Annual Report
2017/2018

HEIDELBERG Annual Report 2017/2018

Label printing.

The art of giving
brands and products
a face.

#simply smart

HEIDELBERG

Good Prospects:

Study Reveals Label Printing Trends up to 2022

According to the Finat Digital Label Study, inkjet printing is growing faster than toner-based systems

May 2018

76 percent of the 2,000 digital label printing machines installed in Europe are toner-based, 24 percent are inkjet-based or hybrid systems. This is one of the findings of the 2017 Finat Digital Label Study, which analyzed the digital printing market. The study reveals that, lthough the majority of the 000 machines are still based toner, the trend up to 2022 is this market to grow more vly than the market for et printers – and thus to lose market share. In contrast, growth of 14.5 percent per year is predicted for the European inkjet market.

Overall, according to the study, digital label printing has a 9.7 percent share in Europe, greater than the share in the global market. The 2017 Finat Digital Label Study, which examined the role of digital printing in Europe in detail, was conducted by Jennifer Dochstader and David Walsh

brought on by digital printing and a forecast of market development up to 2022. The initial results were presented at the European Label Forum (ELF), which the association hosts once a year.

Finat, based in The Hague, is the international association of manufacturers and processors in the label industry. The nization

Rainer Hundsdörfer
Chairman of the Management Board

Dear Readers,

Last year we got started on „Heidelberg goes digital".
The strategic milestones have been set and we are working successful on the digital future of our Industry.
The focus is on maximum efficiency and productivity using intelligent systems and autonomous processes as we asked ourselves the question: What are our customers really looking for?

„Just" a printing press to print premium products, or a high-performing, reliable overall system that helps them to focus on their own customers – such as brand-name manufacturers – in order to be able to put a label on their products, thus giving them a unique identity.

One example of this is our Heidelberg label collection. It demonstrates the art of using the packaging to give a face to brands and products.

On the following pages, you can discover the different faces of this (digital) art.

Kind Regards


Rainer Hundsdör
The art o
brands a
a face.
Goo
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According
inkjet prin
76 percent
label printin
led in Europ
24 percent ar
hybrid systems
the findings of
Digital Label St
lyzed the dig
market. The study
lthough the maj
000 machines ar
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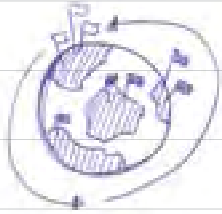
this market to
vly than the m
et printers – and th


HEIDELBERG
Heidelberg Assistant
Print Shop.
Shopping.
Support.
Administration
PRINTDATA_(4c)_2018-05-28.indd

LABELS ARE A PART OF PACKAGING!

AROUND 11,600 EMPLOYEES WORLDWIDE



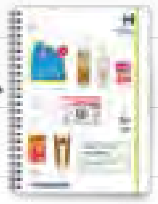
250 LOCATIONS IN 170 COUNTRIES

The annual global print volume is around

400 BILLION EUROS

25 % of all printed materials are **packaging** – the fastest-growing market segment with an average growth rate of 3 %.

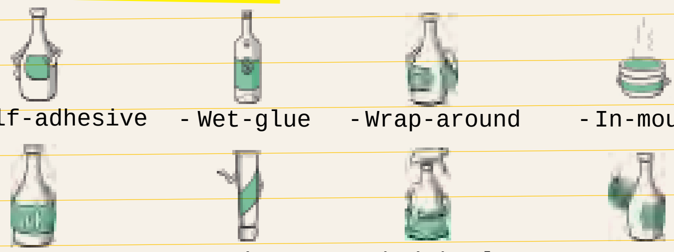
Although the **label market** only accounts for around 5 % of the total print volume, it also has the **greatest growth potential** within the industry.



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.**

We categorize labels based on their usage:

Variety of decorations thanks to different APPLICATIONS: *)

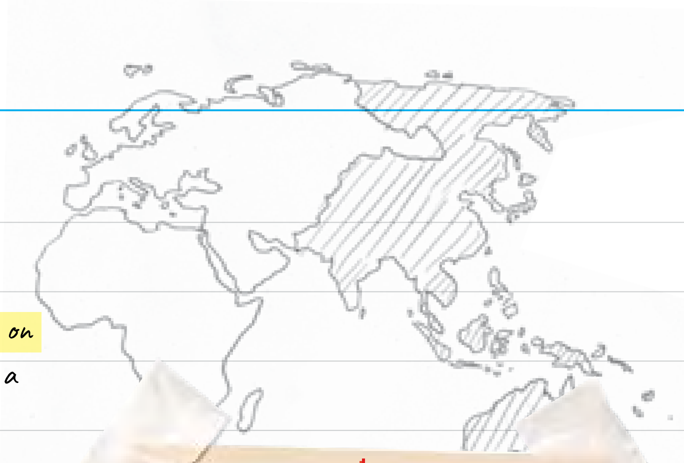


- Self-adhesive
- Wet-glue
- Wrap-around
- In-mould
- Monofoils
- Laminates
- Shrink-sleeve
- Peel-off
- ...

*) The use of new, innovative materials is becoming increasingly important in terms of making a label stand out from the crowd

Innovative product decorations for a wide range of MARKET SEGMENTS:

- Food
- Drink
- Personal hygiene
- Pharmaceutical
- Industry
- Household



The high level of demand for labels with unusual finishes and just-in-time delivery requires a new approach to production. Developed for maximum productivity and efficiency, our "end-to-end system" allows our customers to focus entirely on their own customers and on giving their products a label with a unique identity.

perform all kinds of

- *Marketing:* Target group-oriented advertising for the product, positioning vs. competitor products on the shelves
- *Information:* Legal information on ingredients, best-before date, manufacturer details
- *Logistical function:* Product tracking for retail
- *Security function:* Protection against confusion and theft
- *Technical function:* Sealing, resealing, light protection

WOW

Asia is now the world's fastest-growing label market.

Between now and 2019, the Asian label market is expected to grow by 5.5 %, while the forecast growth rate for self-adhesive labels is even higher at 6.3 %.

PRINTING PROCESS for label printing:

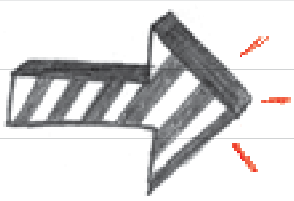
- Flexo
- Offset
- Digital inkjet!
- Rotary screen printing
- Rotogravure

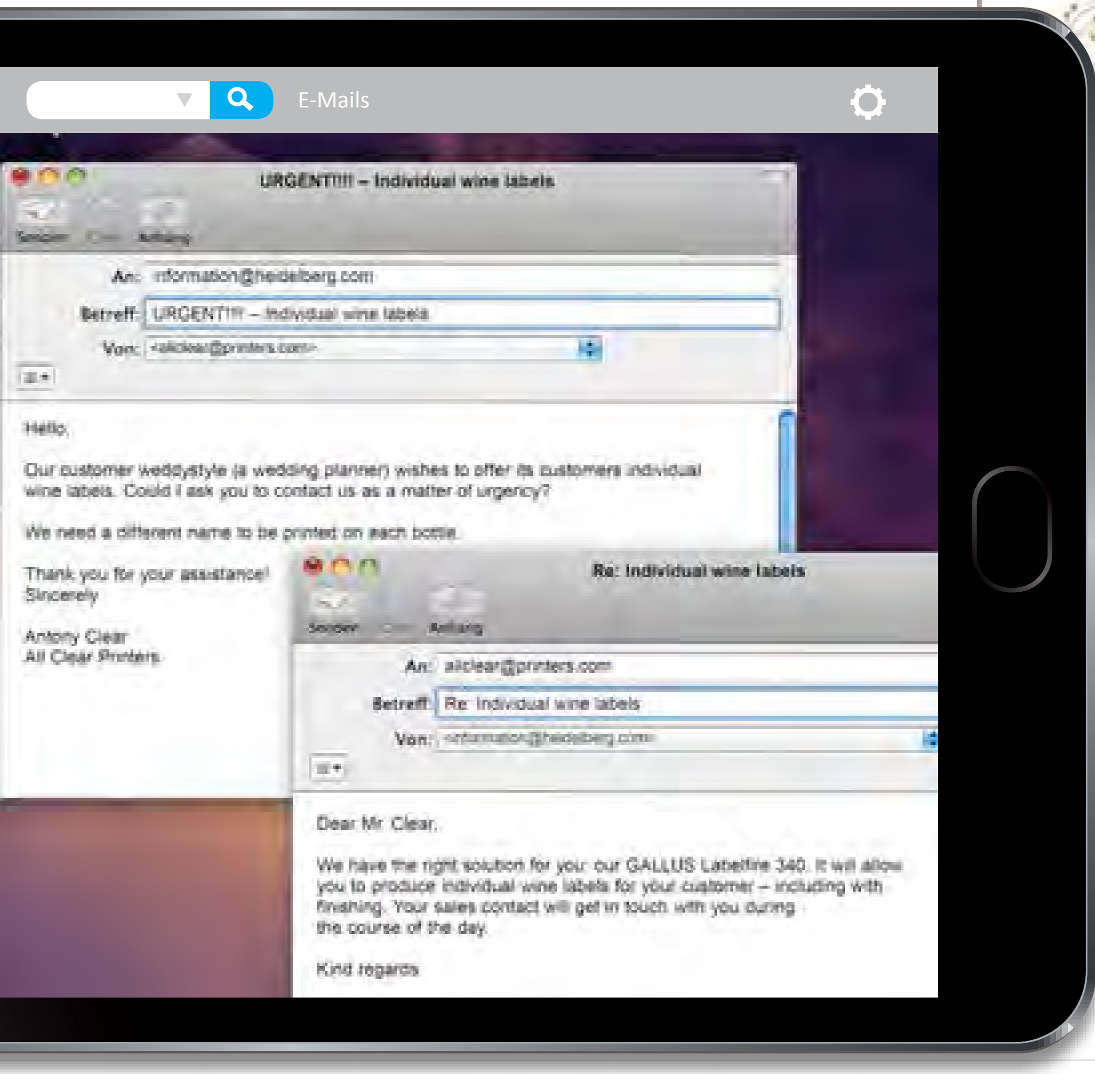
gallus *)

The Gallus Labelfire 340 combines the latest digital printing technology with the benefits of conventional printing and processing technology and is setting new standards in label printing.

*) Gallus is part of the Heidelberg Group

You can find out more about this and the other topics on the following pages!
Happy reading and discovering!





The labels for the wine bottles should be equally classy, but INDIVIDUAL! And in a small print run.

Our Solution

ADHESIVE

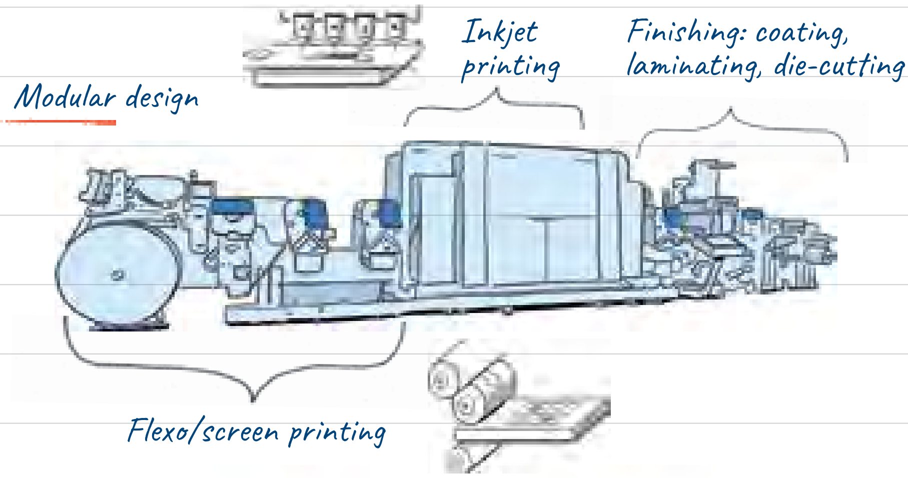
SELF (EXPLANATORY)

INDIVIDUAL

– The self-adhesive label –

When people talk about labels, they often mean self-adhesive labels. Self-adhesive material was launched in the 1940s and has established itself as a classic in the field of product decoration. The combination of label and backing materials means the design options are countless, and they can now be customized, too. The Gallus Labelmaster makes it easy to design self-adhesive labels on demand – making it the ideal choice for producing personalized or limited-edition labels, including with special finishes, while maintaining a good price-performance ratio.

"It's the first digital printing press I've seen that can do exactly what I want it to do," says Thomas Dahbura, President of Hub Labels. "It integrates all of the necessary steps, from the roller to the finished label – whether digital or flexo printing, cold-foil printing or die-cutting – in a single pass." A real all-rounder, in other words.



The US-based company Hub Labels uses the Labelfire in highly competitive markets where labels need to look good, such as the rapidly growing craft beer segment or for specialty products like olive oil.

WOW

Wraparound*
Shrink-sleeve*
360°
And customized, too. How about a unicorn drink for the little ones?

* These belong to the monofoil label family. Find out more under "A different kind of connection"

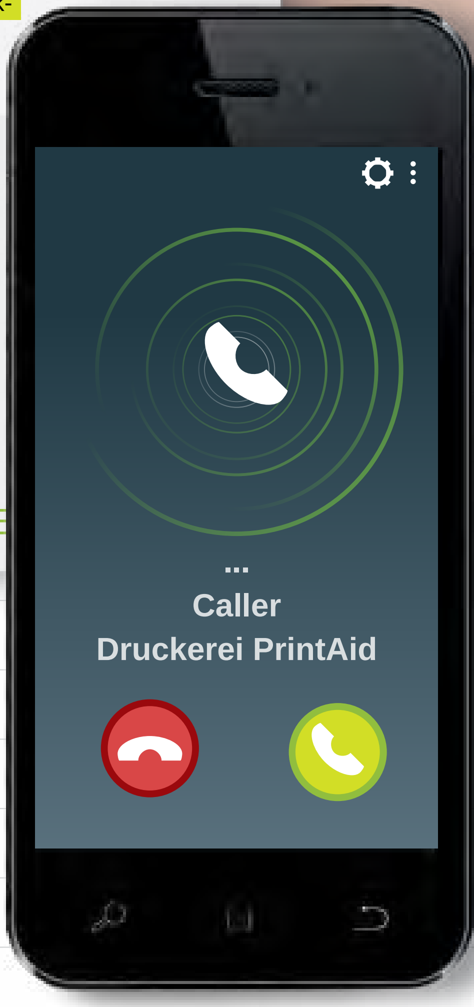
PRINT
AID

PRINT AND MEDIA

Dear Mr. Pomoznik,

A major pharmaceutical manufacturer was shown the Primefire at our print shop for a small run. Our customer was impressed and now wants us to produce its entire new over-the-counter (OTC) product range, DETOXlife. Security is an extremely important factor for the customer. As such, we require label solutions that enable Braille writing 1) on plastic substrates in the familiar Heidelberg quality. We would also like labels for small vitamin shots that show whether the cold chain 2) has been interrupted. Last but not least, we need to package a Detox Rescue vitamin tablet in blister packaging 5) that complies with the corporate identity.

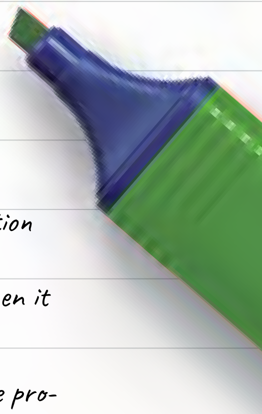
Sincerely



Even tablet blister packaging – or more precisely, printing on aluminum foil – is no problem.

5)

First AID Labels



– Security labels –

The packaging of pharmaceutical products is enjoying above-average growth within the packaging market. Thanks to the growing share of non-prescription OTC (over-the-counter) products, vitamin compounds and food supplements, product decoration, i.e. the label, is also becoming increasingly important when it comes to pharmaceutical packaging.

Requirements in terms of preventing confusion and counterfeit products, the production conditions determined by the relevant guidelines, Braille writing, cold chain reliability: all of this requires corresponding production conditions and tools. Our end-to-end system meets these requirements optimally with machinery, consumables and services.

1)

Braille writing? Not a problem, thanks to SCREENY! Rotary screen printing units are integrated into the GALLUS printing presses – making them ideally suited for achieving a high degree of coverage, precise detail and color intensity. Screen printing also enables tactile printing like Braille for the blind. Coordinated printing systems, e.g. with screen printing, flexo printing and hot-foil stamping combined with various processing phases, serve to ensure reliable and economical label production.

This means it is easy for us to print a SECURITY LABEL for food or medicine that clearly shows whether the cold chain has been interrupted.

WOW

2)

"Smart labels" show whether the oxygen content of a foodstuff or medicine is optimal. Or whether it has been refrigerated continuously. The color of the label changes accordingly.

DRUCKEREI
SCHÖN UND WIDER

Our customer sent us this letter – do you have a solution ???

COSMETICA
the brand

COSMETICA – the brand

Druckerei
Schön und Wider
FAO Ms. Jasmina Schön
and Mr. Hubertus Wider

Re: Launch of HEI-UV Protect

Ladies and gentlemen,

We need a tubular laminate with gold foil for the launch of our exclusive sun cream HEI-UV-Protect Luxury.

Sincerely

Lorena Solei

Lorena Solei
COSMETICA – THE BRAND
MARKETING AND COMMUNICATIONS

COSMETICS

Beautiful, stylish, glossy

When it comes to cosmetics, everything has to be just right. Including the packaging and labels – which also need to shine in the true sense of the word!

1) *You will be familiar with these pouches from the supermarket*

A colleague from GALLUS should contact the print shop as a matter of urgency and send over multiple samples of metallic doming labels. And he should offer the option of printing high-quality subjects as samples, e.g. for magazines.

SIMPLY

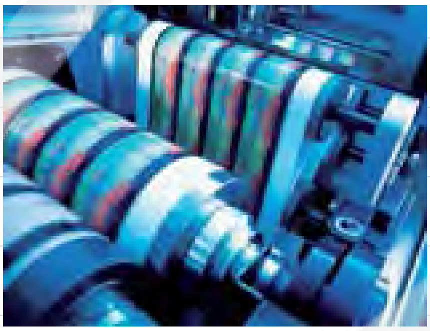
Toobular elegance

– The tubular laminate –

When function and decoration need to be combined, the answer is often a laminate, also known as a composite material. Cosmetic products like toothpaste, shampoos and creams, and foodstuffs like tomato purée and juices are often packaged in tubular laminates or pouches [1]. For certain products, such as sun cream for example, long-life packaging and the demands of the environment in which it is used are important factors – meaning stringent technical requirements in terms of choosing the right substrate and the printing and finishing process. Additionally, the material costs are comparatively high for all laminates, making it important to reduce the level of wastage in processing.

