	100	11,961	– 98
Heidelberg Schweiz AG	CH	Bern	100	9,619	2,291
Heidelberg Shenzhen Ltd.	PRC	Shenzhen	100	9,415	2,137
Heidelberg Slovensko s.r.o.	SK	Bratislava	100	927	– 413
Heidelberg Spain S.L.U.	ES	Cornella de Llobregat	100	9,042	1,012
Heidelberg Sverige AB	S	Solna	100	6,722	– 665
Heidelberg USA, Inc.	USA	Kennesaw, Georgia	100	80,962	19,855
Heidelberger CIS OOO	RUS	Moscow	100	– 7,180	– 912
Heidelberger Druckmaschinen Austria Vertriebs-GmbH	A	Vienna	100	25,174	5,517
Heidelberger Druckmaschinen Osteuropa Vertriebs-GmbH [1)]	A	Vienna	100	7,191	4,820
Heidelberger Druckmaschinen WEB-Solution CEE Ges.m.b.H	A	Vienna	100	2,046	21
Hi-Tech Coatings International B.V.	NL	Zwaag	100	9,611	438
Hi-Tech Coatings International Limited	GB	Aylesbury Bucks	100	5,945	1,347
Linotype-Hell Ltd.	GB	Brentford	100	4,008	0
Modern Printing Equipment Ltd.	PRC	Hong Kong	100	2,113	– 65
MTC Co., Ltd.	J	Tokyo	99.99	8,672	– 22
P.T. Heidelberg Indonesia	ID	Jakarta	100	8,434	70

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.[4]	D	Heidelberg	99.23	–15	–41
Heidelberg Catering Services GmbH[1]	D	Wiesloch	100	386	0
Heidelberg Direkt Vertriebs GmbH[4]	D	Wiesloch	100	178	–188
Heidelberger Druckmaschinen Vermögensverwaltungsgesellschaft mbH	D	Walldorf	100	25	2
Hi-Tech Coatings Deutschland GmbH[1]	D	Wiesloch	100	25	–12
Menschick Trockensysteme GmbH[4]	D	Renningen	100	498	–13
Neo7even GmbH	D	Siegen	100	–1,191	–1,692
Sporthotel Heidelberger Druckmaschinen GmbH[1]	D	Wiesloch	100	26	0
Outside Germany[2]					
Cerm Benelux N.V.[5]	BE	Oostkamp	100	1,556	486
Gallus Ferd. Rüesch (Shanghai) Co. Ltd.	PRC	Shenzhen	100	115	16
Gallus India Private Limited	IN	Mumbai	100	236	83
Gallus Mexico S. de R.L. de C.V.	MEX	Mexico City	100	–118	–103
Gallus Oceania Pty. Ltd.	AUS	Bayswater	100	36	–75
Gallus Printing Machinery Corp.[4]	USA	Philadelphia, Pennsylvania	100	–1,619	–149
Gallus South East Asia Pte. Ltd.	SGP	Singapore	100	67	–1,824
Gallus-Group UK Ltd.	GB	Royston	100	117	–7
Heidelberg Asia Procurement Centre Sdn Bhd	MYS	Petaling Jaya	100	96	–16
Heidelberg Hellas A.A.E.	GR	Metamorfosis	100	3,097	102
Heidelberg Postpress Slovensko spol. s.r.o.	SK	Nové Mesto nad Váhom	100	271	192
Heidelberg Used Equipment Ltd.[4]	GB	Brentford	100	882	80
Heidelberger Druckmaschinen Ukraina Ltd.	UA	Kiev	100	–1,467	176
Hi-Tech Chemicals BVBA[6]	BE	Brussels	100	–291	–277
Inline Cutting L.L.C.	USA	Baltimore, Maryland	100	1,615	0
Print Media Academy Ceska Republika a.s.	CZ	Pardubice	90	58	–16

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	702	0
Other shareholdings (>5%)					
Germany					
InnovationLab GmbH [4]	D	Heidelberg	8.33	1,987	564
SABAL GmbH & Co. Objekt FEZ Heidelberg KG	D	Munich	99.90	–5,586	–343

[1] Before profit transfer
[2] Disclosures for companies outside Germany in accordance with IFRS
[3] Place of business relocated from Almere, the Netherlands, to Haarlem, the Netherlands
[4] Prior-year figures, since financial statements not yet available
[5] Extended financial year from January 1, 2016 to March 31, 2017
[6] Formerly Grafimat BVBA

