

Blocking period until the beginning of the speech!

Speech at the Annual General Meeting of Heidelberg Druckmaschinen AG

Thursday 23 July, 2020

Wiesloch-Walldorf

**Rainer Hundsdörfer
CEO**

The spoken word applies!

Chart 1: Title slide – welcome

Good morning, Heidelberger Druckmaschinen AG shareholders and shareholders' representatives.

Together with my fellow member of the Management Board, Marcus Wassenberg, I'd like to bid you a warm welcome to our company's Annual General Meeting, which we're holding virtually this year.

Ladies and gentlemen,

Given that well over 1,000 people normally attend this event, we felt the only responsible course of action was to hold a virtual Annual General Meeting. The health of visitors to the company and our own employees comes before all else.

It goes without saying that we all miss being able to meet face to face, and we very much hope normal service will be resumed next year. During our preparations in the run-up to this Annual General Meeting, we examined your questions closely and we'll be answering them fully. We're confident you'll be satisfied with the detailed information provided.

I'd also like to explain how we've been dealing with the restrictions associated with Covid-19 at Heidelberg. The health and safety of our staff is our absolute priority.

The company acted swiftly and resolutely in taking responsibility for our staff.

Having a plant in China, we were confronted very early on with the concrete consequences and local measures. We immediately put our company pandemic plan into action, setting up a dedicated team to share information and take decisions.

Our service engineers were the first to implement a comprehensive hygiene concept to protect both themselves and our customers. In this connection, I'd like to tell you a little story that has had a lasting effect on me, because it shows how outstanding the teamwork was during the lockdown in a neighboring country that was particularly badly affected.

Chart 2: Great teamwork during the lockdown

When we started installing a Speedmaster for our customer GRAFICHE MERCURIO SPA in Italy back in February, the Covid-19 situation appeared to be under control. At the beginning of March, however, the virus was clearly spreading so fast that the Italian government was forced to put certain regions, including Lombardy, under total lockdown.

Only key workers – which included our service engineers – were permitted to continue working. Hotels and restaurants were closed. Interrupting installation work for an as-yet indefinite period would have represented a serious risk for our customer.

It took the support of everyone involved to find a way of continuing with the installation of the Speedmaster press.

The work area was completely sealed off. Only the engineers from Heidelberg Italy had access. No accommodation was available either, so a kind of company apartment complete

with changing room and sanitary facilities was also provided. A local hotel agreed to supply meals.

Despite the difficult conditions, the installation work was completed. The team takes great pride in this achievement and was as pleased as the customer to be able to get the press up and running. This is just one of many examples of how Heidelberg has supported its customers.

Having performed the necessary risk assessments, we also established occupational health and safety measures at our own factory and in all office areas.

We evaluated and implemented occupational health concepts, purchasing personal protective equipment and sanitizer to ensure the necessary safety standards were met. Staggered working hours, remote working, and digital tools all helped us achieve and maintain social distancing.

The situation continues to demand an exceptional response. Customer visits are taking place online, business trips are being made virtually, and digital meetings have become the norm.

We also acted very quickly to switch all training activities to online learning and are using digital tools more than ever. This will largely remain the case even after the pandemic. Embracing digitization in this way has given our working world a new look and revealed possibilities that we intend to make full use of in the future, too.

Our staff are implementing the necessary measures, and are demonstrating an impressive level of commitment and motivation despite the difficult conditions.

We'd like to express our gratitude to our workforce for all their efforts.

A big thank you!

Chart 3: The world in flux

At all annual general meetings this year, reference will no doubt be made to how Covid-19 is throwing up new global challenges. Heidelberg is no exception. The pandemic is reinforcing the need for change processes – and that includes the printing press sector, which has been experiencing a major upheaval over the past decade or so as it is.

The digital transformation initiated by Heidelberg a few years ago was and still is a vital and appropriate move. The same applies to the comprehensive measures introduced by the Group in the last financial year to achieve financial stability and realign operations.

Ladies and gentlemen,

2019 was a year of clarity and consequences for us. Last November, Heidelberg started working on one of the biggest reorganizations in the company's recent history. We ruthlessly analyzed the situation and resolutely took the necessary decisions. That was before any mention of Covid-19. Heidelberg set out to make our healthy core business even better and

stronger, and to lay the foundation for future growth. Our focus is clear – profitability, competitiveness, and safeguarding our future.