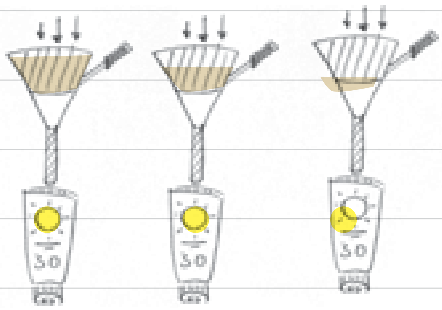
And then there is always the question of design. A tubular laminate with metallic doming? A gold-colored pouch? Customers with demands like these have come to the right place – the Gallus RCS 430 makes it all possible! For small and large runs alike.

Anything else? Whatever the request, we combine modern materials like no-label look substrates [2] with a wide range of finishes, e.g. screen printing, cold-foil printing or metallic effects. For true beauty. Inside and out.



WOW

... and what happens once the tubular laminates and pouches have been printed?



[2] *Transparent labels, also known as no-label look labels: Highly transparent labels for cosmetics, pharmaceuticals, food and drink*

Transparent foil with label overprint

E-Mails

LM

To: information@heidelberg.com
Re: Urgent – labels for exhaust gas treatment product
From: Labelmania

Hello,

Our customer is launching an exhaust gas treatment product for diesel engines in canister form for global retail. In addition to the large self-adhesive label, the customer needs an option for affixing the detailed ingredients in accordance with ISO 222 41 for the ultra-pure NOx reducing agent for compliance with the EURO 4, 5 and 6 emissions standards in a total of 20 languages. The solution must be space-efficient and also something that the consumer can retain, as a coupon collection campaign is being launched for market research purposes.

Do you have any ideas for how to produce a small booklet with this extensive content quickly and simply?

Regards
Dieter Diesel
Labelmania – The print shop for the automotive industry

Inbox

Dear Mr. Diesel,

We have the perfect solution for you. The content of the booklet can be printed using your SFO machine, with the large peel-off sticker printed using our Gallus Labelmaster with multi-web features. We will be happy to provide you with a detailed offer.

Sincerely

How it works:

Most engine manufacturers have opted for SCR catalytic converters in order to reduce emissions of nitrogen oxide (NOx) and particulates and comply with the statutory requirements - which is where exhaust gas treatment products come in.

WOW

"No space"? No such thing!

Product information in multiple languages?

Information required by law?

Instructions for use?

No problem: it can all fit into a booklet. For any product. In any shape. And always with the right design.

Shapes

Booklets are available in every conceivable shape and size.

Control system

100 % defect-free for pharma

THE SMALLEST BOOK WITH THE BIGGEST CONTENT TO STICK ON

– The label booklet –

Packaging is getting smaller and smaller – but the volume of information is only getting bigger. What to do when it is no longer possible to fit everything onto a "conventional" label? Gutenberg himself would have been proud of the solution: a label booklet, i.e. a label consisting of a single-layer, folded "leaflet". It can be attached directly to the product using a base label.

Label booklets are available in every conceivable shape and size. They make consumers curious about the product and offer decorative space for important product information, promotions and competitions.

This makes them the ideal solution for food, pharmaceutical and industrial products, as they allow a lot of information to be provided in the smallest possible amount of space – e.g. for labeling liquids and ingredients. The legal requirements for packaging are complied with, and the labels meet all of the technical demands in terms of temperature stability and scratch resistance.

WOW

The engine compartment of a motor vehicle is a demanding place when it comes to labeling solutions. Labels used here must be able to stand up to rapid and extreme changes in temperature, different chemicals and UV exposure throughout their lifetime. Warnings must be clearly legible even after 15 years.

INFO

Leporello booklet

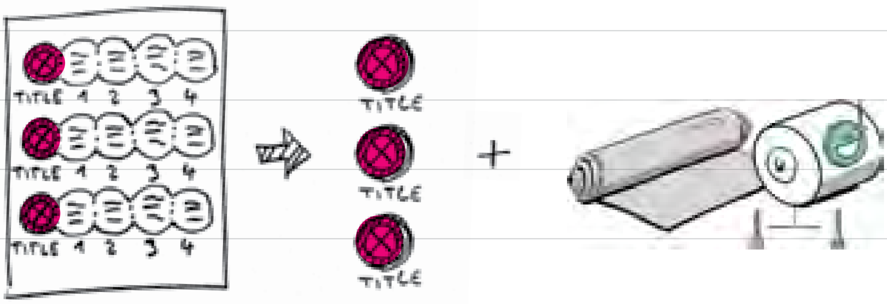
multi-page with laminate.

Booklet labels are also known as

- Twin labels
- Leaflet labels
- Text labels

They can be customized, e.g. for a competition. And different materials are used depending on the product and whether they need to be particularly temperature-resistant or suitable for food.

Production steps



Printed sheet SFO with die-cutter

Die-cut and folded

Gallus peel-off sticker


THE NEWSPAPER
Summer in April:
Warmer than ever before – record heat is on the way!
Temperatures set to rise to over 26 degrees – with even more sunshine to come.
#2
HEIDELBERG
Dear Mr. Label,
Thank you for your inquiry.
Our predictive monitoring has already shown us that your printing presses are operating at a high load, and your order in our online shop in the past week was unusually large. As such, we have already compiled an offer for your new utilization.
You can find this in Annex 2.
Best regards from Heidelberg
Heidelberg E-Shop:
The best shopping experience
Your one-stop shop
14.06.2018 8:30
Label Print GmbH&Co.KG
P. 01/01
VERY URGENT
Ladies and gentlemen,
Our customer Eiskalt needs twice as many in-mold labels to meet demand in the record heat that is expected this summer. We heard about Effizienzplus at the Label Days. (XL 106 with LED UV and rotary die-cutter XL 106-DD)
Sincerely
HORST LABEL
Head of Production
#1
AUTO ANSWER
MESSAGE
ABC
DEF
1
2
3
REDIAL/
PAUSE
GHI
JKL
MNO
4
5
6
R(FLASH)
STOP
COPY
PQRS
TUV
WXYZ
MUTE

A different KIND OF Connection

– The In-Mold Label –

WOW

The monofoil label family, which includes IML, has enjoyed strong growth since around the end of the 1990s. The new "family members" include:

Wrap-around labels

In-mold labels

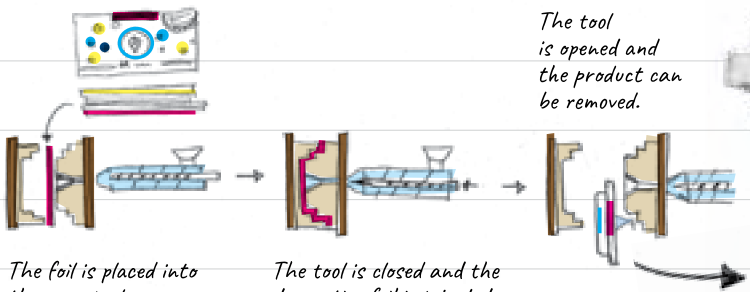
Roll-on shrink-on labels

Shrink-sleeve labels

Stretch-sleeve labels

The name speaks for itself: A printed label is placed into a mold that is shaped like an ice cream carton, for instance. The synthetic material polypropylene is then injected in molten form. It melds with the label and hardens in the mold, and the printed carton is complete!

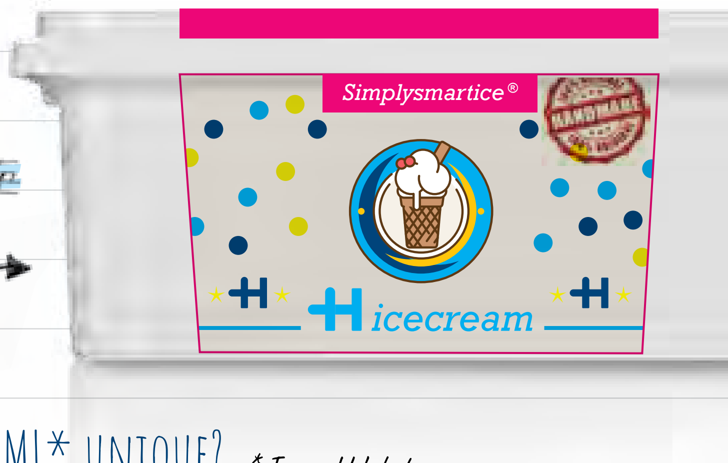
Our rotary die-cutter XL 106 DD in combination with an XL 106 with LED UV helps to ensure that the product reaches the consumer even more quickly. It cuts everything into the perfect shape in the shortest possible time. Set-up takes just 15 minutes, the machine works far more quickly than any of its predecessors – and the tooling costs are significantly lower.



The foil is placed into the open tool.

The tool is closed and the decorative foil is injected. Then everything is left to cool.

The tool is opened and the product can be removed.



What makes the IML* unique?

** In-mold label*

Shape: The entire packaging is labeled using a single label.

Time saving: The entire labeling process takes just one step.

Print quality: The label is produced using top-quality offset printing.

Flexibility: A combination of different materials, colors and coatings? No problem!

Environmental protection: Label and packaging are fully recyclable.

That's why IML is becoming more popular:
On average, the global market for IML is growing by around 4.3%. More than two-thirds of global production is required for food packaging.

WOW

What colors mean around the world

Some colors are perceived differently in the oriental countries than in Europe:

Green stands for prosperity and a better life.

Brown communicates safety and security.

Blue is seen as a positive color in almost all parts of the world. In the oriental countries, doors and windows are often painted blue to attract the attention of good spirits and gods.

Orange is the color of freedom in the Netherlands. It represents the highest level of enlightenment in Buddhism and is the color of the Caribbean, samba and joyous encounters.

Dear Heidelbergers,

#1

Our customer from the food industry wants to launch a high-quality olive oil.

The label should present the various flavors on open uncoated paper. With no distortions – one bottle must be identical to the next. Even across different batches. Can you make it happen?

All the best

Ulivo Caprese

Dear Mr. Ulivo Caprese,

#2

You have come to the right place! Distorted printing? Inaccurate color registration? Not with the "Automatic Paper Stretch Compensation" (APSC) software. It calculates paper distortion before printing and compensates automatically. The result: fewer plates, quicker set-up, less waste. And our APSC software serves as a component for

> Industry 4.0
> Push-to-stop
> Zero-defect packaging

We also have a very special offer for you: our new subscription model. The idea: In this digital business model, customers only pay for the number of printed sheets – and no longer for every printing press, consumables and services. Interested? We will be happy to provide you with a specific offer.

Kind regards
Anton Passer

Anton Passer

Our Solution

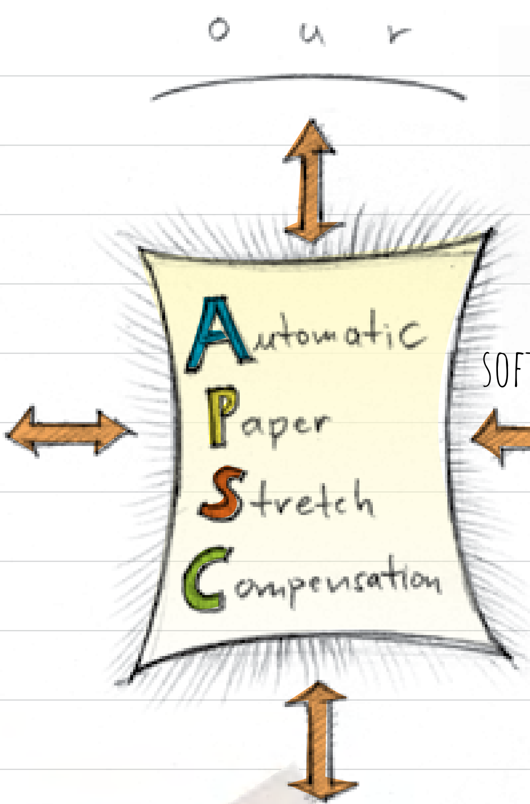
All of the labels look the same, wherever they are on the printed sheet.

Poor color registration due to paper stretching

Points on the plate after compensation

Good color registration on the printed sheet after compensation

NO NEED TO COME unglued



SOFTWARE FOR THE PERFECT

– WET-GLUE LABEL –

Looking to label a lot of products in a short space of time? In markets with large print runs, like mineral water, spirits, beer and wine, wet-glue is the dominant label type. The wines and spirits segments in particular, as well as lifestyle products, find themselves confronted with increasingly demanding requirements in terms of finishing.

Wet-glue may not sound like high-tech, but it is. And it has to be, as the labels serve multiple purposes when it comes to food in particular: Firstly, they need to comply with all of the relevant provisions of food law. Secondly, the material must meet the requirements for factors such as frost resistance. And thirdly, the labels have to look good and simply invite the consumer to enjoy the product inside.

WOW

Wet-glue labels are used almost exclusively for labeling glass bottles. As the name suggests, they are applied using wet glue.

The first impression counts!

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

And if the label is anything but perfect, customers simply won't pick up the product.

They all look the same.

At the top left of the printed sheet *In the middle* *At the bottom right*

The labels look completely different.

At the top left of the printed sheet *In the middle* *At the bottom right*

Two-year overview – Heidelberg Group

Figures in € millions	2016/2017	**2017/2018**
Incoming orders	2,593	2,588
Net sales	2,524	2,420
EBITDA [1]	179	172
in percent of sales	7.1	7.1
Result of operating activities excluding restructuring result [2]	108	103
Net result after taxes	36	14
in percent of sales	1.4	0.6
Research and development costs	119	121
Investments	105	142
Equity	340	341
Net debt [3]	252	236
Free cash flow	24	– 8
Earnings per share in €	0.14	0.05
Number of employees at financial year-end [4]	11,511	11,563

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

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

This refinancing is another sign of the bank's confidence in our strategic roadmap to a digital future. At the same time, we are able to further reduce interest costs by optimizing the financial framework.

1
2
3

!!!!!! ????? !!!!!! ????? !!!!!!

Heidelberg Annual Report 2017/2018 Label printing

HEIDELBERG LABELING

HEIDELBERG Annual Report 2017/2018

Label printing.
The art of giving brands and products a face.

Contents

lovable LABELS MADE BY HEIDELBERG

GALLUS LABELFIRE 340

GALLUS LABELMASTER

Contents

Letter from the Management Board

Ladies and gentlemen,

We made great progress in transforming Heidelberg into a digital company last year. As an end-to-end system provider of printing presses, consumables, software, consulting and services, we are actively shaping and pioneering digitalization in our industry. The strategic focus is on the requirements of our customers and the endeavor to generate value added in terms of efficiency, profitability and success in a dynamically changing world. We have brought together the necessary strategic pillars in the three core areas of technology leadership, digital transformation and operational excellence.

We are consolidating our technology leadership by consistently digitalizing and integrating products to create a smart print shop. The connectivity of our systems and the opportunity to process performance data from our equipment in real time and upload it to the Heidelberg cloud gives rise to new capabilities, especially the development of performance benchmarks, process monitoring and the projection of service conditions and the consumption of printing materials. The overall process optimization achieved with our powerful equipment and software and data-processing expertise means that our systems are now able to print autonomously. In addition, we have rapidly expanded our digital printing press portfolio. The demand is extremely gratifying. For example, we are fully booked for the next two years with regard to digital packaging printing presses.

We view our current expertise in data, intelligent autonomous printing presses, software and services as a basis for new, use-based payment models. With the launch of subscription models for the entire printing press lifecycle at the end of 2017, we successfully passed another milestone in Heidelberg's digital transformation. We are the only provider in our industry that offers its customers a full range of printing presses, services, consumables, consulting and software in an all-in contract. Under this model, the customer no longer pays for individual components on a one-off basis, but rather for the result, i.e. the printed sheet. The new business format guarantees constant revenue streams over the entire usage period. Data-based improvements to the capacity and productivity of this system provide significant growth potential for our customers, and therefore for us. We also want to grow in the field of e-commerce. At the end of 2017, we launched a center of competence for digital marketing and e-commerce with the Internet specialist iQ!, with which we intend to virtually triple sales via this channel over the next few years.

In addition, our profitability is to be increased by operational excellence at all levels. This comprises a large number of measures to leverage efficiency and cost-cutting potential. The optimization of our logistics and production site and space consolidation, the standardization of printing press platforms, and the establishment of a new, leaner and more agile management organization are particularly notable.

Heidelberg is on course to follow up its words with the corresponding actions. In reporting year 2017 / 2018, we achieved the specified targets with consolidated sales of around € 2.4 billion and an EBITDA margin of

Prof. Dr. Ulrich Hermann

Dirk Kaliebe

Stephan Plenz

Rainer Hundsdörfer

7.1 percent. Incoming orders were again on a par with the high level of the previous year. The foundation for the financing of our strategic realignment "Heidelberg goes digital!" is secured for the long term by the early refinancing of the syndicated credit facility and the further optimization of the capital structure. For the new financial year, we expect a moderate rise in the sales volume while the margin situation remains stable. However, the bulk of the growth potential defined by our digital agenda will not be realized until later years. We are accordingly confident in our medium-term targets. These envisage consolidated sales of around € 3 billion and earnings after taxes of more than € 100 million by 2022.

We would be delighted if you, dear shareholders, would remain loyal to us on this promising journey. The digital transformation continues to pick up speed.

Our thanks go to our employees for enabling the strategic enhancement pursued by Heidelberg in the first place with their tremendous commitment and loyalty. We would also like to thank our customers, suppliers and other business partners for their close and trusting cooperation.