The Supervisory Board

Dr. Siegfried Jaschinski
Member of the Management Board and Partner of Augur Capital AG, Frankfurt am Main
a) Kathrein SE
b) Veritas Investment GmbH (Member of the Supervisory Board)
Veritas Institutional GmbH (Member of the Supervisory Board)
LRI Depositary S. A., Luxembourg (Member of the Supervisory Board)

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

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

Edwin Eichler
Independent business consultant of Eichler M+B Consulting, Weggis, Switzerland, and Chief Executive Officer of SAPINDA Holding B.V., Amsterdam/the Netherlands until July 31, 2016
a) SGL Carbon SE
SMS Group GmbH
Schmolz & Bickenbach AG, Switzerland
b) Hoberg & Driesch GmbH & Co. KG (Advisory Board)
Member of the University Council at the Technical University of Dortmund
Fr. Lürssen Werft GmbH & Co. KG (Advisory Board)

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 and Studio Hamburg GmbH
b) aufeminin.com, France

Kirsten Lange
Former Managing Director of Voith Hydro Holding GmbH & Co. KG, Heidenheim

Dr. Herbert Meyer
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)

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
a) KEX Knowledge Exchange AG (Chairman)
b) Gallus Holding AG, Switzerland (Member of the Administration Board)
Phoenix Contact GmbH & Co. KG (Member of the Advisory Board)

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

Roman Zitzelsberger*
Regional head of IG Metall Baden-Württemberg, Stuttgart
a) Daimler AG

* Employee representative
a) Membership in other Supervisory Boards
b) Membership in comparable German and foreign control bodies of business enterprises

Committees of the Supervisory Board (as of March 31, 2017)

MANAGEMENT COMMITTEE

Dr. Siegfried Jaschinski (Chairman)
Rainer Wagner
Ralph Arns
Mirko Geiger
Kirsten Lange
Prof. Dr.-Ing. Günther Schuh

MEDIATION COMMITTEE UNDER ARTICLE 27 PARAGRAPH 3 OF THE CODETERMINATION ACT

Dr. Siegfried Jaschinski
Rainer Wagner
Ralph Arns
Dr. Herbert Meyer

COMMITTEE ON ARRANGING PERSONNEL MATTERS OF THE MANAGEMENT BOARD

Dr. Siegfried Jaschinski (Chairman)
Rainer Wagner
Beate Schmitt
Prof. Dr.-Ing. Günther Schuh

AUDIT COMMITTEE

Dr. Herbert Meyer (Chairman)
Kirsten Lange
Mirko Geiger
Rainer Wagner

NOMINATION COMMITTEE

Dr. Siegfried Jaschinski (Chairman)
Dr. Herbert Meyer

STRATEGY COMMITTEE

Dr. Siegfried Jaschinski (Chairman)
Rainer Wagner
Mirko Geiger
Karen Heumann
Kirsten Lange
Dr. Herbert Meyer
Prof. Dr.-Ing. Günther Schuh

The Management Board

Rainer Hundsdörfer
Heidelberg
Chief Executive Officer and
Chief Human Resources Officer
since November 14, 2016

* Marquardt GmbH (Chairman)

** Heidelberg Americas, Inc., USA (Chairman of the Board of Directors)
Heidelberg USA, Inc., USA (Chairman of the Board of Directors)

Dr. Gerold Linzbach
Frankfurt am Main
Chief Executive Officer and
Chief Human Resources Officer
until November 13, 2016

** Heidelberg Americas, Inc., USA (Chairman of the Board of Directors)
Heidelberg USA, Inc., USA (Chairman of the Board of Directors)

Dirk Kaliebe
Sandhausen
Chief Financial Officer and
Head of the Heidelberg
Financial Services Segment

* Heidelberger Druckmaschinen Vertrieb Deutschland GmbH

** Gallus Holding AG, Switzerland (Member of the Administration Board)
Heidelberg Americas, Inc., USA
Heidelberg USA, Inc., USA

Dr. Ulrich Hermann
Aachen
Head of the Heidelberg
Services Segment
since November 14, 2016

* Heidelberger Druckmaschinen Vertrieb Deutschland GmbH (Chairman)