In consultation with the Supervisory Board, we launched a comprehensive, Group-wide program on March 17, 2020. The measures announced aim to secure liquidity, streamline structures, and rationalize the portfolio.

As already communicated, the effects of the pandemic and this action package in the fourth quarter of the last financial year had a big impact on the KPIs for financial year 2019/2020. You can see this from the next two charts.

Chart 4: Development of sales and earnings in financial year 2019/2020

Ladies and gentlemen,

There were two contrasting developments in financial year 2019/2020 – an economic downturn in central Europe and growth in both China and the United States. As a result, sales for the Group as a whole after nine months were at the same level as in the previous year. You can clearly see this in the diagram on the left-hand side of the slide.

By February 2020 at the latest, however, the Covid-19 pandemic had taken hold of the global economy. Business in China, which is so important to us, was hit first and particularly hard, while the other markets soon followed. This had a hugely negative impact in the final quarter of the financial year, which is traditionally a strong one for us.

Total sales were some € 140 million – or just under 6 percent – down on the previous year, which is solely due to the downturn in the final quarter. This is indicated by the red wedge on the slide. Our operating result, that is to say EBITDA excluding the effects of restructuring, was naturally also affected. You can see both developments – including a comparison with the previous year – on the right-hand side of the slide.

The effects of restructuring amounted to minus € 275 million, mainly due to the realignment measures. This gives a net result after taxes of minus € 343 million. However, these non-recurring costs from the last financial year account for the bulk of the realignment expenditure and lay the foundation for improving our operating profitability in the post-corona period.

Chart 5: Financial stability

Securing our liquidity and thus financial stability for Heidelberg is one of the key elements of our action package. By returning some € 380 million of the liquidity reserves from the trust assets of the Heidelberg Pension Trust founded in 2005 to the company, we have significantly improved liquidity. You can see this on the right-hand side of the slide.

As a result, we succeeded in reducing our net financial debt as shown on the left – from € 250 million to just € 43 million at the end of the financial year.

Overall, this means the company is more financially stable than it has been for years.

Two conditions apply to the return of assets from the Heidelberg Pension Trust.

Firstly, they must be used to finance the company's transformation or, in other words, we have the financial strength to fund the reorganization.

Secondly, we must repay the remainder of our high-yield bond amounting to € 150 million, something we're intending to do during the current financial year. We see this as being key to ensuring our long-term financial stability, as it means no more high interest payments and places Heidelberg on a more independent footing. We are determined to comply with this condition, despite the current challenges of Covid-19.

While liquid assets rose very sharply to over € 400 million in the last financial year, shareholder's equity fell, as expected, to around € 200 million. This is due to the planned restructuring measures, but also to the fact that the actuarial interest rate for pensions in Germany was yet again lower on the balance sheet date, at 1.8 percent.

Chart 6: Realignment – overview of progress

We're making excellent progress with our action package. The road shown on the slide gives you an indication of how we're doing. As you can see, there are a series of ticks next to all our measures, which means they've already been implemented.

Although slashing the net debt by returning a liquidity reserve represents a big success, our current equity ratio of less than 10 percent is obviously far from satisfactory. That's one reason why – and at this juncture I'd like to make a point of thanking our employee representatives and the IG Metall trade union – we've reached a collective agreement to standardize our occupational retirement provision and make it future-proof. In the first quarter of the new financial year, the resulting positive impact on earnings of just over € 70 million has stabilized our shareholder's equity. Our action package is designed to build this back up again in the future by significantly improving our profitability.

We're also making good progress with cutting costs. As already announced, the company's realignment includes permanently adapting both structural and production costs. The planned measures will affect a total of around 1,600 jobs worldwide and may also involve some closures. The streamlining of our organization is advancing, too. We started at the very top with the Management Board, which we halved from four members to just two. We then cut the top management level to around 1 percent of the total workforce and are now starting to reduce the number of second-tier management staff accordingly. Our objective is to significantly improve efficiency and the speed of decision-making in our workflows and processes.

As for our portfolio, we're focusing on our profitable core business, and will be discontinuing the heavily loss-making activities associated with the Primefire digital press and large-format sheetfed offset printing by the end of the current financial year at the latest.