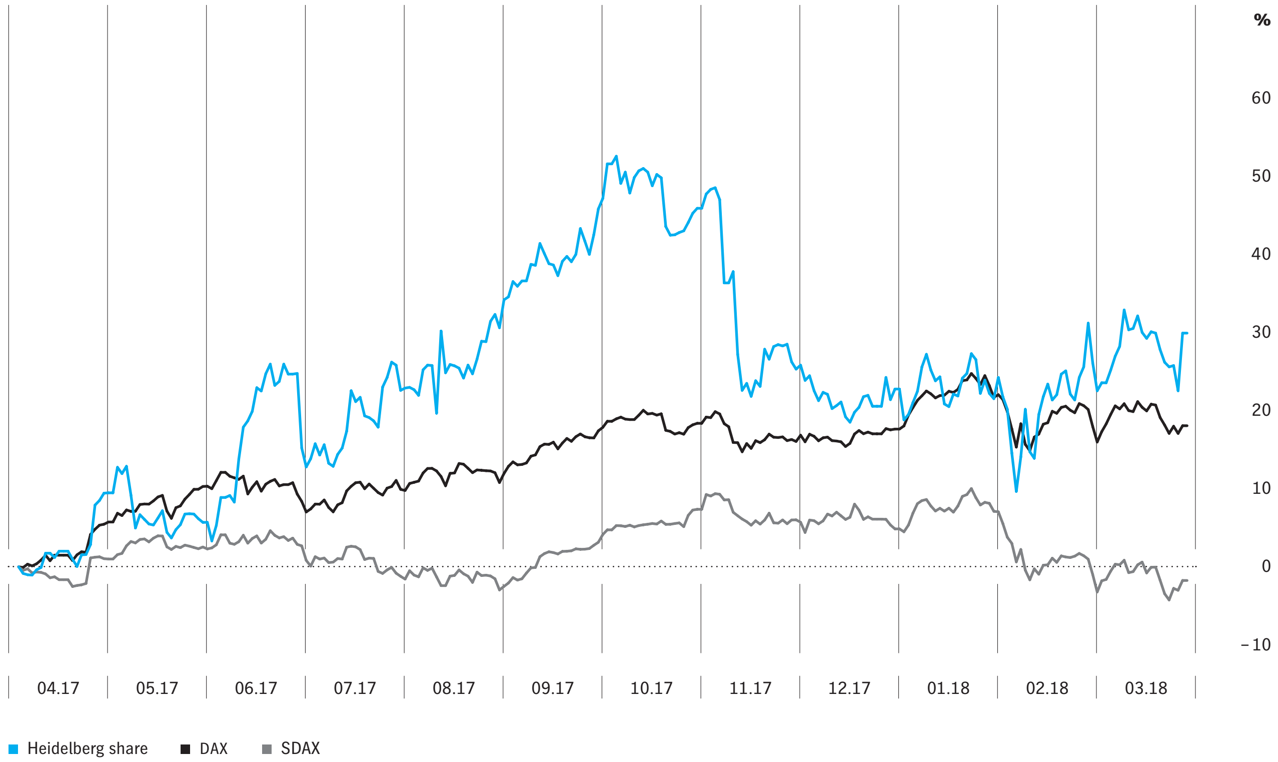
Sincerely,

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

Heidelberg on the Capital Markets

Performance of the Heidelberg share

Compared to the DAX (Index: April 1, 2017 = 0 percent)



The Heidelberg share and the Heidelberg bonds

- Heidelberg share outperforms both DAX and SDAX with a price increase of around 30 percent
- Heidelberg bonds were traded almost continuously at over 100 percent

The Heidelberg share performed well in the 2017/2018 reporting year, with significant price gains in the first half of the year in particular. The price declined temporarily in the second half of the year, but recovered again towards the end of the year under review. The price of the Heidelberg share began the financial year at € 2.32, climbed tangibly until the beginning of May 2017, and then rallied again when the new corporate strategy was presented. The solid figures for the first quarter of the 2018 financial year caused the share price to continue to rise sharply to its highest level for the year of € 3.58 on October 4. Virtually all mechanical engineering companies experienced profit-taking in mid-October. This triggered a significant decline in prices, with the share falling to € 2.78 by mid-December. It tracked sideways at around € 2.90 in the weeks that followed. In early February, the price of the Heidelberg share fell again prior to the publication of the figures for the third quarter, at times reaching a low of € 2.57. The price of Heidelberg's stock then continued to recover, trading at € 3.04 on March 29, 2018, corresponding to a price increase of around 30 percent compared to the beginning of the financial year. The Heidelberg share clearly outperformed the DAX, which fell by approximately two percent in the financial year 2017/2018. The rise in the price of the Heidelberg share was also significantly higher than the performance of the SDAX, which rose by more than 18 percent in the 2017/2018 reporting year.

Bondholders in the 2013 Heidelberg convertible bond converted around 95 percent of their units (€ 60 million) into Heidelberg shares as of June 30, 2017. This reflects the capital market's renewed confidence in the future of Heidelberg and confirms our "Heidelberg goes digital!" strategy.

The development of Heidelberger Druckmaschinen's 2015 convertible bond mirrored that of the share. Thus, the bond also rose sharply in the first half of the financial year 2017/2018, reaching its high for the year of more than 130 percent on October 4. Like the Heidelberg share, the convertible bond also lost ground in November and settled at around 120 percent by the end of March.

By contrast, the performance of Heidelberg's 2015 corporate bond was much less volatile. It traded in excess of 100 percent throughout the financial year 2017/2018 and approached the redemption rate of 104 percent as the first call drew close.

Multiple corrections on German DAX benchmark index

The German DAX benchmark index began the financial year 2017/2018 at around 12,250 points in April 2017. After an initially strong start, the DAX came under pressure as a result of geopolitical uncertainty, such as the North Korea conflict and the unpredictability of US President Trump's new course. It was also held back by the growing strength of the euro. The German benchmark index rose again at the start of September, achieving a high for the year of 13,479 points in November. The price increase was mainly driven by the good economic situation in Germany and low interest rates. In particular, the ECB's decision to keep the key interest rate at 0 percent and to halve future bond purchases while also extending its purchases to September 2018 gave the rally on the DAX a further boost. At the same time, the decision slowed the euro's appreciation against the dollar. There was a renewed price correction at the beginning of the 2018 calendar year, with the result that at times the DAX dipped below the key line of 12,000 points. Ultimately, the DAX was at 12,097 points as of March 31, and therefore down by around 2 percent compared to the beginning 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 financial analysts and rating agencies. Two more banks began covering the Heidelberg share in the reporting year. We are therefore now regularly rated by fourteen financial analysts.

The analysts' conference in June 2017 was held in Frankfurt/Main this year. It was also the first accounts press conference for the new Chief Executive Officer Rainer Hundsdörfer, who succeeded Dr. Gerold Linzbach. The new "Heidelberg goes digital!" corporate strategy was presented, and the Management Board set out a package of measures focusing on technology leadership, digital transformation and operational excellence.

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

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

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

Investors can also contact the Investor Relations team by telephone at any time on +49-62 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 2017 approves all agenda items by significant majority

On July 27, 2017, around 1,600 shareholders attended our Annual General Meeting for the 2016/2017 financial year, which was held at the Rosengarten Congress Center in Mannheim. This meant that around 30 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, 2016 to March 31, 2017). In his address, Rainer Hundsdörfer, the Company’s Chief Executive Officer, presented Heidelberg’s future orientation – “Heidelberg goes digital!” – with a strategic focus for the coming years on technology leadershp, digital transformation and operational excellence. The Company’s shareholders then voted on six of the seven agenda items, including the election of Oliver Jung to the Supervisory Board. All these agenda items were approved by a significant majority.

Shareholder structure: Free float at around 91 percent

The proportion of shares in Heidelberger Druckmaschinen Aktiengesellschaft in free float on March 31, 2018 was around 91 percent of the share capital of 278,735,476 shares. Ferd. Rüesch AG has held 9.02 percent of the shares since summer 2014. Further shareholders holding more than 3 percent of Heidelberg shares are Universal-Investment-Gesellschaft mit beschränkter Haftung (3.13 percent) and Dimensional Holdings Inc. (3.01 percent).

Credit ratings as of March 31, 2018

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

Key performance data of the Heidelberg share

Figures in € ISIN: DE 0007314007	2016/2017	**2017/2018**
Basic earnings per share [1]	0.14	0.05
Cash flow per share	0.41	0.37
High	2.68	3.58
Low	1.87	2.31
Price at beginning of financial year [2]	1.98	2.32
Price at end of financial year [2]	2.34	3.04
Market capitalization – financial year-end in € millions	602	847
Number of shares outstanding in thousands (reporting date)	257,438	278,735

Key performance data of the Heidelberg 2015 corporate bond

Figures in percent RegS ISIN: DE 000A14J7A9	2016/2017	**2017/2018**
Nominal volume in € millions	205.4	205.4
High	108.6	109.6
Low	99.5	104.4
Price at beginning of financial year [3]	99.5	108.3
Price at end of financial year [3]	108.4	104.4

Key performance data of the Heidelberg 2015 convertible bond

Figures in percent ISIN: DE 000A14KEZ4	2016/2017	**2017/2018**
Nominal volume in € millions	58.6	58.6
High	110.4	130.7
Low	92.9	104.5
Price at beginning of financial year [3]	94.6	104.5
Price at end of financial year [3]	104.5	119.2

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

Management Report 2017/2018

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THE ART OF LABEL from HEIDELBERG

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HEIDELBERG LABEL PRINT

HEIDELBERG LABEL PRINT

HEIDELBERG Annual Report 2017/2018

Label printing.
The art of giving brands and products a face.

Group Management Report 2017/2018

1

2

3

From HEIDELBERG with love

From HEIDELBERG with love

From HEIDELBERG with love

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From HEIDELBERG with love

From HEIDELBERG with love

HEIDELBERG

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HEIDELBERG SPEEDMASTER XL 106

HEIDELBERG ROTARY DIE-CUTTER XL 106-DD

BASIC INFORMATION ON THE GROUP

Business Model of the Group

Company profile

Heidelberger Druckmaschinen Aktiengesellschaft has been a reliable and highly innovative partner to the global printing industry for many years. For more than 160 years we have stood for quality and future viability. This means that we are a company with a long tradition, but at the same time we help define the future trends in our industry thanks to state-of-the-art technologies and innovative business ideas.

Our mission is to shape the digital future of our industry. We are aiming to develop Heidelberg into an end-to-end digital system for industrial value added, assisting print shops in their own digital transformation.

But with everything that is new, the proven 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 our customers and us. What we do – which is unique on the market – is to create a smart end-to-end system from a data-supported configuration of all equipment, consisting of machinery, software, service and consumables. We, too, share in the benefits this entails. With new digital business models, our interests are aligned with those of the customer. It is in our own interest to ensure that the customer succeeds.

Beyond the printing industry, we are also addressing new markets with our digital platform for industrial customers. For example, we have successfully joined the e-mobility market with our expertise in power electronics.

With a market share of more than 40 percent for sheetfed offset presses, we were able to consolidate our position as the printing industry's market and technology leader in the current financial year as well. Consolidated sales amounted to around € 2.4 billion in the 2017/2018 financial year.

Together with our sales partners, around 11,600 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 supports print shop performance
- 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 260,000 different service parts. We have around 130,000 service parts permanently in stock, meaning that, on a daily basis, we can fulfill 98 percent of incoming orders when they are received and dispatch the respective parts to any destination worldwide within 24 hours. We also use the network to supply customers with our consumables. The performance promise of our integrated logistics network supports our customers' performance around the world and ensures high machine availability and reliable quality.

Through strategic partnerships with logistics providers, we are constantly optimizing our logistics network.

The digitization of the entire print media industry is allowing most print shops to tap further efficiency potential. The innovative services offered by Heidelberg in the "Technical Services" and "Performance Services" categories also make an important contribution to this. For example, on the basis of 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.

Heidelberg production network: Focus on greater efficiency

The Heidelberg production network covers seven countries spread across three continents. This constitutes a global 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 latest Labelfire, Omnifire and Primefire digital printing systems are assembled at the Wiesloch-Walldorf production site.

The Ludwigsburg production site manufactures individual parts and modules, and builds postpress machinery. 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 increased by around 24 percent. The primary production site for label printing systems is St. Gallen (Gallus) in Switzerland. The production areas of the St. Gallen, Langgöns and Ludwigsburg sites will be integrated into the network moving ahead, thereby further consolidating the production network. The US, the UK, Belgium, the Netherlands and Germany are home to our experts for specialty coatings and pressroom chemicals, while our specialist for business and automation software is also located in Belgium.

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.

Heidelberg is continuing the development of its production system with high intensity in order to realize enduring efficiency enhancements in the future as well. The next step of the reorganization of the production system is now to involve the administrative areas even more. Efficient process and project management are the main areas of the ongoing development in the lean administration environment.

A milestone was reached in the optimization of the assembly processes at the Wiesloch-Walldorf production site at the end of 2017. The completion of the moMo (modular assembly) project was the final step towards flexible, efficient and therefore more cost-effective assembly. The activities of this project combined with the production system tools have resulted in a substantial concentration of the required assembly space while at the same time boosting flexibility.

In addition to the ongoing programs and optimization activities, an efficiency project affecting all divisions was launched at the start of the financial year 2016/2017 to further sustainably reduce manufacturing and process costs. The concept, with its special project workshops and the associated bundling of synergies from various functional areas, was new at Heidelberg. Product development, procurement, manufacturing, assembly, sales, service and controlling are just some of the most important functions. 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 eight-figure range. The measures already implemented as of the end of the financial year 2017/2018 have so far led to consistent savings in the high seven figures.

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. 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 850 employees in China, some 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. Two branches in Beijing and Hong Kong and three offices in Guangzhou, Shanghai and Shenzhen 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 was reflected in an export volume to other countries (Asia, Europe and the Americas) of some 11 percent of the total production volume.

Markets and customers

- The market for printed products is transforming
- Heidelberg is increasingly focusing on providing end-to-end solutions over the entire life cycle of a press – data deliver value added
- The print production volume is growing: Heidelberg has the right solution

The market for printed products is transforming

The worldwide print production volume has been at more than € 400 billion annually for years. A figure of € 427 billion is expected for 2022. Within this market, however, there are CHANGES with interesting growth opportunities. While print volumes are continuing to grow overall in the emerging economies, print service providers in the industrialized nations are facing a highly dynamic and rapidly changing market environment. The increasing substitution of printed products and business stationery by the Internet and the impact of demographic change on the buying and reading habits of the population is leading to a decline in sales. This is partially being compensated by the increase in the finishing of printed products, above all in cosmetics and customization, as they raise the value of individual printed products. This applies in particular to the market – which is growing overall – of packaging and label printing.

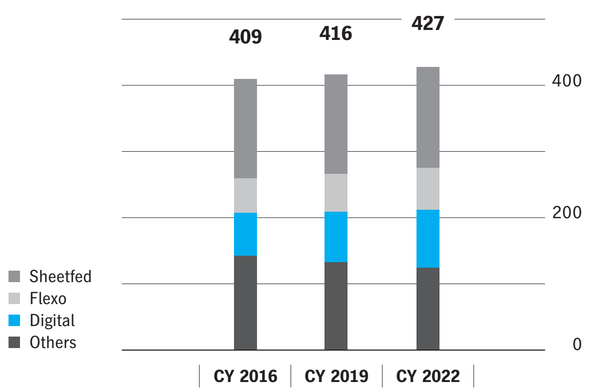
There are also technological changes. Two-thirds of the print volume is created using sheetfed offset, flexographic and digital printing processes, and the trend is rising. SHEETFED OFFSET PRINTING accounts for around 40 percent of the printing volume, and is still the most frequently used printing technology. DIGITAL PRINTING has steadily increased its share of the global printing volume to around 15 percent since 2000, and the trend towards customization means that it will continue to gain in importance, particularly in industrial applications. FLEXO PRINTING, an important technology on the packaging market, continues to benefit from the stable and significant growth in packaging and labels, and holds a share of around 13 percent of global print volumes.

Across all areas of the printing industry, industrialization and digitization are driving structural change. While there used to be a balanced relationship between the three success factors of price or productivity benefits, print quality and customer proximity, these factors have changed over time and have favored the consolidation process in the printing industry. Productivity benefits can today be

Growing packaging and label printing markets

Figures in € billions

WHICH PRINTING METHOD?



WHAT IS PRINTED?

25 % packaging printing
is growing fastest at 3 %.

5 % label printing
has the greatest growth potential.

50 % commercial printing
is developing stably.

20 % others

achieved through the use of software and a higher level of automation. This increases capacity utilization and, ultimately, the overall effectiveness of the system. In addition, print quality has become less dependent on the operator and more on the system, and the high level of investment in state-of-the-art equipment leaves less and less potential for differentiation. Finally, the Internet has replaced customer proximity with globally transportable data. This goes hand in hand with increasing price competition, which in turn raises the pressure on productivity. Around the world, we are therefore seeing the global growth of ever-larger, usually international print media and packaging groups, coupled with a decline in small, more artisanal, but also medium-sized companies in particular. Shorter production times, workflow automation and the regular review and fine-tuning of cost efficiency are increasingly a part of day-to-day life for printing operations. In addition to the scaling of company sizes, a requirement for developing capacity utilization and productivity potential is the bundling of printing capacity and, above all, digitization, i. e. software-controlled process optimization. Thus, data analysis and interpretation are becoming more and more important – to us and to our customers – to be able to network the use of autonomous and interactive processes. For example, work steps can be spared by using optimized software-aided processes. This shortens production times, reduces susceptibility to errors and leads to lower production costs overall. Fully integrated systems make the production process predictable, and real-time data collection enables a continuous improvement process. This development is increasingly resulting in business innovations and new business models among our customers, which are repositioning themselves in various forms: moving away from being pure play copiers and towards being innovative and consulting service providers, or by also taking on upstream and downstream aspects of the value chain. For example, on the key market for packaging, a customer often not only prints folding boxes, but also handles card production and recycling, which gives that customer a competitive edge, particularly for food packaging, as it is in control of the quality of raw materials and can rule out potential migration problems. To allow their services to stand out, print shops must therefore invest heavily in their own increasingly digital customer relationships. Digital marketing, an Internet presence and the digitization of ordering for print customers are increasingly becoming crucial success factors.

Heidelberg is increasingly focusing on providing end-to-end solutions over the entire life cycle of a press – data deliver value added

Our mission is therefore to assist print shops in their digital transformation. So that our customers can concentrate on their business innovations or new business models in the future, we are increasingly using high levels of automation (such as with our push-to-stop philosophy) and the networking of a print shop to create a smart print shop. Since the end of 2017, we have also been offering “subscription models” (see “Strategy”), which are end-to-end solutions over the entire life cycle of a press, and are thus focusing even more on the digital future. The use of software will not just be the key to growth for the printing industry, but for Heidelberg as a leading provider of capital goods for the print media industry it will be the key to its transformation into a new digital business model that shares equally in the industrialization of its customers. A milestone on this path of digital transformation was the launch of the Heidelberg Assistant, a digitization solution that redefines the foundations of the customer-supplier relationship. We began to use the data at our disposal before others, in particular to optimize our service offerings and operations for customers. The Heidelberg Assistant provides our customers with data and information that enable them to smoothly manage their processes or the smart and efficient running of their print shop. For example, they receive a full overview of the service and maintenance status of their equipment, including data-based failure prediction. They can also access the industry’s biggest knowledge base so as to fully leverage the potential of their entire value chain. Furthermore, access to big data performance analysis offers potential for further productivity enhancement.

The print production volume is growing: Heidelberg has the right solution

Our new business models, such as our subscription plans, are based on our business area strategies for the packaging, commercial and label market segments. Here we are devising strategic approaches to create sustainable solutions, like the "smart print shop", for our customers. We are also strategically well positioned on our new markets outside the traditional printing industry.