** Heidelberger Druckmaschinen Austria Vertriebs-GmbH (Member of the Advisory Board)
Heidelberger Druckmaschinen Osteuropa Vertriebs-GmbH (Member of the Advisory Board)
Heidelberg Graphic Equipment Ltd., Australia
Heidelberg Japan K.K., Japan

Stephan Plenz
Sandhausen
Head of the Heidelberg
Equipment Segment

** Gallus Holding AG, Switzerland (Chairman of the Administration Board)
Heidelberg Graphic Equipment (Shanghai) Co. Ltd., China (Chairman of the Board of Directors)

Harald Weimer
Nussloch
Head of the Heidelberg
Services Segment
until November 13, 2016

* Heidelberger Druckmaschinen Vertrieb Deutschland GmbH (Chairman)

** Heidelberger Druckmaschinen Austria Vertriebs-GmbH (Member of the Advisory Board)
Heidelberger Druckmaschinen Osteuropa Vertriebs-GmbH (Member of the Advisory Board)
Heidelberg Graphic Equipment Ltd., Australia
Heidelberg Japan K.K., Japan

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

Supervisory Board and corporate governance

Report of the Supervisory Board

DR. SIEGFRIED JASCHINSKI
Chairman of the Supervisory Board

Dear shareholders,

In the past financial year, Heidelberger Druckmaschinen AG has laid the foundations for growth, initiated a turnaround in its earnings situation, and geared its strategy towards a successful digital future – including the repositioning of the Management Board. Based on the new portfolio and planned acquisitions in the service area in particular, Heidelberg is seeking to continue on its growth path over the coming years.

At the drupa 2016 trade fair in Düsseldorf, the Company pressed ahead on the path to a digital future under the central theme of "Simply Smart", which represents the start of Heidelberg's response to the challenges of ongoing digitization in the print media industry. The Company's underlying digital strategy will give rise to increased benefit, making it as easy as possible for customers to handle increasingly complex processes and technologies. The overriding aim is to reduce manual interventions in the production process to a minimum so that printing companies can focus on what matters most – business with their customers.

The new digital printing range also offers expanded business models, particularly for industrialized packaging producers. At the same time, Heidelberg is continuously expanding its service range. The Company intends to further improve customer retention with a new cloud-based service platform. Accordingly, the portfolio focus will shift towards growing market segments that are more economically robust, such as packaging printing.

With the appointment of Rainer Hundsdörfer as the new Chief Executive Officer and Dr. Ulrich Hermann as the member of the Management Board with responsibility for Digital Business and Services, the Supervisory Board is underlining the importance of the digital positioning for Heidelberg's future while also helping to actively shape this development. In their positions to date, both managers have demonstrated their ability to efficiently change structures and successfully implement digital business models.

We are already gearing up for the challenges of the future at a structural level. In 2018, the new development center at the Wiesloch-Walldorf production site, which will house around 1,000 employees, will become the world's most modern research facility for the printing industry. It will be the most significant center of excellence for the printing industry, which is generating global sales of around € 400 billion per year and rising.

Close cooperation between Management Board and Supervisory Board

The Supervisory Board continuously monitored the management by the Management Board in financial year 2016/2017 and regularly advised it on the running of the Company. We were assured of the legality and propriety of the work of the Management Board at all times. The Management Board fulfilled its information duties and reported to us regularly, promptly and comprehensively in both written and verbal form on all the issues of business development, risk development and compliance relevant to the Company. In particular, we discussed all the business transactions of significance to the Company verbally and in writing with the Management Board and verified their plausibility. On several occasions, the Supervisory Board or parts of the Supervisory Board thoroughly examined the risk situation of the Company, its liquidity planning and its equity situation. The Chairman of the Supervisory Board and the Chairman of the Audit Committee also maintained a close and regular exchange of information and thoughts with the Management Board between the committee meetings and informed themselves of significant developments. The Chairmen of the Supervisory Board and the Audit Committee reported on key findings no later than the next Supervisory Board or committee meeting.

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.

No members took part in only half or less of the meetings of the Supervisory Board and committees of which they are members. The average attendance rate at the meetings of the Supervisory Board and its committees was almost 100 percent in financial year 2016/2017.

Key topics at Supervisory Board meetings

The Supervisory Board's discussions focused on issues relating to strategy, portfolio and business activities of Heidelberger Druckmaschinen Aktiengesellschaft. Furthermore, the Supervisory Board addressed the liquidity situation and the capital structure.