Focusing also means divesting ourselves of other marginal businesses and assets we no longer require. This will pave the way for more focused use of our resources in areas where they can generate profitable growth. It will also mean we can further strengthen our liquidity and increase our shareholder's equity.

In this connection, you may have seen yesterday's press release about the signing of a contract to sell the Gallus Group in Switzerland, which operates in the label sector, to the Swiss company benpac Holding AG. As you can see, we're continuing apace with our realignment and have reached a further milestone on the M&A market, despite the highly challenging situation at present. This sale, which is subject to a number of condition precedents and is still to be approved by our Supervisory Board, proves we're serious about focusing on our core business. The agreed purchase price of € 120 million will generate earnings in the mid-double-digit million euro range in the current financial year. We're thus giving our liquidity a big boost, which will be particularly helpful during the coronavirus crisis.

Chart 7: Realignment – production network

On the next chart, I've summarized further details relating to the optimization of our global production network. These measures have been decided on and initiated, and they're currently at various stages of implementation.

Wiesloch will become the strong future location for high-end products. That applies in particular to our sheetfed offset portfolio, but also to new areas of business.

The start of series production of printed organic electronics should also be seen in this context. We've created a dedicated business unit to develop, manufacture, and sell printed and organic electronics on an industrial scale, also investing some € 5 million in a complete production line for printed sensors. Moving into the development and mass production of printed and organic electronics represents a milestone for Heidelberg and for Germany as an industrial player. As we see it, our involvement in this production of high-tech sensors also opens up potential for future growth.

Furthermore, it represents a clear commitment to Wiesloch, which will remain our number one site and our headquarters.

We'll be pressing ahead with expanding the production of standard offset models in China, above all for the local market. A joint venture to manufacture parts with our established partner MK Masterwork serves the same strategic goal.

Chart 8: Realignment – financial impact

This chart summarizes how the measures I've mentioned have helped improve EBITDA.

Firstly, discontinuing unprofitable products will save us some € 50 million.

Secondly, significantly reducing both structural and production costs will save a further € 50 million.

In the medium term, we're therefore expecting to improve EBITDA excluding the effects of restructuring by a total of around € 100 million.

Also in the medium term, Heidelberg will achieve a break-even operating result with a sales volume of between € 2.0 and 2.1 billion.

Chart 9: Developments in Q1 of financial year 2020/2021

I'd now like to give you a brief idea of how Heidelberg has fared at the start of financial year 2020/2021 in these difficult circumstances.

The effects of the Covid-19 pandemic are creating major ongoing challenges, especially for exporting companies like Heidelberg. We're expecting sales in the first quarter of the current financial year to be around 30 percent down on the previous year. Incoming orders are weak in all key regions of the world, even though print volumes are starting to recover in individual markets such as China. It's hard to predict right now when our customers around the globe will be ready to invest again in significant numbers.

As regards the provisional result for the first quarter, short-time working in line with the relevant legislation and other measures to make costs more flexible have kept our profitability at a comparatively solid level.

The earnings of just over € 70 million associated with the conclusion of a collective agreement on occupational retirement provision, which I've already referred to, are also helping us compensate for the shortfall in profit contributions resulting from the downturn in sales.

We'll be publishing the complete quarterly report on August 13.

Chart 10: Outlook for financial year 2020/2021

Precise forecasts of how the markets and the sector will develop are currently impossible due to the Covid-19 pandemic. This slide therefore lists the various factors according to their impact on our outlook.

Starting at the top right, there are a number of trends that are giving us reason to be moderately optimistic about the second half of the financial year.

Based on the difficult first half of the year and the weak order activity worldwide, we're expecting sales to be way down on the previous year. The magnitude of the predicted slump in sales due to the Covid-19 pandemic will also be a big burden on the EBITDA margin.

Looking further ahead, however, the positive effects of our cost-cutting measures will gradually become apparent from the second quarter onward. We're expecting the savings from our action package, various accounting measures, and temporary relief in the form of more flexible working hours and short-time working to improve the result. All in all, despite

the downturn in sales, we're aiming for an EBITDA margin excluding the effects of restructuring that at least matches the previous year's figure.

Based on the sales forecast, Heidelberg is expecting the net result after taxes for financial year 2020/2021 to be significantly better than in the previous year but still clearly in the negative range.