Packaging market

In total, around 25 percent of all printed materials are packaging. At the same time, the packaging market is the fastest growing market segment with average growth of around 3 percent. Packaging is a key element in the marketing mix and brand communication. Three seconds. That's how long it takes a consumer in a supermarket to decide to buy something. International brand companies, which put a lot of money into advertising and product staging, have the highest standards of quality: If there is even a tiny flaw on a single folding box, all the pallets delivered are returned to the packaging supplier. So there can be no errors in production. Heidelberg has the solution in "ZERO DEFECT PACKAGING": The greater the degree of automation, the data workflow and the more integrated inspections, the closer the print shop gets to claiming zero defects. The digital tools needed for this are provided by the Prinect software. Using assistance systems such as Intellistart, firms can link up their printing presses and color measurement and inspection systems to form smart systems that share data across all production steps. This results in an intelligently networked production environment that automatically checks actual values against the defined targets for each process step and monitors production quality. Packaging printers operating and producing internationally are facing another challenge as well. Brand manufacturers are increasingly developing new packaging variants for each product, which is leading to greater product diversity and smaller print runs. We have something for that, too: Our Primefire digital printing press is the optimal solution for high-quality industrial packaging needed in small quantities and as quickly as possible. Even customized packaging is possible, which opens up new options for manufacturers of branded goods. Heidelberg's Primefire combines the best of both worlds: the flexibility and versatility of digital printing with the reliability and precision of offset printing. Based on market requirements, 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. Printed advertising is facing tough competition from digital options. But it offers crucial advantages within the marketing mix: It attracts a lot of attention, because the "scroll speed" is significantly slower, and it is more credible and perfectly suited for advertising high-quality products and conveying emotional messages. This market segment is also undergoing change: Online print shops especially are reporting high growth rates. 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, collective printing – where several print jobs are put on the same sheet and produced jointly – and fully integrated production from ordering to dispatch. Classic commercial printers are changing as well: While one variant of a supermarket advertising insert used to be printed per week, today there are several dozen due to the different offers available according to store size and the trend towards products from regional producers. Our answer to this is to increase productivity with our PUSH-TO-STOP philosophy. For example, for order sequences with the same parameters for stocks and color assignment, as happens for collective printing or signature changes, even completely autonomous printing is possible.

Label market

While the label market is one of the smallest markets with around 5 percent of the total print volume, it has the biggest growth opportunities in the printing industry on account of the high demand for exceptionally finished labels and just-in-time delivery. The digitally printed volume in label printing today accounts for around 32 percent, with this share growing at double-digit growth rates, in inkjet techniques in particular. Digital printing is therefore driving the change in this promising market segment. It is expected that almost every second press sold in this area will print digitally in the medium term. Heidelberg's answer for demand-driven digital printing is "Labelfire". By integrating conventional printing and finishing processes in addition to inline finishing, Labelfire allows label makers to print the finished label from a single file – using just a single printing press. There are virtually no manual touch points between the print file and the finished product. The result is less waste, lower costs, greater energy efficiency and shorter delivery times. For print shops that want to secure an extra competitive edge, the aspects of waste prevention and energy efficiency are not only cost-effective, but also benefit their life cycle assessment.

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 of this is our high-performance Wallbox for electric vehicles. The product is based on our comprehensive expertise in power electronics, and is already a proven success on the market with around 20,000 Wallboxes for electric cars from a premium manufacturer and more than 100,000 smart charging cables produced on behalf of a customer. But we are also using our smart factory as a global production partner for other sectors as well: By handling all aspects of industrialization and production, we give our industrial customers the necessary freedom to focus on their core competence. Our industrial design, our foundry and end-to-end manufacturing – from prototype to small series and high volume serial solutions – are all at our customers' disposal, as are our expertise in bespoke control and power electronics and our assembly capabilities, from components and mechatronic equipment and presses to entire systems. The Heidelberg Digital Platforms segment offers companies outside the classic printing industry digital process support in product life cycle management. The segment thus combines the expertise of a world market leader in mechanical engineering with state-of-the-art IT in an Industry 4.0 setting. For this purpose, we have acquired docufy GmbH, based in Bamberg, Germany, a manufacturer of professional software solutions for technical documentation and the first provider of multilevel documentation. We therefore also have TopicPilot, a mobile publishing platform, at our disposal to round off our smart factory in terms of data mobility.

Management and control

Heidelberger Druckmaschinen Aktiengesellschaft is a stock corporation under German law with a dual management structure consisting of the Management Board and the Supervisory Board. The Management Board has four members: Rainer Hundsdörfer (Chief Executive Officer), Dirk Kaliebe (Chief Financial Officer and Head of Heidelberg Financial Services), Stephan Plenz (Head of Heidelberg Digital Technology) and Prof. Dr. Ulrich Hermann (Head of Heidelberg Digital Business and Services). The organizational chart (below) shows the allocation of the business units (BUs) to the Management Board divisions and the segments and the allocation of functional responsibilities within the Management Board as of March 31, 2018. Rainer Hundsdörfer is responsible for the areas of Corporate

Development, Human Resources, Communications, Internal Audit and Quality Management. Rainer Hundsdörfer also has overall responsibility for Sales and Marketing, hence he is in charge of the Regional Markets and Service Organization. In his role as CFO, Dirk Kaliebe is also the head of the Heidelberg Financial Services segment and is responsible for the Customer Financing BU and the areas of Controlling, Accounting, Treasury, Taxes, IT, Investor Relations and Mergers and Acquisitions in addition to Legal, Patents and Compliance. Prof. Dr. Ulrich Hermann is the head of the Heidelberg Digital Business and Services segment and responsible for the Consumables, Digital Print, Remarketed Equipment, Digital Solutions and Service business units as well as Marketing. As the Management Board member responsible for the Digital Technology segment, Stephan Plenz is in charge of the Sheetfed, Label and Postpress business units. He is also in charge of the occupational health and safety, procurement, facility and environmental management, manufacturing and assembly, print media center, supply chain management and logistics and product development/safety functions. As part of the revision of our strategy, we adjusted our business structures and organization effective from April 1, 2018. Details of this can be found in the "Strategy" chapter on pages 18 to 21 of this report.

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

Organizational chart as of March 31, 2018

Rainer Hundsdörfer Chief Executive Officer	**Dirk Kaliebe** Chief Financial Officer and Head of Financial Services	**Prof. Dr. Ulrich Hermann** Member of the Board Head of Digital Business and Services	**Stephan Plenz** Member of the Board Head of Digital Technology
MARKETS			
¬ Regional Markets and Service Organization			
BUSINESS UNITS			
	¬ Financial Services	¬ Consumables ¬ Digital Print ¬ Digital Solutions ¬ Remarketed Equipment ¬ Service	¬ Label ¬ Postpress ¬ Sheetfed
FUNCTIONAL RESPONSIBILITIES			
¬ Chief Human Resources Officer ¬ Internal Audit ¬ Communications ¬ Quality Management ¬ Corporate Development	¬ Controlling ¬ Information Technology ¬ Investor Relations ¬ Mergers and Acquisitions ¬ Accounting and Reporting ¬ Legal, Patents and Compliance ¬ Taxes ¬ Treasury	¬ Marketing	¬ Occupational Health and Safety ¬ Procurement ¬ Facility and Environment Management ¬ Manufacturing and Assembly ¬ Print Media Center ¬ Product Development and Product Safety ¬ Supply Chain Management and Logistics

Segments and business units

In line with its internal reporting structure, the operating activities of the Heidelberg Group were divided into the following segments in the 2017/2018 financial year: Heidelberg Digital Technology, Heidelberg Digital Business and Services and Heidelberg Financial Services. These are also the reportable segments in accordance with IFRS. Within the segments, Heidelberg is divided into business units (BUs). Each business unit formulates plans for how best to leverage the potential offered by its respective 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 units. Finishing technologies for packaging and advertising are the responsibility of the Postpress business unit. The global provision of service capacity and service parts is coordinated by the Service business unit, which has around 3,000 service employees and a global logistics system for service parts. The Consumables BU 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 unit. The Digital Solutions BU generates growth potential by expanding software business.

Group corporate structure and organization

Heidelberger Druckmaschinen Aktiengesellschaft is the parent company of the Heidelberg Group. It carries out central management responsibilities for the entire Group, but is also operationally active in its own right. The overview below shows which of the companies were material subsidiaries as of March 31, 2018 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 144 to 147.

Overview of material subsidiaries included in the consolidated financial statements

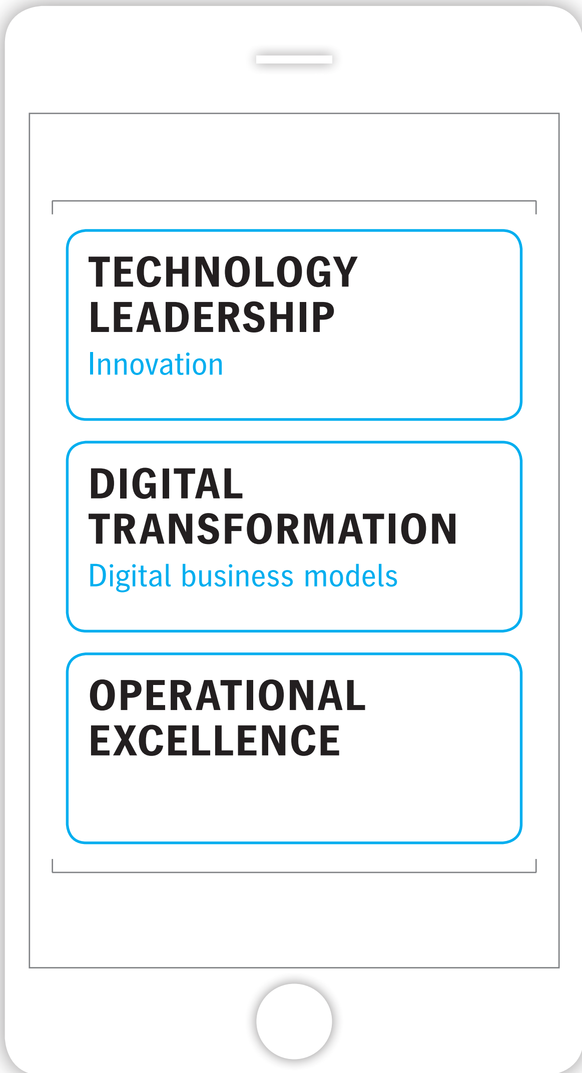
Gallus Druckmaschinen GmbH (D)	Heidelberg Graphic Equipment (Shanghai) Co. Ltd. (PRC)
Heidelberg Manufacturing Deutschland GmbH (D)	Heidelberg Graphic Equipment Ltd. – Heidelberg Australia – (AUS)
Heidelberg Postpress Deutschland GmbH (D)	Heidelberg Graphic Equipment Ltd. – Heidelberg UK – (GB)
Heidelberg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

Strategy

Profitable growth through systematic implementation of digital agenda

In the 2017/2018 reporting year, Heidelberg revealed and documented its path to sustainably profitable growth by publishing a digital agenda. The agenda is systematically built on the corporate strategy presented in the previous year with the slogan “Heidelberg goes digital!”. As an end-to-end system provider of printing presses, consumables, software and services, Heidelberg is actively shaping and pioneering digitization in the industry. The most important component on this path is the smart use of the data already available to Heidelberg through the digital connection and networking of customer equipment. The Company is focused on customer requirements and on generating value added in terms of efficiency, profitability and customer success. Heidelberg has encapsulated the strategic milestones in the three core areas of technology leadership, digital transformation and operational excellence, and it defined clear medium term goals for growth and profitability in the year under review.

Strategic agenda



Growth potential on our markets

Heidelberg has developed value-based business models for the areas of sheetfed offset equipment, digital printing, service and consumables (see also “Markets and customers”, pages 12 to 15) in order to efficiently tap growth potential. With a market share of more than 40 percent and a potential market volume of around € 2.4 billion, we are already the undisputed market leader in sheetfed offset printing. By contrast, Heidelberg’s share in digital printing – which has a market volume of around € 2.5 billion – is still less than 5 percent. Our market share in consumables (market volume of around € 8 billion per year) is only slightly higher at approximately 5 percent. Heidelberg anticipates major potential for expansion in both areas. This will be leveraged firstly by our positioning as the technology leader and secondly by offering new digital business models as a holistic solution in the life cycle of a printing press. With the acquisition of Fujifilm’s coatings and pressroom chemicals business for the EMEA region and of the software provider docufy, Heidelberg has already strengthened its position in key growth areas in the 2017/2018 financial year. The new framework for the syndicated credit facility that was agreed with a banking consortium in March 2018 will also allow the Company to shore up its intended growth with further strategic acquisitions moving ahead.

Growth through expansion of technology leadership

By expanding its technology leadership, Heidelberg anticipates additional sales potential of around € 200 million by 2022. To achieve this, we are developing, producing and marketing new technologies, new products and new business models. Around 5 percent of consolidated sales is channeled into research and development to expand our innovation leadership. With automation functions such as push-to-stop and the networking of printing presses, software, consumables and services to create a smart print shop, Heidelberg is a pioneer and digitization driver in offset printing. The networked presses serve as information providers (big data), which form the basis for digital business and therefore growth opportunities. The expansion of the software range is therefore one of the central pillars of our growth and digitization strategy. With our comprehensive Prinect production workflow, our management information systems for central operations management and the Heidelberg Assistant, which enables digital cooperation with the customer throughout the entire life cycle and assists in productivity enhancement with big data performance analysis, Heidelberg already has a digitization solution that redefines the foundations of the customer-supplier relationship. Heidelberg will further develop its software solutions towards creating a cloud-based subscription model.

We are the clear number one in industrial digital printing, and we will continue to expand this position. The series launch of the first Primefire 106 industrial digital packaging printing press took place as scheduled in early 2018. Demand is huge, and current production capacity is already fully booked for two years. For digitally printed packaging and labels as well, demand remains at a high level. We are forecasting annual growth of 4 percent in the global printing volume for self-adhesive labels, with only 6 percent printed digitally to date. As this share is growing at double-digit rates, we are excellently positioned with Gallus digital label printing presses (“Labelfire”).

Digital transformation – participating in customer performance enhancement with subscription models

The digital transformation is also focused on achieving the greatest possible efficiency and productivity by means of intelligent systems and autonomous processes, because we asked ourselves: “What are our customers really looking for? ‘Just’ a printing press to print premium products, or an entire powerful and reliable system that helps them concentrate on their own customers – such as brand manufacturers – to give their products a unique identity with its label?” The foundation for this is once again Heidelberg’s smart print shop, i. e. Heidelberg’s unique strategic positioning as an end-to-end system across the customer’s entire value chain and utilization phase. Heidelberg is the only provider in the industry that can offer its customers a full range of printing presses, services, consumables, consulting and software in an all-in contract. The customer’s value added comes from the data-based, optimal interaction of all coordinated individual components, as this leads to a substantial enhancement in overall system effectiveness. Put simply, we deliver results and not individual products. Under digital business models, the objective for our sales and marketing work is therefore not individual deals, but rather the long-term success of our customers – because this benefits both us and our customers.

Accordingly, unlike under transactional business models, under a subscription contract the customer no longer pays for the individual components, but rather for the use of the performance product, as measured by the number of printed sheets. This is a logical consequence when products are offered as services. The first customer signed up for such a pay-per-use model at the end of 2017; five printing presses were already under contract by the end of March 2018. The new business format guarantees constant revenue streams over a long period, independently of volatile new machinery business and instead with a direct link to rising global print production volumes. Under this model, the greatest growth potential for Heidelberg mainly arises from additional sales of consumables, on which print shops spend around € 8 billion per year. Over a five-year contract, the potential project sales can be increased by up to 70 percent compared to a one-time transaction. Thus, improved purchasing benefits and rising economies of scale can also lead to higher margins. The goal is to have at least 30 contracts by the end of 2019 and then, after a soft ramp-up, as many as 100 contracts the following year.

But we also want to create value added for customers that do not take part in the subscription model. Using data from printing presses we can build an automated e-shop, which means networking our smart product to create a "product system" and at the same time switching from purely product sales to a service business. The printing press therefore automatically reorders depleted consumables and automates its own resupply. With this new revenue model, we intend to create a digital platform for the printing industry because we know exactly what our customers need and can deliver everything via our platform. Naturally, being able to always know how a product is being used also shifts the focus of the customer relationship, because rather than a sale – usually a one-time transaction – the crucial factor is maximizing value for the customer over a longer period. This likewise gives rise to new requirements and opportunities for sales and marketing. Heidelberg has therefore launched the Heidelberg Digital Unit, a new center of competence for digital marketing and e-commerce, which should, among other things, virtually triple e-commerce sales to around € 300 million over the next few years. This will also be helped by our new digital customer interface, into which the Heidelberg e-shop has been integrated. To this end, the series launch of the "Heidelberg Assistant" took place in December, initially in Germany, the US, Canada and Switzerland. This enables us to serve customers digitally throughout the entire life cycle of their products. In total, Heidelberg expects these measures to generate an additional sales volume of at least € 250 million by 2022.

Sales potential from new high-tech industrial applications

Another key component of the digital transformation is the smart use of technologies that already exist within the Group for new business areas and product offerings. In this way, we intend to achieve additional sales of around € 50 million per year by 2022 – by offering new digital platforms that will establish IT solutions for design, production and services for all aspects of high-tech applications for industrial customers. In the Heidelberg Industry area, for instance, we have extensive expertise in control and power electronics for industrial and e-mobility applications, for example as a supplier of high-performance Wallboxes and smart charging cables for electric vehicles or as an entry-level product for consumers. Together with the Berlin tech start-up Big Rep, we have also developed an innovative large-format 3D printing solution that has been in series production since October 2017.

Operational excellence at all levels to increase productivity

However, Heidelberg's strategic development does not end with the generation of additional sales potential; it is also concentrating on leveraging efficiency and cost-cutting potential of € 50 million in total by no later than 2022. This comprises improvements in our logistics, the site and space consolidation and the standardization of printing press platforms. In order to adapt our corporate culture, and thus our management culture, to the challenges of modern, globalized and digital business, after determining our new strategic alignment, the Company's management structure was converted into a leaner, more efficient and more agile organization. The new management organization began at the start of the new financial year on April 1, 2018.

New organizational structure

The new organization is more customer-centric, which means it is intended to create value added for customers. It was designed according to holistic solutions for customers, rather than individual products. Our smart products require continuous coordination across segment boundaries, as the customer journey extends from product development to cloud operation and the improvement of services to after-sales customer contact. Administrative functions in the sales and marketing units have been centralized and globally aligned, at the same time reducing the number of levels. Moving ahead, the different customer segments will be addressed with their own strategies and offers, and with one central face to the customer for all Heidelberg products and services. The businesses bundled in the previous segments Heidelberg Digital Technology (HDT) and Digital Business & Services (HDB) are being restructured into the Heidelberg Digital Technology and Heidelberg Lifecycle Solutions segments. The Heidelberg Financial Services segment will continue to exist unchanged.

Heidelberg Digital Technology: Global product portfolio and supply chain management

The Heidelberg Digital Technology segment now comprises sheetfed offset business, label printing, print processing and digital printing. In addition to the responsibility this entails for the global product portfolio, including the strategic product roadmap, the core functions for the entire value process – i. e. research and development, procurement and production – are still located within this segment and given global mandates in their respective areas of responsibility.