In particular, I would like to highlight the following key topics:

At its meeting on June 3, 2016, the Supervisory Board discussed the reporting of the Management Board on the business situation and the report of the Audit Committee, as in every meeting held in the year under review. In addition, the Supervisory Board adopted the consolidated and single-entity financial statements for financial year 2015/2016 following the presentation and discussion of the auditor's report, thereby concurring with the recommendation of the Audit Committee. It also approved the agenda for the 2016 Annual General Meeting. The Chairman of the Audit Committee reported on the meeting held on May 2, 2016. The meeting also discussed the appointment of new members to the Supervisory Board committees.

The meeting ahead of the Annual General Meeting on July 28, 2016 was used to prepare for the Annual General Meeting. Furthermore, the Supervisory Board resolved to commission PricewaterhouseCoopers Wirtschaftsprüfungsgesellschaft as the auditor for financial year 2016/2017. The Supervisory Board also discussed the search for a successor to Mr. Eichler, who stepped down from the Supervisory Board at his own request at the end of the Annual General Meeting.

The extraordinary meeting on October 27, 2016, dealt with extensive changes to the Management Board. The Supervisory Board discussed the successors to Dr. Linzbach and Mr. Weimer and resolved the appointment of Mr. Hundsdörfer and Dr. Hermann as well as the key economic conditions of the respective employment contracts and pension agreements. The reappointment of Mr. Plenz and the corresponding extension of his contract to 2020 was also resolved.

Following the account of the current business situation at the Supervisory Board meeting on November 16, 2016, the Supervisory Board was then informed in detail about the meetings of the Audit Committee and the Strategy Committee. The Supervisory Board also approved the declaration of compliance for 2016.

The topics discussed at the Supervisory Board's last meeting of the reporting year, on March 29, 2017, were the current business situation, planning for the coming financial year and projections for the following years. The Supervisory Board acknowledged the planning presented to the meeting. The Supervisory Board was also informed about the meeting of the Audit Committee and the new organizational chart.

Corporate governance

The corporate governance of the Company was a regular topic of the discussions in the Supervisory Board, as were the then-current recommendations of the German Corporate Governance Code (GCGC) as revised in 2015 and 2017. Following the amendment to the GCGC on February 7, 2017, the Rules of Procedure for the Supervisory Board were updated at the meeting on March 29, 2017 to reflect the deletion of section 6.2 of the GCGC (old version). 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 committees to support it in its work:

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

The chairs of the respective committees report to the Supervisory Board regularly and comprehensively on their activities at the meetings of the Supervisory Board. The composition of the committees is presented in the notes to the consolidated financial statements.

The Personnel Matters Committee met twice in reporting year 2016/2017 and passed one resolution in writing. Its work focused on remuneration issues and other issues concerning members of the Management Board. This included the search for successors to Dr. Linzbach and Mr. Weimer, which resulted in the appointment of Mr. Hundsdörfer and Dr. Hermann. The Audit Committee held five regular meetings. It examined quarterly and event-driven questions 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 interim 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 integration of acquired companies and the effects of the reorientation and development of business areas, 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 and discussed the strategic orientation of the individual regions, the equity situation and the financial framework. It also discussed HDE and HDS. The Nomination Committee and the Management Committee did not meet in the reporting year. Furthermore, the Mediation Committee in accordance with section 27 (3) of the German Codetermination Act (MitBestG) did not have to be convened.

Audit of the single-entity and consolidated financial statements

The Annual General Meeting on July 28, 2016, appointed PricewaterhouseCoopers Wirtschaftsprüfungsgesellschaft as the auditor. This company audited the single-entity financial statements for financial year 2016/2017, 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 1, 2017. 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 1, 2017. We examined and accepted the annual financial statements, the consolidated financial statements, the management report of Heidelberger Druckmaschinen Aktiengesellschaft and the management report of the Heidelberg Group prepared by the Management Board. We thereby concurred with the audit findings of both sets of financial statements, adopted the single-entity financial statements and approved the consolidated financial statements for the year ended March 31, 2017.

Personnel changes in the Supervisory Board and the Management Board

There were two changes to the shareholder representatives on the Supervisory Board of Heidelberger Druckmaschinen Aktiengesellschaft. Mr. Edwin Eichler stepped down from the Supervisory Board with effect from the end of July 2016. Mr. Oliver Jung was appointed as a member of the Supervisory Board by way of a judicial appointment effective May 23, 2017. The members of the Supervisory Board thanked Edwin Eichler for the many years of good cooperation.