In the medium to long term, we're assuming our comprehensive action package will help achieve a sustainable improvement in the company's profitability and financial resources for future growth.

Chart 11: Our core business

I particularly want to get across one key message today. The comprehensive realignment we started last November was and is essential to place Heidelberg on a sustainably profitable and future-proof footing. This is more vital than ever given the turbulence Covid-19 has caused across the globe and in our industry. It was the right move before the crisis and it certainly is now. The path we've embarked upon will help Heidelberg become financially robust and highly cost-efficient.

That's what we're concentrating on. It's like a middle-distance race – one with a number of hurdles, as the current Covid-19 situation demonstrates. But we're not spreading ourselves too thin. We're focusing on the things that give our customers what they need and generate sufficient added value for us. That means our profitable core business. We're resolutely setting a fast pace and, if we keep it up, our strong brand, our profitable core business, our innovative strength, and our positioning in growth markets will ensure we have a bright long-term future.

Despite all the restructuring, it goes without saying that we're keen to generate added value for all stakeholders. It's both our mission and our duty.

Printing remains our core business, as you can also see from the images in the center of the slide. We support both commercial printers and our packaging and label printing customers throughout the process – from quote to invoice – that is to say the entire value chain. As the technology leader, Heidelberg is the only company in the industry anywhere in the world that can do this.

With customer requirements as our starting point, we can put together a package that meets their specific needs.

Our customers are becoming aware of the added value of digital solutions for the printing process – because printing has to be smart. And that's exactly where Heidelberg comes in, digitizing printing with our Smart Print Shop. That makes the Smart Print Shop the backbone of our digital solutions. In the future, we'll therefore systematically continue digitizing processes with a firm focus on optimum performance no matter who is operating the equipment.

Basically speaking, there are two different models. As shown in the bottom-left corner of the slide, Heidelberg Transaction offers tailored individual solutions. The volume-based approach of Heidelberg Subscription, meanwhile, covers all aspects of production in the form of a production system.

I can promise you that Heidelberg is and will remain the industry's trendsetter and innovation leader.

Although we've decided not to participate in drupa 2021 due to the global pandemic, we'll be unveiling a whole host of product innovations focusing on packaging and commercial printing under the banner "Unfold your potential" at an Innovation Week taking place from October 19 through 23, 2020. Innovations will include autonomous printing, end-to-end solutions, the Smart Print Shop, and the next stage in our Push to Stop concept. The week-long event will be streamed live and will also include physical formats at the Wiesloch-Walldorf site.

Chart 12: The future markets of packaging and labels

Despite all the current problems and challenges, we're therefore looking to the future with a definite sense of confidence. After all, even in these difficult times, Heidelberg is operating successfully and is extremely well positioned in future markets. I'd like to briefly expand on this based on the next two charts.

Heidelberg analyzes data from some 5,000 connected presses worldwide to produce the Print Media Industry Climate Report and tell its customers about significant market developments so they can better respond to the crisis. You can see a highly simplified representation of this on the right-hand side of the slide.

Print shops on the packaging and label markets have so far remained very stable during the pandemic. Their impressive resistance to the crisis means they're continuing to grow compared with the previous year. Indeed, suppliers such as Heidelberg and their customers operating in the packaging and label sectors are regarded as key workers.

In many countries, commercial printing has naturally been harder hit by the reluctance to invest resulting from the lockdown, because it depends to a large extent on advertising expenditure. However, this market, too, is picking up again on a regional basis. Once the situation has returned to normal, we're expecting print volumes to become stable again.

Developments on the Chinese market give particular cause for hope. The demand for print products is increasing in leaps and bounds as the Covid-19 situation improves there, although this won't immediately trigger investments in new presses.

Chart 13: The growth market of China

On the subject of China, we're now seeing what a good idea it was to set up a local production facility near Shanghai to serve this region back in 2005. The photo on the slide shows the entrance.

Heidelberg employs some 850 sales, service, and production staff in China, which makes us highly competitive. We have a market share of over 50 percent in our industry's biggest growth market. To realize growth opportunities in Asia in the future, too, the site's workforce is to be expanded to over 1,000.

The product portfolio manufactured in China is continually being adapted and expanded based on the requirements of the Asian market, above all the key packaging market.