Heidelberg Lifecycle Solutions: Value added over the entire life cycle

The Heidelberg Lifecycle Solutions segment bundles life cycle business (Service, Consumables), Software Solutions and Heidelberg Platforms (offerings outside the print media industry). We create value added for customers here by addressing our customers’ entire value chain with bespoke solutions and new business models.

The restructuring of the segments will affect both the organization and reporting of key performance indicators from April 1, 2018.

Focus still on medium-term targets

In line with planning, the incipient series start-up of digital products and the establishment of the installed printing press base for the subscription model will at first deliver only small contributions to sales and earnings, before rising to tangible and significant increases in the medium term. Overall, we expect these strategic pillars to generate additional sales potential of at least € 500 million by 2022. As a result, operating EBITDA is set to increase by approximately € 100 million. We therefore defined new medium-term targets for the next five years in 2017. Consolidated sales are to improve to around € 3 billion with EBITDA rising to between € 250 million and € 300 million. With our financial result continuing to improve at the same time, we are aiming to pass the threshold of € 100 million in post-tax earnings by 2022.

Key Performance Indicators

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

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

Most significant controlling performance indicators

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

Other financial and non-financial performance indicators

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

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

Reconciliation of EBITDA excluding restructuring result to net result after taxes

Figures in € millions	2016/2017	**2017/2018**
EBITDA excluding restructuring result	179	172
Depreciation and amortization excluding depreciation and amortization due to restructuring	71	68
EBIT excluding restructuring result	108	103
Restructuring result	– 18	– 16
Result of operating activities	90	87
Financial result	– 56	– 48
Net result before taxes	34	39
Taxes on income	– 2	26
Net result after taxes	36	14

Partnerships

- Partnerships and cooperations integrate expertise and accelerate developments
- Focus on digitization and industrialization in all projects
- Tapping new market potential

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 digital transformation in practically all projects. We combine our own innovative drive with that of our partners. This ensures the rapid integration of expertise and optimized resource management on both sides.

With the aim of establishing digital sales channels for Heidelberg sales organizations, at the start of 2018 Heidelberg launched the Heidelberg Digital Unit, its own center of competence for digital marketing and e-commerce. This will become the digital Internet service provider of our global sales organization. With the new unit we are placing Heidelberg's online content on an entirely new footing, including e-commerce, Web pages and the Group's Internet presence. For this purpose, Heidelberg was joined by a team from the Internet consulting company iq! specializing in the establishment of e-commerce business. iq!'s Internet specialists are thereby complementing our existing skillset in the fields of digital marketing and e-commerce.

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.

As part of the ongoing digitization and industrialization of our industry, we see digital business as one of Heidelberg's most important growth paths. This is not just about digital printing, but also the integration of offset and digital printing systems into a continuous workflow that transparently connects customers, service providers and suppliers. To expand our share of this market further, we are investing in new business applications and cooperating with innovative partners who are the leaders in their respective segment. We are aiming to be the preferred partner in the industry.

We have a successful cooperation with Fujifilm, Japan, in digital printing. Intensive field trials in the past financial year show that the jointly developed digital printing system is the right solution for packaging manufacturers to offer new business models for the personalization and customization of packaging. Above all, pronounced expertise on the packaging market, outstanding color and print quality, in conjunction with the service promise and the reliability of the Heidelberg brand are key decision-making factors that lead customers to choose the Primefire 106. There is therefore a high level of interest from many packaging manufacturers around the world in examining the potential applications of Primefire technology for forward-looking and innovative business models. As planned, series production started in 2018. 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 already begun series production at the Wiesloch-Walldorf production site of the digital label printing machine Gallus Labelfire, which was also developed in collaboration between Heidelberg, Fujifilm and Gallus.

Since the start of the partnership between Heidelberg and Ricoh in 2011, more than 1,000 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.

The strategic partnership between us and the Chinese Masterwork Machinery Co. (MK) in the field of further processing for packaging printing likewise continued to develop in the year under review. Since the start of the past financial year, Heidelberg has supplemented its range with three new products from its Chinese partner. The new Promatrix 106 FC die cutter with hot foil stamping, the new Promatrix 106 CSB with integrated blank separation and the new Diana Easy 115 folded box gluer together create a continuous workflow that shows how maximum process security can be achieved, and that fits seamlessly with Heidelberg's push-to-stop philosophy.

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 Software AG. Using big data analytics, we are now able to offer our customers new data-driven service products (smart services) to increase their competitive capability. With personalized access to the newly developed "Heidelberg Assistant" customer portal, customers can access important data and address their service requirements.

In 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 a major part of production logistics tasks there. As part of our industrial customer business, we supply our automotive customers with electrical components just-in-time via their shipping partners.

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

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

Research and Development

- Further advances in digitization – autonomous printing the backbone for new subscription model
- Launch of digital printing systems – Fire family expanded further
- Greater integration of digital and offset systems
- New innovation center on schedule

Strong customer orientation characterizes the culture of innovation at Heidelberg. The expectations and requirements of our customers are constantly rising and changing at an ever faster rate. Short reaction times, flexibility, agility 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, shaping and driving digital transformation and our digital road map, to ensure that our customers remain successful on the market moving ahead.

Focus on digital portfolio

In the period under review we continued to expand our digital offering to realize our growth objectives. 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.

Heidelberg has successfully developed the Primefire 106 to market readiness. The first units have been installed at customers, and the product was launched on schedule at the start of the year. 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.

We serve another field with the Gallus Labelfire 340. This product family allows our label printing customers to digitally produce small runs and individualized, high-quality labels industrially and economically.

We also presented a more advanced Versafire family in the year under review. In the Versafire EV (Electrophotography & Versatility), we offer a digital production system for both the entry-level target group and experienced digital printing providers, allowing them to further expand their digital business model through diversification and optimization.

Our Omnifire 1000 successfully went online at an automotive supplier for painting technology in October. There, Omnifire applies finishes to 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

Our Prinect workflow plays a key role. 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. Digitization in the print media industry is also affecting the machine 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 should 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.

Five-year overview: Research and development

	2013/2014	2014/2015	2015/2016	2016/2017	**2017/2018**
R&D costs in € millions	117	121	122	119	121
in percent of sales	4.8	5.2	4.9	4.7	5.0
R&D employees	977	933	888	891	911
Patent applications	77	94	76	75	81

Autonomous printing is the backbone of our digital subscription model

Heidelberg is further developing its push-to-stop approach with the help of digitization. With this approach to the printing process, we have initiated a paradigm shift in industrial print production using sheetfed offset printing presses. While to date processes have been actively planned, launched and handled by operators, in the future this will be done by the press itself. The process, which runs from order creation through to logistics, is largely autonomous. An operator only intervenes in the process when something is not running completely smoothly. With this highly automated industrial solution, consisting of machine operation and our Prinect connection, 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.

At the same time, the push-to-stop philosophy is the backbone of our new digital subscription offer. In many cases, the productivity promise made to subscription customers can be achieved or even surpassed by using push-to-stop.

Relocation of the new innovation center in Wiesloch-Walldorf already underway

Together with the Baden-Württemberg Minister for Science, Research and the Arts, Theresia Bauer, Heidelberg officially announced the launch of its new innovation 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, becoming home to around 1,000 workplaces.

The Company is setting benchmarks with its new innovation center, including as regards the architectural design in a former factory building. It will be the most significant center of excellence in the printing industry. The first employees and labs, such as component testing, have already moved into the new premises. The relocation from the previous research and development center in Heidelberg will be completed by the end of the 2018 calendar year. The official opening is planned for December 2018.

R & D in figures

Currently around 8 percent of our workforce is employed in the area of research and development. We invested around 5 percent of our sales in research and development in the year under review. Heidelberg submitted a total of 81 new patent applications in the 2017/2018 financial year (previous year: 75). This means that Heidelberg’s innovations and unique selling propositions are protected by around 3,240 active patents and patent applications worldwide.

ECONOMIC REPORT

Macroeconomic and Industry-Specific Conditions

Since the end of 2016, the global economy has been expanding fairly dynamically and is undergoing a strong upswing. In 2017, for example, gross domestic product achieved its highest growth rate since 2011 at 3.1 percent. Not only was growth in the advanced economies robust at 2.2 percent over the course of 2017, but the situation continued to brighten on the emerging markets as well.

The resilient rise in the euro zone has been ongoing for more than a year at 2.3 percent, and has since spread to all countries. This is even true of the Greek economy, which is now growing again after years of crisis.

The economy of the United States accelerated powerfully in 2017 and, at 2.3 percent, grew at a much faster rate than in previous years.

The Japanese economy has grown for eight quarters in succession, though the rate of growth slowed towards the end of 2017. The rise in gross domestic product in China was higher in 2017 than in the previous year at 6.9 percent. Production in other Asian emerging markets has continued to surge to date as well. Brazil's economy overcame its deep recession last year, but the recovery so far has shown little dynamism. Likewise in Russia, where the economy bottomed out in 2016, the economy has continued to expand albeit with little momentum.

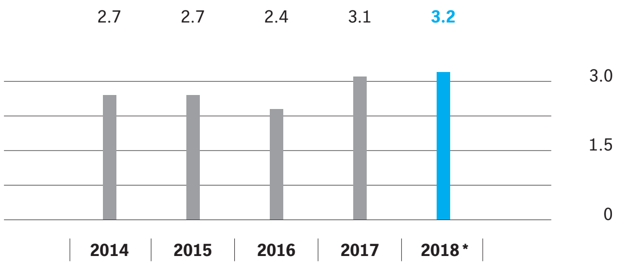
The German economy is experiencing a steady and broad-based upswing and, at 2.5 percent in 2017, had its strongest year of growth since 2011.

The global economic recovery also provided significant stimulus for demand for German mechanical engineering last year. According to the German Engineering Federation (VDMA), orders were up by 8 percent year-on-year in real terms for 2017 as a whole. Incoming orders from outside the country rose sharply by 10 percent. Domestic orders rose at a slower rate of 5 percent. In the printing and paper technology sector, orders for printing presses increased by 4 percent adjusted for inflation, while sales were up by as much as 9 percent.

Sources: IHS Global Insight 2017 and 2018; VDMA 2018

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:
2014: 2.9 %; 2015: 2.9 %; 2016: 2.5 %; 2017: 3.2 %; 2018: 3.4 %

Source: Global Insight (WMM); calendar year; as of April 2018

Development of EUR / USD

January 2009 to January 2018

Source: Global Insight

Development of EUR / JPY

January 2009 to January 2018

Source: Global Insight

Business Development

- Sales volume virtually on a par with previous year after adjusting for exchange rate effects
- EBITDA margin stable at 7.1 percent
- Result before taxes up moderately; net result after taxes down year-on-year at € 14 million due to US tax reform
- Leverage kept well below target of 2

Overall assessment of business development

Heidelberg advanced and implemented its “Heidelberg goes digital!” strategy in all areas in the financial year 2017/2018: Its business structure and organization were adapted to the challenges of digitization, new business models were implemented, acquisitions were carried out in growth areas and new products were successfully launched both within and outside the print media industry.

At € 2,420 million, sales virtually matched the previous year’s level in the financial year 2017/2018 after adjusting for exchange rate effects. Essentially as a result of significant negative currency effects of around € 72 million in total and the targeted reduction in remarketed equipment business of around € 34 million, reported sales were down by around 4 percent as against the previous year.

Operating profitability, measured as the EBITDA margin excluding the result of restructuring, was within the target corridor at 7.1 percent. The segments Heidelberg Digital Technology and Heidelberg Digital Business and Services were within their forecast EBITDA ranges of 5 to 7 percent and 8 to 10 percent respectively.

The pre-tax result increased to € 39 million in the reporting year (previous year: € 34 million). Driven by the US tax reform, the net result after taxes was negatively impacted by deferred tax expenses of some € 25 million reported by the US tax group. The non-cash write-down of deferred tax assets reflects the cut in the US federal corporate income tax. The net result after taxes was therefore € 14 million in the financial year 2017/2018 after € 36 million in the previous year. Adjusted for this effect, the net result after taxes would have risen moderately as forecast.

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

We continued to optimize our financing structure in the year under review. This has led to lower interest payments and an improved financial result. Our instruments and maturities are diversified and balanced.

Incoming orders on a par with previous year

At € 2,588 million, total incoming orders were stable year-on-year in the financial year 2017/2018 (previous year: € 2,593 million); adjusted for negative currency effects (of around € 81 million in total) they would have been up. Incoming orders in our key market China increased by more than 10 percent, while Germany and the US matched the previous year’s level.

Sales down on previous year essentially on account of exchange rates

Including significant negative currency translation effects of around € 72 million, sales amounted to € 2,420 million in the reporting year (previous year: € 2,524 million). Sales were also affected by the targeted reduction of remarketed equipment business. Adjusted for these effects totaling more than € 100 million, the sales volume was level with the previous year. Sales per employee (excluding trainees) were € 209 thousand in the reporting year after € 219 thousand in the previous year.

The order backlog was significantly higher than in the previous year (€ 497 million) at around € 604 million as of March 31, 2018.

Five-year overview: Business development

Figures in € millions	2013/2014	2014/2015	2015/2016	2016/2017	**2017/2018**
Incoming orders	2,436	2,434	2,492	2,593	2,588
Sales	2,434	2,334	2,512	2,524	2,420

Results of Operations

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

At € 172 million, EBITDA excluding the result of restructuring almost equaled the previous year's level (previous year: € 179 million). The EBITDA margin excluding the restructuring result was around 7.1 percent regarding sales and thus in line with the previous year's level as expected.

Income statement

Figures in € millions	2016/2017	**2017/2018**
Net sales	2,524	2,420
Change in inventories/other own work capitalized	32	87
Total operating performance	2,556	2,507
EBITDA excluding restructuring result	179	172
Result of operating activities excluding restructuring result	108	103
Restructuring result	– 18	– 16
Result of operating activities	90	87
Financial result	– 56	– 48
Net result before taxes	34	39
Taxes on income	– 2	26
Net result after taxes	36	14

Income statement: Moderate increase in result before taxes

As a result of the lower sales volume, the Group's total operating performance decreased from € 2,556 million in the previous year to € 2,507 million in the year under review. As in the previous year, the ratio of cost of materials to total operating performance was around 45 percent. At around 35 percent, the staff cost ratio was slightly higher than the previous year's level (approximately 33 percent) on account of the rise in pay rates and working hours in Germany and the first-time consolidation of the companies acquired in the financial year).

Other operating expenses and income were down year-on-year at a net amount of € 340 million (€ 371 million) in the year under review. The restructuring result fell slightly from € – 18 million in the previous year to € – 16 million in the year under review.

Following the almost complete conversion of a convertible bond in the reporting period, the financial result benefited from lower interest expenses and amounted to € – 48 million (previous year: € – 56 million).

Thanks to the improved restructuring and financial result, the net result before taxes improved to € 39 million (previous year: € 34 million). The result after taxes was € 14 million (previous year: € 36 million) owing to the mentioned effects of the US tax reform.

Five-year overview: Results of operations

Figures in € millions	2013/2014	2014/2015	2015/2016	2016/2017	**2017/2018**
Sales	2,434	2,334	2,512	2,524	2,420
Per capita sales[1] (in € thousands)	194	195	217	219	209
EBITDA excluding restructuring result[2]	143	188	189	179	172
in percent of sales	5.9	8.1	7.5	7.1	7.1
Result of operating activities excluding restructuring result	72	119	116	108	103
Restructuring result	– 10	– 99	– 21	– 18	– 16
Financial result	– 60	– 96	– 65	– 56	– 48
Net result after taxes	4	– 72	28	36	14
in percent of sales	0.1	– 3.1	1.1	1.4	0.6

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

Net Assets

- Asset and net working capital management optimized further
- Conversion of convertible bond reduces net financial debt
- Leverage below target of 2

We again reduced our capital commitment through systematic asset and net working capital management. Net financial debt was reduced further. This enabled additional investment in the digital sector and in our new innovation center at the Wiesloch-Walldorf production site.

Assets

Figures in € millions	31-Mar-2017	**31-Mar-2018**
Non-current assets	741	810
Inventories	581	622
Trade receivables	375	370
Receivables from sales financing	58	66
Current securities and cash and cash equivalents	218	202
Other assets	246	186
	2,219	**2,256**

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

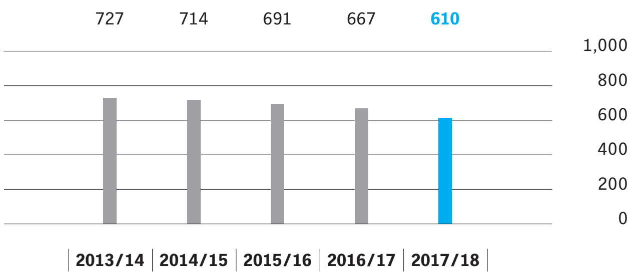
The total assets of the Heidelberg Group amounted to € 2,256 million as of March 31, 2018.

Non-current assets climbed in the year under review, essentially as a result of property additions and construction work for our new innovation center. 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

Figures in € millions



Inventories were up year-on-year at around € 622 million as of the end of the reporting period, essentially on account of the higher order backlog, the start of series production of industrial digital printing presses and a higher share of sheetfed offset presses in larger format ranges (previous year: € 581 million). Trade receivables amounted to € 370 million as of March 31 of the year under review (previous year: € 375 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. On account of direct financing granted, receivables from sales financing were higher than in the previous year as of March 31, 2018.

Equity and liabilities

Figures in € millions	31-Mar-2017	**31-Mar-2018**
Equity	340	341
Provisions	898	878
of which pension provisions	488	523
Financial liabilities	470	438
Trade payables	190	237
Other equity and liabilities	321	362
	2,219	**2,256**

Equity and liabilities: Leverage remains below target figure of 2

On the equity and liabilities side, the Heidelberg Group's equity matched the previous year's level at € 341 million as of March 31, 2018, and the equity ratio was therefore around 15 percent.

Pension provisions rose from € 488 million in the previous year to € 523 million as of March 31, 2018, essentially as a result of the lower interest rate for German pensions; provisions therefore fell to € 878 million in total.

As a result of the almost complete conversion of a convertible bond, net debt was reduced to € 236 million (March 31, 2017: € 252 million) and is therefore still at a low level. At 1.4, the ratio of net debt to EBITDA (leverage) was still significantly less than the target level of 2.

By the same stroke, financial liabilities declined to € 438 million after € 470 million as of March 31, 2017. Trade payables amounted to € 237 million as of March 31, 2018, up on the previous year's figure of € 190 million on account of the higher inventories.