On the Management Board, two new members were appointed and two members stepped down: Dr. Gerold Linzbach and Mr. Harald Weimer stepped down from the Management Board effective November 13, 2016. The Supervisory Board appointed Mr. Rainer Hundsdörfer as the new Chief Executive Officer and Chief Human Resources Officer and Dr. Ulrich Hermann as a new ordinary member of the Management Board with responsibility for the Services segment with effect from November 14, 2016.

The Supervisory Board will continue to monitor the Company's interests and its long-term development and work towards its well-being.

Thank you from the Supervisory Board

This year, my particular thanks go once again to the employees of Heidelberg and their representatives in the Supervisory Board, the Works Council and the Speakers Committee for all their dedicated work.

I would also expressly like to include the members of the Management Board, who have done everything possible in difficult times to turn Heidelberg into a healthy and sustainably profitable enterprise once again. I would like to conclude by thanking you, dear shareholders, for the confidence you have placed in our Company and in the shares of Heidelberger Druckmaschinen Aktiengesellschaft.

Wiesloch, May 2017

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 anchored in Heidelberg Group by updated Code of Conduct and introduction of a whistleblower system
- Planned focus in financial year 2017/2018: Review, revision and adjustment of the existing compliance management system

The standards of good corporate governance set out in the German Corporate Governance Code were again an important guideline for the Management Board and the Supervisory Board of Heidelberger Druckmaschinen Aktiengesellschaft in financial year 2016/2017. The recommendations and suggestions of the Code are still largely complied with. Ensuring effective management and control in an evolving corporate structure remains the priority. It is regularly checked to ensure that all laws and regulations are complied with throughout the Group and that recognized standards and recommendations are followed in addition to the Company's values, Code of Conduct and corporate guidelines.

Declaration of compliance in accordance with section 161 of the German Stock Corporation Act

The Management Board and the Supervisory Board issued the following declaration of compliance on November 16, 2016:

Since issuing its last declaration of compliance on November 25, 2015, Heidelberger Druckmaschinen Aktiengesellschaft has complied with all recommendations of the Government Commission of the German Corporate Governance Code as amended May 5, 2015, and as promulgated by the German Federal Ministry of Justice in the official section of the Federal Gazette on June 12, 2015, with the following exceptions, and will continue to comply in the future with the following exceptions:

Heidelberger Druckmaschinen Aktiengesellschaft deviated from the recommendations in items 4.1.5, 5.1.2 sentence 2 and 5.4.1 (2) of the Code as amended May 5, 2015, and will also continue to deviate from item 4.1.5 sentence 1 in the future to the extent that consideration or participation of women was/is intended or provided for. Naturally, the Management Board and the Supervisory Board have complied with the requirements of the German Act on the Equal Participation of Women and Men in Leadership Positions in the Private Sector and the Public Sector.

The Supervisory Board and the Management Board of the Company have taken measures in financial year 2015/2016 for the professional advancement of women in the Company. It is agreed that, in the event of vacancies being filled, given the same technical and personal suitability, the appointment of women to the Supervisory Board, the Management Board and the two management levels below the Management Board will be considered to increase the share of women in the medium to long term. The Supervisory Board and the Management Board welcome all efforts to counter discrimination based on gender or any other form of discrimination and to appropriately promote diversity.

Heidelberger Druckmaschinen Aktiengesellschaft deviated from the recommendations of item 5.4.1 (2) of the Code as amended May 5, 2015, and will also continue to deviate from them in the future in that the Supervisory Board is expected to set a 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.

The Management Board and the Supervisory Board intend to update the annual declaration of compliance, prospectively on November 24, 2017, 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 16, 2016, can also be found there; it is also included in the current, detailed corporate governance declaration. This declaration – and our corporate governance report – is likewise permanently available on our website www.heidelberg.com under Company > About Us > Corporate Governance.