Despite setbacks caused by Covid-19, incoming orders in the Asia/Pacific region increased by almost 4 percent to over € 680 million in the last financial year, primarily due to orders from China.

Chart 14: The growth market of packaging

The Covid-19 crisis has made the packaging market all the more essential to key industries such as the food and healthcare sectors.

It has also continued to change consumer behavior. During the lockdown, most of us increasingly ordered goods online and also cooked meals at home due to works canteens and restaurants being closed. The logical consequence of this was that – unlike large industrial packaging – household packaging for food items such as pasta, not to mention other consumables, has been in particularly high demand during the pandemic.

Our packaging customers had to adapt their production of household packaging to this increased demand to prevent supply bottlenecks and empty supermarket shelves.

Heidelberg is already the number one supplier for packaging printers. In financial year 2019/2020, this segment accounted for half of our sheetfed offset press sales. The number of printing units we sell on the packaging market alone is equivalent to the total number of units sold in all segments by our main competitor.

We're also entering into long-term partnerships with strong allies. MK Masterwork, for example, provides highly attractive essential postpress equipment that complements our packaging printing portfolio.

Chart 15: Expansion of contract business

As I mentioned earlier, Heidelberg has been in the throes of digital transformation for the past three years. We're well on the way to becoming a digital, software-based company, and the current crisis underlines the necessity to make even more rapid progress now. Our contract business is a cornerstone of our future success.

We know our customers have very different needs. We meet these requirements by offering four different packages that give them coordinated products and services from a single source. The slide shows these packages in the form of a staircase. In the last financial year, they provided additional options for operating more flexibly, especially during the crisis.

Customers can choose between Smart and Plus configuration options for both our pay-per-use models – monthly output-based billing and price per sheet. Smart, as the name suggests, is the smart basic configuration, while Plus enables our customers to select specific add-on modules – from the Prinect integrated printing and media workflow to consulting and training – much in the same way they would when buying a car. The equipment itself is also included at the top of the staircase.

These contract models help us forge long-term business relationships by tailoring our portfolio to specific customer needs. The aim is to stabilize sales by steadily increasing the share of contract business. This reduces successive risks resulting from the typically volatile investment behavior of customers in the mechanical engineering sector.

Chart 16: Next steps and goals

That brings me to my closing remarks.

Looking to the future, it's not a case of size and growth at any price for Heidelberg, but more a question of focusing on profitability. That will give us a good basis for using our realignment to benefit when the markets recover.

Our goals are clear, as are the priorities for the coming months. Our realignment is enabling Heidelberg to weather the storm, safeguarding liquidity, strengthening shareholder's equity, streamlining our organization and structures, and consistently improving our profitability.

We'll also be working hard to bring about the necessary change of culture at the company. The ultimate goal is to systematically transform Heidelberg into a flexible, modern mid-sized company with flat hierarchies and enterprising business activities at all levels.

The measures are painful, but they were overdue in some cases and are essential in our current situation. We'll work our way through our action program step by step in financial year 2020/2021. That's also the central theme running through our latest Annual Report.

Heidelberg is addressing the right issues and is doing so resolutely, leaving no stone unturned. Based on our strong core business, we're placing the company on a sustainably profitable footing, which will give us a bright future. We're going about our business steadfastly and prudently – and will focus on successfully making money again. We are and will remain the industry's technology leader. And as a full-service provider, we are and will remain a strong partner supporting our customers.

Thank you for your time and your confidence in our company. My colleague Marcus Wassenberg and I will do everything in our power to justify this confidence in the future so that Heidelberg will ultimately give us all something to smile about again.

We'll now be answering the questions you've submitted, so I'll hand you back to our AGM chairman Dr. Sonnenschein.

Important note:

This declaration contains forward-looking statements based on assumptions and estimates made by the management of Heidelberger Druckmaschinen Aktiengesellschaft. Although management believes that these assumptions and estimates are reasonable, many factors could cause actual future developments and results to differ materially from these assumptions and estimates. These factors may include, for example, changes in macroeconomic conditions, exchange rates and interest rates, as well as changes within the graphic arts industry. Heidelberger Druckmaschinen Aktiengesellschaft does not warrant or assume any liability that future developments and actual future results will be consistent with the assumptions and estimates expressed in this press release.