Five-year overview: Net assets

Figures in € millions	2013/2014	2014/2015	2015/2016	2016/2017	**2017/2018**
Total assets	2,244	2,293	2,202	2,219	2,256
Total operating performance	2,419	2,356	2,520	2,556	2,507
Ratio of total assets to total operating performance (in percent)	92.8	97.3	87.4	86.8	90.0
Net working capital	727	714	691	667	610
in percent of sales [1]	29.9	30.6	27.5	26.4	25.2
Equity	359	183	287	340	341
in percent of total equity and liabilities	16.0	8.0	13.0	15.3	15.1
Net debt [2]	238	256	281	252	236
Leverage [3]	1.7	1.4	1.5	1.4	1.4

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

Financial Position

- Financing sources and maturities diversified and balanced
- Interest costs reduced
- Stable liquidity framework, long-term security

We continued to optimize our financing structure in the year under review, and extended the existing syndicated credit facility with our banking consortium at better terms as of the end of the financial year. The sources of financing and the maturities of instruments are appropriately diversified.

Statement of cash flows: Clearly positive cash flow

Cash flow was clearly positive and on a par with the previous year's level at € 104 million. Other operating changes resulted in a net cash outflow of € – 16 million. Thus, the balance of cash flow and other operating changes was positive at € 88 million (previous year: € 139 million). Cash used in investing activities was € – 95 million in the year under review. In particular, we invested in digital projects, corporate acquisitions and our new innovation center at the Wiesloch-Walldorf production site in the past financial year.

In total, free cash flow was therefore slightly negative in the year under review at € – 8 million.

Financing structure: Further optimization of financing sources and maturities

The pillars of our financing portfolio – capital market instruments (corporate bond and convertible bonds), the syndicated credit line plus other instruments and promotional loans – are well balanced. Net debt of € 236 million is financed by our basic funding in the long term until 2023 and beyond.

Five-year overview: Financial position

Figures in € millions	2013/2014	2014/2015	2015/2016	2016/2017	**2017/2018**
Net result after taxes	4	– 72	28	36	14
Cash flow	70	– 120	99	107	104
Other operating changes	– 10	141	– 58	33	– 16
of which: net working capital	113	96	35	33	24
of which: receivables from sales financing	21	20	10	9	– 10
of which: other	– 144	25	– 104	– 10	– 31
Cash flow and other operating changes	60	21	41	139	88
Cash used in investing activities	– 38	– 39	– 74	– 115	– 95
Free cash flow	22	– 17	– 32	24	– 8
in percent of sales	0.9	– 0.7	– 1.3	1.0	– 0.3

In March 2018 Heidelberg extended its existing syndicated credit facility with its banking consortium at better terms. With an increased volume of € 320 million and a term until March 2023, this affords Heidelberg financial flexibility and long-term planning security. In addition to the day-to-day operations of the global organization, this credit facility in particular will also provide strategic support for the further expansion of new digital business models, such as the newly established subscription business. The new framework also opens up the possibility of early repayment of portions of the corporate bond – thereby further reducing interest expenses – and advancing the digital transformation and growth with further strategic acquisitions.

With its range of instruments, Heidelberg currently has comfortable total credit facilities of around € 760 million.

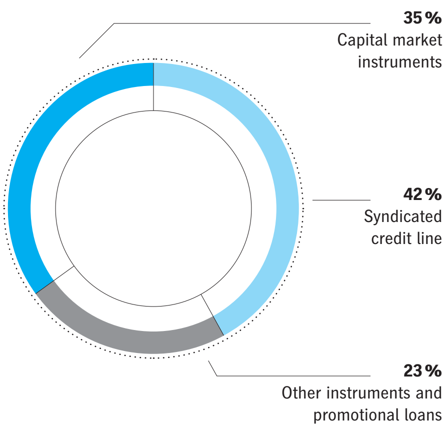
Thanks to the almost complete conversion of a convertible bond in the reporting period, the financial result already benefited from lower interest expenses in the financial year 2017/2018.

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.

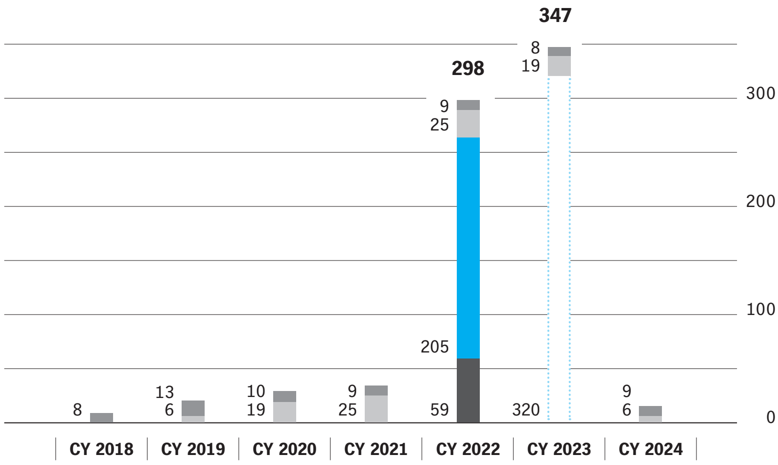
Financing instruments and maturity profile

Figures in € millions

Total volume of around € 760 million



Maturity profile per calendar year



Note: Not including other financial liabilities and finance leases

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

Segment Report

- Heidelberg Digital Technology: Moderate increase in results
- Heidelberg Digital Business and Services: Results influenced by series start-ups in digital printing
- Heidelberg Financial Services: Successful cooperation with financing partners

As part of the adjustment of the corporate strategy, the segments were reorganized as of April 1, 2017. The figures for the 2016/2017 financial year have been adjusted accordingly.

Heidelberg Digital Technology segment: Moderate increase in results

At € 1,315 million (previous year: € 1,367 million), sales in the Heidelberg Digital Technology segment were below the previous year in the financial year 2017/2018. This was essentially due to the significant negative exchange rate effects. Nevertheless, incoming orders were still higher than in the previous year at € 1,437 million (€ 1,413 million).

The order backlog was € 510 million as of the end of the reporting period and therefore significantly higher than the prior-year figure of € 439 million.

The segment's EBITDA excluding the restructuring result was € 75 million and its margin was around 6 percent, putting it within the target corridor of 5 to 7 percent and above the figure for the previous year. A restructuring result of € – 9 million was recognized in the segment in the year under review. The Heidelberg Equipment segment had a total of 7,357 employees as of March 31, 2018 (previous year: 7,398). Investments in the segment amounted to € 81 million in the year under review. In addition to replacement investments, we primarily invested in our new innovation center.

Heidelberg Digital Technology

Figures in € millions	2016/2017	**2017/2018**
Incoming orders	1,413	1,437
Sales	1,367	1,315
Order backlog	439	510
EBITDA excluding restructuring result	70	75
Result of operating activities excluding restructuring result	21	30
Restructuring result	– 9	– 9
Investments	84	81
Employees [1]	7,398	7,357

[1] Number of employees excluding trainees

Heidelberg Digital Business and Services segment: Results influenced by series start-ups in digital printing

The Heidelberg Digital Business and Services segment's sales were below the previous year's level (€ 1,152 million) at € 1,101 million. Incoming orders also declined slightly to € 1,147 million (previous year: € 1,176 million). In addition to the negative currency effects, this segment was impacted by the targeted reduction in remarketed equipment business of around € 34 million.

EBITDA excluding the result of restructuring was € 94 million (previous year: € 103 million). The decline as against the previous year is essentially due to the series start-up of new digital printing products. Thus, the operating result of the segment, at around 8.5 percent, was also within the target corridor of 8 to 10 percent. A restructuring result of € – 8 million was incurred in this segment.

Investments in the Heidelberg Digital Business and Services segment were up year-on-year at € 58 million and predominantly related to the expansion of our digital business and corporate acquisitions. With the acquisition of Fujifilm's coatings and pressroom chemicals business for the EMEA region and of the software provider docufy, Heidelberg has thus strengthened its position in key growth areas.

Heidelberg Digital Business and Services

Figures in € millions	2016/2017	**2017/2018**
Incoming orders	1,176	1,147
Sales	1,152	1,101
Order backlog	58	94
EBITDA excluding restructuring result	103	94
Result of operating activities excluding restructuring result	82	71
Restructuring result	– 9	– 8
Investments	20	58
Employees [1]	4,072	4,166

[1] Number of employees excluding trainees

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

In a capital-intensive sector like the printing industry, financing solutions are crucial to our customers' success. Heidelberg Financial Services has been 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 addition, we successfully continued our long-standing cooperation with our financing partners in the past financial year. Against this backdrop, overall demand for new direct financing was low.

As expected, the decline in the volume of receivables in recent years was accompanied by lower interest income of € 4 million (previous year: € 5 million). As expected, our receivables from sales financing increased from € 58 million in the previous year to € 66 million in the financial year 2017/2018 as a result of the granting of direct financing. The volume of counter-liabilities assumed decreased at the same time by € 4 million to € 17 million (previous year: € 21 million).

The segment result (EBITDA) amounted to € 3 million and was therefore lower than the previous year's result (€ 6 million). This is due to lower interest income and a lower risk provisioning result. Overall, we generated a balanced risk provisioning result which, in addition to the relatively lower volume, was also significantly influenced by our consistent receivables management and the resulting decline in amounts past due. Thanks to the systematic implementation of our strategy in receivables and risk management, we were able to keep the loss ratio below the long-term average and thus make a positive contribution to earnings.

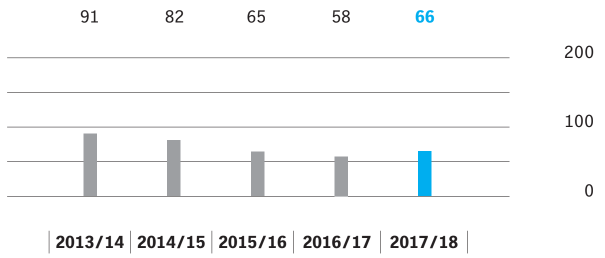
Heidelberg Financial Services

Figures in € millions	2016/2017	**2017/2018**
Sales	5	4
EBITDA	6	3
Result of operating activities	5	2
Employees [1]	41	40

[1] Number of employees excluding trainees

Receivables from sales financing

Figures in € millions



Report on the Regions

- EMEA performs well
- Higher incoming orders in China in Asia/Pacific region
- South America region still marked by economic instability

Europe, Middle East and Africa (EMEA)

In the year under review, we again achieved a minor increase in the order volume in the EMEA region from the previous year's € 1,129 million – already a strong figure thanks to drupa – to € 1,151 million. The markets of France and Italy contributed to this in particular. Germany's incoming orders were the same as in the previous year, though its sales were lower following the previous year's impressive performance after the trade show. The region's sales volume was on a par with the previous year (€ 1,088 million) at € 1,085 million. The UK saw a decline in sales due to the uncertainty of the forthcoming Brexit, though incoming orders were stable as of the end of the reporting year.

Asia/Pacific

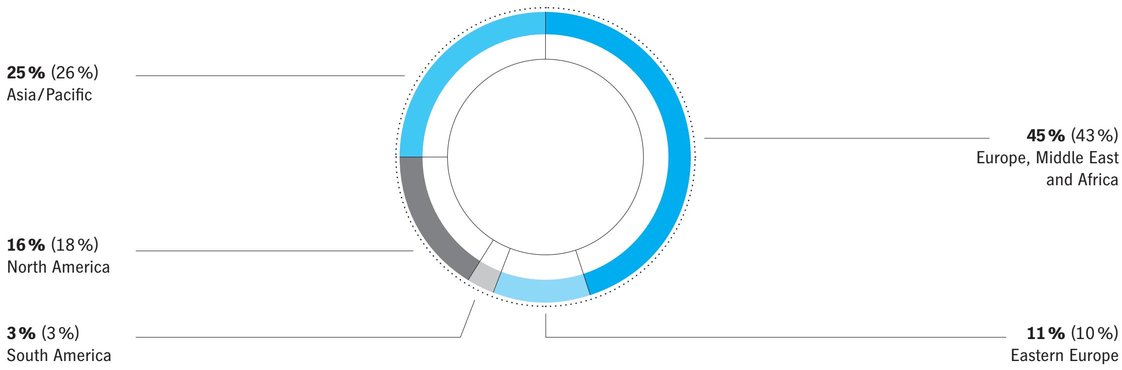
In the Asia/Pacific region, incoming orders at € 671 million (previous year: € 667 million) were marginally higher than in the previous year, while sales fell short of the previous year at € 610 million (previous year: € 646 million). However, half the negative currency effects were attributable to this region alone. Our key market of China reported increases in sales and incoming orders in particular, also as a result of the successful China Print trade show in May 2017. The sales volume on the Japanese market was lower than in the previous year, though there was a significant increase in orders. There were slight reductions in sales and incoming orders in Australia and New Zealand.

Eastern Europe

With incoming orders of € 262 million (previous year: € 284 million), the Eastern Europe region was down year-on-year in the year under review. By contrast, there was an increase in sales to € 265 million (previous year: € 254 million). The Russian market continued to recover over the course of the financial year and increased both figures at a low level. The Turkish market likewise reported a minor increase in sales and a significant increase in incoming orders.

Sales by region

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



North America

In the reporting year, the North America region was unable to maintain the previous year's high level in either incoming orders at € 425 million (previous year: € 440 million) or sales at € 399 million (previous year: € 453 million) – essentially on account of negative currency effects of around € 30 million in incoming orders and around € 27 million in sales. Canada reported a significant decline in both figures, while the US market's incoming orders were slightly higher than in the previous year at around € 26 million despite significantly negative currency effects.

South America

At € 79 million, incoming orders in the South America region outperformed the previous year's level (€ 73 million) and Brazil also increased its incoming orders. By contrast, sales in the region declined sharply from € 83 million in the previous year to € 62 million in the reporting year. Argentina, Chile and Venezuela in particular experienced a significant decrease in sales volumes on account of the persistently tense economic and political situation.

Incoming orders by region

Figures in € millions	2016/2017	**2017/2018**
EMEA	1,129	1,151
Asia/Pacific	667	671
Eastern Europe	284	262
North America	440	425
South America	73	79
Heidelberg Group	**2,593**	**2,588**

Sales by region

Figures in € millions	2016/2017	**2017/2018**
EMEA	1,088	1,085
Asia/Pacific	646	610
Eastern Europe	254	265
North America	453	399
South America	83	62
Heidelberg Group	**2,524**	**2,420**

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 the result of restructuring plus net investment income to average capital employed. The cost of capital is determined using the weighted average cost of capital before taxes of Heidelberg of currently around 5.7 percent (previous year: 6.6 percent). Regardless of the slightly lower debt ratio, the cost of capital was reduced by nearly one percentage point. Overall, the cost of capital is around 13 percent lower than in the previous year at € 59 million with similar average operating assets.

ROCE was clearly positive for the year under review at € 101 million, thereby confirming the prior-year figures. Through active management of capital commitments, average restricted 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 (€ 1,034 million) at € 1,028 million.

ROCE as a percentage of average operating assets therefore changed from 10.2 percent in the previous year to 9.8 percent in the year under review and, with lower costs of capital, contributed positive **VALUE ADDED** of € 42 million.

Five-year overview: ROCE and value added

Figures in € millions	2013/2014	2014/2015 [4]	2015/2016	2016/2017	**2017/2018**
Operating assets (average) [1]	1,068	1,024	1,035	1,034	1,028
ROCE [2]	73	116	112	106	101
in percent of operating assets	6.8	11.3	10.8	10.2	9.8
Cost of capital	97	92	76	68	59
in percent of operating assets	9.0	9.0	7.3	6.6	5.7
Value added [3]	– 24	24	36	38	42
in percent of operating assets	– 2.2	2.3	3.5	3.7	4.1

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

Employees

Motivated and qualified employees are Heidelberg's greatest asset. Against the backdrop of demographic change and rising digitization it is our objective to prepare our workforce for the future requirements of their rapidly changing work environment.

FIT project: New organizational and management structure

In the past financial year, we performed intensive work as part of the FIT project on our new organizational and management structure. The introduction of the new corporate organization requires intensive support for the associated change process. The training of our key account sales organization is one of the most comprehensive challenges.

"Vocational training@Heidelberg": Digital future through young, flexible and motivated employees

Training is a top priority at Heidelberg and it relies on premium quality. 99 young people began their training with Heidelberg on September 1, 2017. We provide training in 15 occupations at four locations and offer various bachelor programs in the areas of engineering, media and business.

"WIEfit": Strong interest in Wiesloch-Walldorf health center

We opened our own health center ("WIEfit") on the grounds of the Wiesloch-Walldorf production site in April 2017. This health center is run by an external operator according to the latest physiotherapeutic knowledge. Around 400 employees are now working out here. The range of offerings is rounded off by prevention courses and health checks.

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

With the annual employee-supervisor dialogue, we make the principle of listening, of promoting discussion, of formulating common goals and discussing supporting steps a firm fixture 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.

HR development: Tailored and goal-oriented

HR management and HR development are supporting the process of change through specific concepts for implementing our strategy in day-to-day management, running and moderating departmental workshops and the definition of qualification and strategy projects and their implementation. The portfolio comprises management training such as employee qualification, training offers and seminars, in addition to individual coaching and external qualification modules.

Heidelberg idea management: Joining in and thinking it through

For 66 years, our employees have been getting involved in idea management to help save the company costs and thus keep it competitive. At 1,654, the flow of incoming ideas in the 2017/2018 reporting year maintained the level of the last three years. The savings achieved amounted to € 3.3 million. The launch of the new idea management software has given ideas at Heidelberg a new platform; in the future they will be prioritized and processed more transparently and effectively.

Employees by region

Number of employees [1]	31-Mar-2017	**31-Mar-2018**
EMEA	8,440	8,585
Asia/Pacific	1,754	1,677
Eastern Europe	487	491
North America	733	712
South America	97	98
Heidelberg Group	**11,511**	**11,563**

[1] Excluding trainees

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

Sustainability

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

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

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

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

Ecological key figures

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

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

Note: The above overview takes into account the company's five largest production sites, which altogether account for 95 percent of the Group-wide energy consumption.

RISKS AND OPPORTUNITIES

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

Risk and Opportunity Management System

Objectives and strategy

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

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

Structure and process

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

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

The operating units and central divisions are incorporated in this process. The companies included in the risk management system are the same as those included in the consolidated financial statements. Information on risks is collected locally. The risk-significant areas of observation and the risk survey methodology are set out in the guidelines. The classification into risk categories is based on the potential impact on the net results and liquidity of the individual units. Reporting thresholds are set on a uniform basis. For all key areas such as Procurement, Development, Production, 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 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.