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, but also other Heidelberg employees. Therefore, integrity in everyday business and respectful cooperation at all work levels is expected. The central task of the Compliance Office is to ensure Company-wide compliance with these regulations – both by the Group's executive bodies and each individual employee. The Compliance Office is integrated into the legal department. The Chief Compliance Officer reports directly to the CFO, who is also the head of the Heidelberg Financial Services segment. 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 can be arranged. Several compliance areas are subjected to cursory checks at the smaller Heidelberg production sites in the context of compliance checks at production sites. Other compliance issues such as antitrust law, corruption prevention, capital market law or conduct in the event of official investigations are addressed by targeted information, presentations at management meetings, specific training sessions or specially formed committees or working groups, such as the Ad Hoc Committee. Independently of this, Heidelberg executives are responsible for ensuring that their own conduct and that of their employees in their areas and organizational units is compliant. In financial year 2017/2018, 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 will meet regularly under the Chief Compliance Officer. At the same time, the Compliance Committee will also discuss current developments and take suitable action. Plans include the expansion of the top-down approach through management and employee compliance training, the further establishment of the whistleblower system introduced at the level of Heidelberger Druckmaschinen Aktiengesellschaft in the previous financial year, an ongoing accompanying communication campaign and the review and optimization of processes. Another priority is still advising and training employees in the areas of the revised Code of Conduct, corruption prevention and antitrust law in particular (especially at the new Group companies acquired). Internal findings and comparisons and communication with other companies contribute to the ongoing development of our compliance management system. In its meetings, the Audit Committee of the Supervisory Board regularly discusses compliance issues and activities. The Chief Compliance Officer issues a comprehensive compliance report semiannually on behalf of the Management Board.

Wiesloch, June 1, 2017

For the Supervisory Board Dr. Siegfried Jaschinski	For the Management Board Rainer Hundsdörfer

Financial calendar 2017 / 2018

June 8, 2017	Press Conference, Annual Analyst and Investor Conference
July 27, 2017	Annual General Meeting
August 10, 2017	Publication of First Quarter Figures 2017 / 2018
November 9, 2017	Publication of Half-Year Figures 2017 / 2018
February 8, 2018	Publication of Third Quarter Figures 2017 / 2018
June 12, 2018	Press Conference, Annual Analyst and Investor Conference
July 25, 2018	Annual General Meeting

Subject to change

Publishing information

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Five-year overview – Heidelberg Group

Figures in € millions	2012/2013*	2013/2014*	2014/2015	2015/2016	**2016/2017**
Incoming orders	2,822	2,436	2,434	2,492	2,593
Net sales	2,735	2,434	2,334	2,512	2,524
Foreign sales share in percent	85.6	86.2	84.7	86.5	84.8
EBITDA [1]	80	143	188	189	179
in percent of sales	2.9	5.9	8.1	7.5	7.1
Result of operating activities [2]	– 3	72	119	116	108
Net result before taxes	– 126	2	– 76	31	34
Net result after taxes	– 117	4	– 72	28	36
in percent of sales	– 4.3	0.1	– 3.1	1.1	1.4
Research and development costs	118	117	121	122	119
Investments	82	52	59	65	105
Total assets	2,338	2,244	2,293	2,202	2,219
Net working capital [3]	872	727	714	691	667
Receivables from sales financing	118	91	82	65	58
Equity	402	359	183	287	340
in percent of total equity and liabilities	17.2	16.0	8.0	13.0	15.3
Financial liabilities	419	481	542	496	470
Net debt [4]	261	238	256	281	252
Cash flow	– 41	70	– 120	99	107
in percent of sales	– 1.5	2.9	– 5.1	3.9	4.2
Free cash flow	– 18	22	– 17	– 32	24
in percent of sales	– 0.6	0.9	– 0.7	– 1.3	1.0
ROCE in percent	– 0.4	6.8	11.3	10.8	10.2
Return on equity in percent [5]	– 29.2	1.0	– 39.3	9.8	10.6
Earnings per share in €	– 0.50	0.02	– 0.29	0.11	0.14
Dividend in €	–	–	–	–	–
Share price at financial year-end in € [6]	1.80	2.23	2.49	1.99	2.34
Market capitalization at financial year-end	421	523	641	512	602
Number of employees at financial year-end [7]	13,694	12,539	11,951	11,565	11,511

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

1) Result of operating activities before interest and taxes and before depreciation and amortization, excluding special items
2) Excluding special items
3) The total of inventories and trade receivables less trade payables and advance payments
4) Net total of financial liabilities and cash and cash equivalents and current securities
5) After tax
6) Xetra closing price, source prices: Bloomberg
7) Number of employees excluding trainees

The Heidelberg Management Board

www.heidelberg.com

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