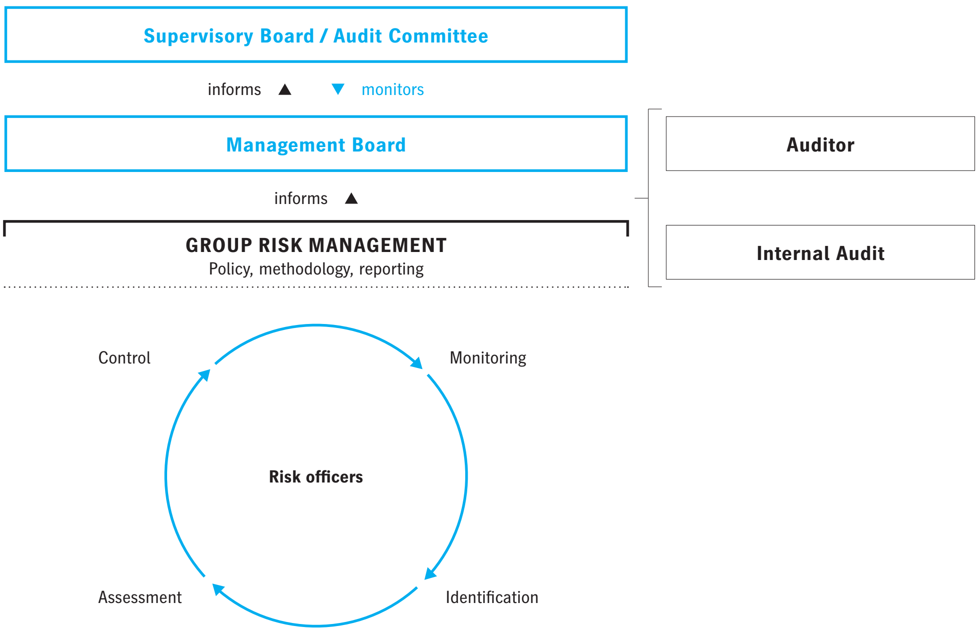
Heidelberg's risk and opportunity management process comprises the elements of risk identification, assessment, control and monitoring (see diagram below).

Identification of risks and opportunities

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

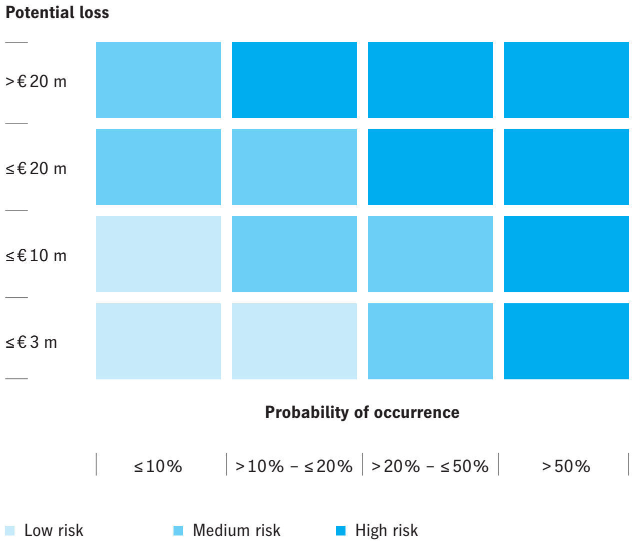
Assessment of risks and opportunities

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



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

Risk matrix



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

Controlling risks and opportunities

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

Monitoring of risks and opportunities

Regular risk monitoring allows the detection of changes in individual risks. Adjustments in risk management can therefore be promptly turned into the initiation of necessary measures. Within his or her own area, taking materiality limits into account, each risk manager is responsible for reporting all known risks to risk management periodically, or also to the Management Board on an ad hoc basis as necessary, and checking their completeness. In addition to complying with and implementing suitable countermeasures, risk officers are responsible for their own monitoring of risks and opportunities. This way, the developments in constantly changing risks and opportunities, and the adequacy and effectiveness of the current risk strategy, are continually 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	Constant
Industry	High	Constant
Operational		
Economy, market development	High	Higher
Sales financing	Medium	Constant
Procurement	Low	Constant
Production	Low	Constant
Sales partnerships	Low	Constant
IT, information, data protection	Medium	Higher
HR	Medium	Constant
Financial		
Currency and interest	Medium	Constant
Pension obligations	Medium	Constant
Taxation	Medium	Constant
Liquidity	Low	Constant
Refinancing	Low	Constant
Rating	Low	Constant
Legal and compliance	Medium	Constant

Strategic risks and opportunities

Political risks

As a key factor influencing economic conditions, political risks can have a direct impact on Heidelberg’s business activities and its financial position and performance. As a result of the trade policy decisions by the governments of some economies, economic risks have become more present again. In particular, the risk of an international trade conflict due to the protectionist measures by the United States and the associated negative effects on the global economy has increased tangibly. Moreover, there is still a high level of uncertainty as to the nature of the future relationship between the European Union and the UK after Brexit, and what consequences this will have for our company. Sanctions already in place, such as those against Russia or other emerging economies, can have consequences for Germany’s export-oriented economy. In addition, there are political risks due to persistent or rising geopolitical tensions in the Middle East, including in connection with the scrapping of the Iran nuclear deal by the United States.

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 will remain unchanged and the protectionist tendencies that can currently be observed will have no material effect.

Political risks are currently regarded as high.

Industry-specific risks and opportunities

For the coming year, economists at the German Engineering Federation (VDMA) are forecasting that the general economic upswing from 2017 will continue at its current pace for mechanical engineering in 2018. For the print and media industry, however, Heidelberg expects a similarly challenging environment as in the past financial year, on account of the sector’s ongoing industrialization, with the result that larger, mostly international print media service providers are growing in the industrialized countries and the number of medium and smaller print shops 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 view of the changes in the printing industry, in calculating our sector risk assessment we have taken into account the risk that planned sales and margin targets will not be met.

Against this background as well, in the year under review we began to establish Heidelberg’s new digital business model to offer print shops further value added. Under this subscription model, the customer only pays for productive industrial performance, i. e. for the number of printed sheets. Under the classic business model, the customer buys the printing presses and pays separately for consumables or services. With the new digital business model, the price paid per sheet includes all the equipment, all necessary consumables and comprehensive service geared to availability. The series start-up of the Primefire 106 in the 2018 calendar year will be another milestone for digital printing at Heidelberg. In addition, Heidelberg's proven push-to-stop operating philosophy allows its customers to significantly increase net productivity in industrial print production.

As part of the strategic reorientation launched in the 2016/2017 financial year, we see digital business as a key 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 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 current depreciation of the US dollar despite the Fed raising the interest rate leads to a competitive disadvantage for German companies. We are reducing the influence of exchange rate developments by carrying out procurement and production activities outside the euro area as well.

The collective agreement in the metalworking and electrical industry in February 2018 for a pay increase of 4.3 % and the end of the works agreement to reduce working hours per week mean that Heidelberg has to absorb these cost increases by improving its profitability. There is also a risk that price increases on the market, particularly for new machinery, may only be possible to a limited extent – especially given a strong euro. Furthermore, there could be synergies from possible business combinations between some market participants, which can lead to a rise in price pressure on account of the higher market share.

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

Operational risks and opportunities

Economic and market development risks

In the business planning for the Digital Technology (HDT) and Lifecycle Solutions (HDLS) segments, we are assuming moderate growth in the global economy. 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 Brazil and Russia are recovering only at a slow rate. The economy in China in the period under review rose faster than in the previous year, but the speed of expansion is expected to diminish moving ahead. The contribution to the expansion of the global economy is likely to increase considerably as a result of growth in the industrialized countries.

If the global economy were to grow less than expected, or if key markets were to suffer an unexpected economic downturn, there is a risk that the planned sales performance will not be achieved, particularly in new machinery business (above all in the HDT segment). Heidelberg has implemented its digital business model to reduce the inherent risk of new machinery business. Under this model, the customer only pays for productive industrial performance, i. e. for the number of printed sheets. The Lifecycle Solutions segment is considerably less cyclical as it depends on the installed base and on the print production volume to a greater extent than on new machinery business. The share of total sales from less cyclical business with service and consumables has increased in recent years and thus economic fluctuations within the Group have been reduced.

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

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

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 have diminished year-on-year. Overall, losses on sales financing were in line with 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 and keep it stable in the year under review. Moreover, internal financing is only made available following a comprehensive review that takes into account the customers' business model and credit rating. Sales financing commitments are regularly reviewed using internal rating processes. These (like the Basel standards) comprise both debtor-specific and transaction-specific components. Heidelberg operates a policy of risk provisioning that is appropriate for the business model in sales financing. Appropriate risk provisions are recognized early on for discernible risks.

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

Procurement risks

Heidelberg is dependent on ensuring that its suppliers and service providers can deliver the required quality at all times. Risk management is therefore a fixed component of our supplier management. Heidelberg works closely with selected systems suppliers on a contractual basis and reduces risks relating to supplier defaults and late deliveries of components or low-quality components. It also works continuously to optimize its supply methods and procurement processes with key suppliers to ensure the reliable supply of parts and components of the highest quality. As Heidelberg generates around two-thirds of its sales outside the euro area, the option of global procurement is constantly being examined and expanded (natural hedging). We increased our procurement activities in foreign currency in the year under review as well in order to reduce currency risks.

Wherever it benefits Heidelberg, we pursue a dual vendor strategy to reduce unilateral dependencies. As part of Heidelberg's operational excellence strategy, work began in the year under review to bundle our procurement and product management activities even more to guarantee a high level of transparency.

Procurement risks are considered to be low.

Production risks

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

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

Production risks are therefore considered to be low.

Sales partnership risks

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

This risk is considered to be low.

IT, information and data protection risks

As a result of advancing digitization, 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. In addition to a sharp rise in the threat emanating from increasingly professional cybercrime and the greater quantity of sensitive information in connection with the subscription model, the regulatory requirements for IT security are also on the rise, due in part to the EU General Data Protection Regulation that became effective in May 2018.

Comprehensive protective measures 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. Systems, procedures and the organization are regularly checked for possible risks and adapted if necessary. The IT infrastructure continued to undergo its overhaul in the year under review, further improving both performance and system security. Furthermore, high demands are made on IT security management when selecting IT service providers.

IT, information and data protection risks are considered to be medium.

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

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

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

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

Risks and opportunities from pension obligations

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

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

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

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

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

Risks and opportunities from taxation

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

Tax risk is considered to be medium overall.

Liquidity

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

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

Refinancing risk

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

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

The refinancing risk is considered to be low.

Rating

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

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

Legal and compliance risks

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

In addition, there are legal disputes regarding warranty cases in connection with sales of machinery that could also lead to rescission. In addition to legal risks there are also antitrust risks, though their probability of occurrence is considered to be very low. Provisions are recognized accordingly for risks resulting from legal disputes, provided utilization is likely and the probable amount of the provision required can be reliably estimated. Heidelberg reduces legal risks from individual agreements by utilizing standardized master agreements wherever possible. Heidelberg's interests in the area of patents and licenses are protected in a targeted manner. Risks will be reduced further by systematic controls of compliance with our comprehensive policies in all areas and the commitment of suppliers and service providers to the updated Code of Conduct, which also reflects the ten guiding principles of the UN Global Compact. The ombudsman system at the level of Heidelberger Druckmaschinen Aktiengesellschaft for the Heidelberg Group is being adapted to specific local circumstances and further established in corporate culture through ongoing communication measures with employees and third parties. The entry into force of the new European General Data Protection Regulation (GDPR) on May 25, 2018 is of particular importance. Risks resulting from a violation of the GDPR are countered by a data protection organization that complies with the new requirements. This includes, for example, the implementation of a data protection management system and the establishment of various processes in line with the GDPR, e. g. to answer inquiries from data subjects or to comply with the reporting obligations for privacy violations. The risk is further reduced by fulfilling the necessary documentation obligations.

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.

In addition to the political risks (in particular protectionist trade policy and the possible hobbling of global economic momentum by retaliatory measures), which are considered to be high, there are also technical risks in connection with the development and launch of new products or the establishment of new business models during development and risks regarding the assessment of the sales market in the launch phase.

A high risk of failing to meet our earnings targets essentially lies in expectations for economic developments on key sales markets (Europe – in particular Germany, US, China) not, or not fully, materializing. A weaker than expected performance by these countries could have a negative impact on sales and margins in the HDT segment. 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. Partnerships allow Heidelberg to bundle the innovative strength of partners with its own in order to respond more quickly to current market conditions. Furthermore, the Group has a strong global sales and service network. Heidelberg considers itself to be strategically well positioned, not just in sheetfed offset printing processes, but also in digital printing processes, which are seeing global increases in the print volumes produced.

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

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

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

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

Above and beyond this, a major opportunity for Heidelberg lies in the possibility of more positive economic performance in the print and media industry than is currently forecast. In the BRIC nations there is a possibility that economic growth will be higher than anticipated. The economic recovery in the advanced economies could lead to a rise in the investment volume there as well. For example, the corporate tax reform in the US could trigger other knock-on effects as a result of the strong fiscal stimulus. 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 (4) and section 315 (4) HGB

Accidental or deliberate accounting errors could theoretically result in a view of the net assets, financial position and results of operations that does not correspond to reality. Heidelberg systematically counters this risk – and other risks that could arise from it – with its own internal control system (ICS). The principles, procedures and measures of the ICS are based on the framework for internal control systems of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Heidelberg Group thus ensures that management decisions are implemented effectively, that control systems work 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 central accounting on behalf of the entire Group. Corporate accounting also regularly monitors whether the accounts are properly maintained and if the Group-wide Heidelberg Accounting Rules are adhered to, thereby ensuring that the financial information complies with regulatory requirements. In addition, our Internal Audit team, which has access to all data, examines individual areas and affiliates throughout the Group on the basis of random sampling. In doing so, it examines, among other things, whether the internal control system has been implemented in this regard or whether transactions have been controlled, and whether the principles of the separation of functions and dual control are adhered to in all areas. The latter is mandatory, for example, for every order that is placed, for every invoice that is issued, and for every investment decision that is made. Compliance with all other internal guidelines and directives that have an impact on accounting operations is also monitored.

Risks are also reduced by a number of automated controls. Authorization concepts have been implemented in the Group-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 global economy is expected to expand rapidly again in the 2018 calendar year at 3.2 percent. While the acceleration in the past year was roughly equally due to the economic development in the advanced economies and on the emerging markets, the contribution to expansion by the advanced economies is expected to rise noticeably this year.

For example, gross domestic product in the US is expected to climb by 2.7 percent in 2018 after 2.3 percent in 2017. The lower effective tax rate for private households and companies will lead to a strong fiscal stimulus.

GDP in the euro area is forecast to rise by 2.2 percent in 2018, a similar figure to 2017. However, the rate of expansion could slow somewhat as the year progresses, as foreign trade stimulus is expected to be slightly lower on account of exchange rate effects.

The economy will remain expansive in Japan as well. At 1.4 percent, GDP is likely to climb at a slightly slower rate than last year while still staying ahead of the longer-term trend.

The economy of the emerging markets is not set to accelerate further in the forecast period. This is essentially because the rate of expansion in China will slow to 6.7 percent. The monetary policy turnaround already initiated there, and the measures to curb overheating on the real estate market, indicate that stability policy objectives are currently a higher priority than in the last two years, when the government sought to stimulate the economy with more expansionary economic policies. This is also in line with the government's efforts to advance the structural transformation of the Chinese economy towards industry and services with more intensive value added.

Despite the positive growth prospects, economic policy risks in the advanced economies have returned to the fore in recent weeks. Thus, the risk has increased that the global trade conflict will escalate as a result of the US government's protectionist measures, creating a stumbling block for global economic momentum. The situation could be exacerbated by retaliatory action. This could harm investor and consumer confidence in the economic future and slow investment or consumer spending.

Nonetheless, economists at the German Engineering Federation (VDMA) are forecasting that the economic upswing from 2017 will continue at its current pace for mechanical engineering as well in 2018. The VDMA therefore expects real GDP growth of 3 percent this year. In particular, signs are pointing to expansion in 2018 for Germany as the biggest sales market. Industrial capacity utilization is now at its highest level since 2008, with the result that complaints about capacity bottlenecks for machinery and equipment are beginning to mount.

Future Prospects

The economic and political conditions presented on the markets relevant to Heidelberg, and the expected development of the printing industry, serve as premises for the forecast planning for financial year 2018/2019. Digital transformation, the expansion of technology leadership and greater value added in new high-tech applications and digital platforms should contribute to sales growth of up to € 3 billion in the medium term.

The subscription models covering the entire printing press lifecycle, which were launched in 2017/2018, are being met with strong customer demand. The first customers took advantage of this offer in the financial year 2017/2018. In the new financial year 2018/2019, the number of presses under contract is set to rise to around 30, while the business volume resulting from this is expected to amount to around € 150 million over the full term of the contracts. The start of series production of digital packaging and label printing presses (Primefire and Labelfire) will increasingly have a positive effect on Heidelberg's sales performance. Positive stimulus is also anticipated from additional sales of Consumables and from e-commerce, in addition to the ramp-up of Digital Platforms.

Accordingly, the Company is forecasting moderate sales growth for 2018/2019. The solid order backlog at the beginning of the financial year supports this forecast. The first half of the year is again expected to be impacted by negative currency effects, first and foremost on account of the US dollar/euro exchange rate and out of Asia as well. As in previous years, Heidelberg is currently intensively examining several options for external growth, but the probability of such transactions cannot be reliably quantified at this time. The moderate growth in sales, combined with efficiency enhancement measures, including initial savings from the recently initiated operational excellence program, should allow an EBITDA margin excluding restructuring result in the range of 7 to 7.5 percent in the 2018/2019 financial year. The additional staff costs resulting from the new collective bargaining agreement have been taken into account.

Potential margin upside in both segments thanks to ongoing strategic development

Looking at the segment results, it should be noted that Heidelberg will be reorganizing its two segments from April 1, 2018. This essentially relates to the reassignment of digital printing sales to the Heidelberg Digital Technology (HDT) segment. Within HDT, the lower margin for digital printing on account of ramping up activities will be offset by an improved margin for sheetfed in 2018/2019, stemming from the cost efficiency described above in addition to a better price level and product mix. Overall, an EBITDA margin of between 2 and 3 percent is therefore expected in HDT. This is then set to rise to up to 8 percent in the medium term essentially as a result of rising sales and improving margins for digital printing activities.

In the new financial year, the new Heidelberg Digital Lifecycle Solutions segment (HDLS, previously Heidelberg Digital Solutions) will mainly benefit from improvements in procurement and additional sales in Consumables and Digital Platforms. Accordingly, the segment is aiming for an EBITDA margin of 12 to 13 percent, which is expected to be maintained in the medium term as well.

Our consolidated sales will increasingly benefit from the success of the subscription model in the coming years. This will also contribute to more stable consolidated sales. The Heidelberg Financial Services segment should continue to make a positive contribution to EBITDA.

As a result of the forthcoming transformation activities and the optimization of processes and structures in the context of operational excellence, Heidelberg is assuming restructuring expenses of around € 20 million in the new financial year.

Interest expenses are to be reduced to around € 20 million in the medium term as a result of the ongoing optimization of our credit facilities. However, the anticipated positive effects will initially be outweighed by the negative impact of the planned early partial repayment of the existing high-yield bond (8 percent) in 2018/2019. However, this move will reduce interest expenses in subsequent years.

In the financial year 2018/2019, while we are also forecasting higher tax expenses at foreign Group subsidiaries, we still expect a moderate increase in earnings after taxes compared to the previous year (including a non-recurring tax effect in 2017/2018), which is set to rise further in subsequent years.

On the basis of the stable and long-term financial framework, and sustainable profitability, leverage has already been significantly reduced to below the current target of 2. We will therefore still have the financial flexibility moving ahead to invest in our digital portfolio, finance acquisitions and continue Heidelberg's strategic development.

Medium-term targets confirmed: Consolidated sales of € 3 billion and net result after taxes in excess of € 100 million

Heidelberg is standing by its medium-term goals of increasing consolidated sales, including the above-mentioned additional sales potential of at least € 500 million, to around € 3 billion. At the same time, operating EBITDA excluding restructuring result is set to rise by approximately € 100 million to between € 250 million and € 300 million. Combined with further improvement in the financial result, earnings after taxes are then forecast to exceed € 100 million.

LEGAL DISCLOSURES

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

- In the reporting year: Review and redesign of multi-year variable compensation and adjustment of the obligation for personal investment in shares
- 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 compensation system in place since financial year 2012/2013, the procedure and the benchmarks for measuring the variable compensation elements were defined and, in respect of the multi-year variable compensation elements, adjusted to reflect the requirements of the revolving credit facility and its financial covenants. In the reporting year, the multi-year variable compensation was reviewed and redesigned. The aim was to increase variability by redesigning expected values, but also to enable higher payout potential while reinforcing the idea of shareholder value. These changes also influence the compensation system as a whole. Specifically:

The **OVERALL STRUCTURE AND AMOUNT OF COMPENSATION OF THE MANAGEMENT BOARD** are determined at the recommendation of the Personnel Matters Committee by the Supervisory Board of Heidelberger Druckmaschinen Aktiengesellschaft and reviewed at regular intervals. In each case, Management Board compensation (not including fringe benefits or service cost) amounts to a maximum of 370 percent (previously: 280 percent) of fixed annual compensation, divided into 100 percent for fixed annual compensation and a maximum of 270 percent (previously: 180 percent) for the variable compensation elements, i.e. a maximum of 90 percent for the one-year variable compensation, as before, and 180 percent (previously: 90 percent) for the multi-year variable compensation.

[1)] This remuneration report also forms part of the corporate governance report

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

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

The **MULTI-YEAR VARIABLE COMPENSATION** was reviewed and redesigned in the reporting year. From this reporting year, the multi-year variable compensation is determined according to two benchmarks: éarnings before taxes according to the IFRS consolidated income statement (EBT) and total shareholder return (TSR). The targets for these two benchmarks, the respective thresholds and the maximum overfulfillment, are all defined at the beginning of the relevant three-year period (performance period). Half the multi-year variable compensation is attributable to each benchmark, i. e. 45 percent of the fixed annual compensation in the event of 100 percent fulfillment of the targets for each of the relevant benchmarks. Overfulfillment of a benchmark is recognized and can at most result in a doubling of the attributable multi-year variable target compensation. Accordingly, multi-year variable compensation can amount to 90 percent of the fixed annual compensation for each benchmark and to 180 percent of the fixed annual compensation in total. Both benchmarks are associated with an objective fulfillment threshold that must be reached in order for the multi-year variable compensation for the benchmark in question to be paid out. However, overfulfillment of a benchmark can only increase the multi-year variable compensation if the other benchmark reaches at least the threshold. The first benchmark (Group earnings before taxes) is based on the five-year planning adopted by the Supervisory Board. The attributable multi-year variable compensation is determined after the end of the performance period by comparing the actual earnings before taxes of the three financial years within the performance period according to the IFRS income statement with the expected earnings before taxes for these three financial years. The averages of the actual and the expected earnings before taxes are compared in order to calculate and identify the actual achievement of objectives. The basis for target measurement for the second benchmark (total shareholder return) is the long-term expected return (Heidelberg share price increases) during the performance period (period of three financial years). The baseline value for each performance period is determined at the beginning of the first financial year of the performance period. For this purpose, the arithmetical average price (closing prices) of the Company's share in XETRA trading at the Frankfurt Stock Exchange over the 60 trading days immediately preceding the start of the three-year performance period is measured. The fixed baseline value is then compared with the arithmetical average price (closing prices) of the share over the 60 trading days immediately preceding the end of the performance period. If the Company pays dividends to the shareholders during the performance period, these dividends are translated in terms of the share price immediately preceding the end of the performance period. The achievement of objectives is checked and ascertained at the end of each three-year period. The multi-year variable compensation is paid out at the end of the month in which the Annual General Meeting – after the end of the final financial year of the three-year period – resolves on the appropriation of the net result.

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

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

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

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

Figures in € thousands	**Rainer Hundsdörfer** Chief Executive Officer [2)]				**Dirk Kaliebe** Chief Financial Officer and Head of Financial Services			
	2017/2018 Objective	2016/2017 Objective	2017/2018 (Min)	2017/2018 (Max)	**2017/2018 Objective**	2016/2017 Objective	2017/2018 (Min)	2017/2018 (Max)
Fixed compensation [4)]	650	247	650	650	402	396	402	402
Fringe benefits	26	7	26	26	18	16	18	18
Total	676	254	676	676	420	412	420	420
One-year variable compensation	585	223	0	585	362	356	0	362
Multi-year variable compensation	526	464	0	1,170	325	360	0	723
2016/2017 tranche [5)]	–	464	–	–	–	360	–	–
2017/2018 tranche [5)]	526 [6)]	–	0	1,170	325 [6)]	–	0	723
Total fixed and variable compensation elements	1,787	941	676	2,431	1,107	1,128	420	1,505
Service cost	228	90	228	228	141	137	141	141
Total compensation	2,015	1,031	904	2,659	1,248	1,265	561	1,646

Figures in € thousands	**Prof. Dr. Ulrich Hermann** Member of the Board Head of Digital Business and Services [3)]				**Stephan Plenz** Member of the Board Head of Digital Technology			
	2017/2018 Objective	2016/2017 Objective	2017/2018 (Min)	2017/2018 (Max)	**2017/2018 Objective**	2016/2017 Objective	2017/2018 (Min)	2017/2018 (Max)
Fixed compensation [4)]	400	152	400	400	402	396	402	402
Fringe benefits	25	8	25	25	17	16	17	17
Total	425	160	425	425	419	412	419	419
One-year variable compensation	360	137	0	360	362	356	0	362
Multi-year variable compensation	324	286	0	720	325	360	0	723
2016/2017 tranche [5)]	–	286	–	–	–	360	–	–
2017/2018 tranche [5)]	324 [6)]	–	0	720	325 [6)]	–	0	723
Total fixed and variable compensation elements	1,109	583	425	1,505	1,106	1,128	419	1,504
Service cost	140	61	140	140	141	137	141	141
Total compensation	1,249	644	565	1,645	1,247	1,265	560	1,645

1) In accordance with section 4.2.5 (3) of the German Corporate Governance Code (DCGK) 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) Member of the Management Board since November 14, 2016
4) The monthly fixed compensation of Dirk Kaliebe and Stephan Plenz was each increased by 3 percentage points from October 1, 2016
5) Term: 3 years
6) In financial year 2017/2018, this includes the fair value as of the grant date of the multi-year share-based cash compensation from financial year 2017/2018 as follows: Rainer Hundsdörfer: € 234 thousand; Dirk Kaliebe: € 144 thousand; Prof. Dr. Ulrich Hermann: € 144 thousand; Stephan Plenz: € 144 thousand

Allocation [1]

Figures in € thousands	**Rainer Hundsdörfer** Chief Executive Officer [2]		**Dirk Kaliebe** Chief Financial Officer and Head of Financial Services		**Prof. Dr. Ulrich Hermann** Member of the Board Head of Digital Business and Services [3]		**Stephan Plenz** Member of the Board Head of Digital Technology	
	2017/2018	2016/2017	**2017/2018**	2016/2017	**2017/2018**	2016/2017	**2017/2018**	2016/2017
Fixed compensation [4]	650	247	402	396	400	152	402	396
Fringe benefits	26	7	18	16	25	8	17	16
Total	676	254	420	412	425	160	419	412
One-year variable compensation	585	223	362	356	360	137	362	356
Multi-year variable compensation	–	–	356	353	–	–	356	353
2014/2015 tranche [5]	–	–	–	353	–	–	–	353
2015/2016 tranche [5]	–	–	356	–	–	–	356	–
Total fixed and variable compensation components	1,261	477	1,138	1,121	785	297	1,137	1,121
Service cost [6]	228	90	141	137	140	61	141	137
Total compensation	1,489	567	1,279	1,258	925	358	1,278	1,258
of which: agreed personal investment	59	22	72	71	36	14	72	71

[1] Compensation paid or yet to be paid 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] Member of the Management Board since November 14, 2016
[4] The monthly fixed compensation of Dirk Kaliebe and Stephan Plenz was each increased by 3 percentage points from October 1, 2016
[5] Term: 3 years
[6] Not yet allocated in the financial year

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

The objective agreements for the multi-year variable compensation (three-year period) concluded at the beginning of financial year 2015/2016 (2015/2016 tranche) and at the beginning of financial year 2016/2017 (2016/2017 tranche) are still based on the previous rule and are accordingly ascertained and paid out on this basis. As a result, the multi-year variable compensation is scheduled to be ascertained and paid out on the basis of the previous rule for the last time at the end of financial year 2018/2019 – with the exception of the above transitional rule.

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

Rainer Hundsdörfer, Dirk Kaliebe, Prof. Dr. Ulrich Hermann and Stephan Plenz invested the portions of the one-year variable compensation paid for financial year 2016/2017 and Dirk Kaliebe and Stephan Plenz the corresponding portions of the multi-year variable compensation for financial years 2014/2015, 2015/2016 and 2016/2017 in shares of Heidelberger Druckmaschinen Aktiengesellschaft on August 11, 2017, in accordance with Article 19 of the Market Abuse Regulation (EU) No. 596/2014; the investment was reported to the German Federal Financial Supervisory Authority by all Management Board members and published on the Heidelberger Druckmaschinen Aktiengesellschaft website on August 11, 2017.

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

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

Figures in € thousands		Non-performance-related elements		Performance-related elements	Long-term incentive components	Total compensation
		Fixed compensation [1]	Fringe benefits	One-year variable compensation	Multi-year [2] variable compensation	
Rainer Hundsdörfer [3]	**2017/2018**	650	26	585	429	1,690
	2016/2017	247	7	223	74	551
Dirk Kaliebe	**2017/2018**	402	18	362	385	1,167
	2016/2017	396	16	356	356	1,124
Prof. Dr. Ulrich Hermann [4]	**2017/2018**	400	25	360	264	1,049
	2016/2017	152	8	137	46	343
Stephan Plenz	**2017/2018**	402	17	362	385	1,166
	2016/2017	396	16	356	356	1,124
Total	**2017/2018**	1,854	86	1,669	1,463	5,072
	2016/2017	1,191	47	1,072	832	3,142
Members of the Management Board who left in the previous year	**2017/2018**	–	–	–	–	–
	2016/2017	586	25	527	527	1,665
Total	**2017/2018**	1,854	86	1,669	1,463	5,072
	2016/2017	1,777	72	1,599	1,359	4,807

[1] The monthly fixed compensation of Dirk Kaliebe and Stephan Plenz was each increased by 3 percentage points from October 1, 2016
[2] In financial year 2017/2018, this includes the fair value as of the grant date of the multi-year cash-settled share-based compensation from financial year 2017/2018 as follows: Rainer Hundsdörfer: € 234 thousand; Dirk Kaliebe: € 144 thousand; Prof. Dr. Ulrich Hermann: € 144 thousand; and Stephan Plenz: € 144 thousand; the expense of financial year 2017/2018 of € 437 thousand is allocated as follows: Rainer Hundsdörfer: € 153 thousand; Dirk Kaliebe: € 95 thousand; Prof. Dr. Ulrich Hermann: € 94 thousand; and Stephan Plenz: € 95 thousand
[3] Chief Executive Officer, member of the Management Board and Chief Human Resources Officer since November 14, 2016
[4] Member of the Management Board since November 14, 2016

The BENEFITS TO MEMBERS OF THE MANAGEMENT BOARD WHO LEFT are as follows: No members of the Management Board left in the reporting year. In the financial year 2016/2017, 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 ended on August 31, 2017. 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. Please see note 39 to the consolidated financial statements for further information on members of the Management Board who left in the past year.

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

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

The pension agreements for all members of the Management Board stipulate that the amount paid can rise depending on the earnings situations of the Company. The exact amount of the pension also depends on the investment success of the fund. The pension can be drawn as an early pension from the age of 60. In the event of a member of the Management Board leaving the Company, the pension will be paid from the age of 65 or 60 respectively, principally as a non-recurring payment of pension capital. In addition, the agreements also provide for disability and surviving dependents' benefits (60 percent of the disability payment or the pension) contingent on the amount of the last fixed compensation. In deviation from the defined contribution plan for executive staff, the percentage in the event of a disability pension is based on the length of service on the Company's Management Board, with attributable time up to the age of 65 and a maximum pension percentage of 60 percent. If the contract of employment expires prior to the start of benefit payments, the claim to the accrued pension funds at that point in time remains valid. The other pension benefits (disability and surviving dependents' benefits) earned in accordance with section 2 of the German Company Pension Act (BetrAVG) remain valid on a pro rata temporis basis. In a departure from section 1b BetrAVG, the benefits of Rainer Hundsdörfer and Prof. 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. An entitlement to multi-year variable compensation determined, established and thus already vested at the date of departure is unaffected by the severance and transitional regulations and is paid immediately after departure or, with regard to the new multi-year variable compensation, as soon as the annual financial statements of the financial year in question have been prepared, but no later than the end of the first quarter of the financial year following the departure. This does not affect the right to extraordinary termination for cause in accordance with section 626 BGB. The severance payment is paid in quarterly installments in line with the originally agreed residual term, but in not more than eight quarterly installments. Other compensation received by a then former member of the Management Board, which this former member has agreed to disclose to the Company, must be offset in accordance with sections 326(2) sentence 2 and 615(2) BGB mutatis mutandis during the originally agreed residual term. If a member of the Management Board becomes unable to work due to disability, the benefits stipulated in the respective pension agreement will be paid. If no decision on reappointment is made by at least nine months before the end of the term in office and the Management Board member is not reappointed thereafter,

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

Figures in € thousands		Accrued pension funds as of the end of the reporting period	Pension contribution during the reporting year [2]	Defined benefit obligation	Service cost
Rainer Hundsdörfer [3]	**2017/2018**	315	228	317	228
	2016/2017	85	85 [4]	90	90 [5]
Dirk Kaliebe	**2017/2018**	1,611	141	1,862	141
	2016/2017	1,430	139	1,635	137
Prof. Dr. Ulrich Hermann [6]	**2017/2018**	194	140	224	140
	2016/2017	53	53 [4]	61	61 [5]
Stephan Plenz	**2017/2018**	1,525	141	1,750	141
	2016/2017	1,346	139	1,544	137

[1] The pension entitlement that can be achieved by the age of 65 (Rainer Hundsdörfer; Dirk Kaliebe; Prof. Dr. Ulrich Hermann and Stephan Plenz) is dependent on personal compensation development, the respective EBIT and the return achieved, and hence cannot be determined precisely in advance. If the pension option is utilized and the current assumptions continue to apply, the retirement pension resulting from the accrued pension funds is expected to be as follows: Rainer Hundsdörfer: approx. 7 percent, Prof. Dr. Ulrich Hermann: approx. 36 percent, Dirk Kaliebe: approx. 21 percent and Stephan Plenz: approx. 34 percent of the respective last fixed compensation
[2] For Rainer Hundsdörfer, Dirk Kaliebe, Prof. Dr. Ulrich Hermann and Stephan Plenz, the pension contribution for the reporting year is calculated on the basis of the pensionable income on March 31, without taking into account the earnings-based contribution not yet determined
[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] Member of the Management Board since November 14, 2016

the Management Board member receives a severance payment in the amount of the fixed annual compensation (transitional payment). The entitlement to this fixed annual compensation arises at the time of termination of the service agreement. It does not arise if, when the decision on reappointment is made or by the time of termination of the service agreement, there is good cause for which the Management Board member is responsible that would give the Company a right to termination in accordance with section 626 BGB. The above rule applies accordingly to the payment and eligibility of other compensation.

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

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

Compensation of the Supervisory Board (excluding VAT)

Figures in €	2017/2018				2016/2017			
	Fixed annual compensation	Attendance fees	Committee compensation	Total	Fixed annual compensation	Attendance fees	Committee compensation	Total
Dr. Siegfried Jaschinski [1]	120,000	5,000	7,500	132,500	120,000	6,500	8,000	134,500
Rainer Wagner [2]	80,000	5,000	12,000	97,000	80,000	6,500	10,500	97,000
Ralph Arns	40,000	2,000	0	42,000	40,000	3,000	0	43,000
Edwin Eichler [3]	0	0	0	0	13,333	1,000	0	14,333
Mirko Geiger	40,000	5,000	7,500	52,500	40,000	6,000	7,500	53,500
Karen Heumann	40,000	2,500	3,000	45,500	40,000	2,500	0	42,500
Oliver Jung [4]	36,666	2,500	0	39,166	0	0	0	0
Kirsten Lange	40,000	4,500	6,000	50,500	40,000	6,000	4,500	50,500
Dr. Herbert Meyer	40,000	5,000	22,500	67,500	40,000	6,000	22,500	68,500
Beate Schmitt	40,000	2,000	4,500	46,500	40,000	4,000	3,000	47,000
Prof. Dr.-Ing. Günther Schuh	92,611 [5]	2,500	1,500	96,611	95,417 [5]	4,500	3,000	102,917
Christoph Woesler	40,000	2,000	0	42,000	40,000	3,000	0	43,000
Roman Zitzelsberger	40,000	2,000	0	42,000	40,000	2,000	0	42,000
Total	649,277	40,000	64,500	753,777	628,750	51,000	59,000	738,750

1) Chairman of the Supervisory Board
2) Deputy Chairman of the Supervisory Board
3) Member of the Supervisory Board until July 31, 2016
4) Member of the Supervisory Board since May 23, 2017
5) of which: fixed compensation for membership in the Board of Directors of a foreign subsidiary: € 52,611 (previous year: € 55,417)

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

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

As of March 31, 2018, the **ISSUED CAPITAL** (share capital) of Heidelberger Druckmaschinen Aktiengesellschaft amounted to € 713,562,818.56 and was divided into 278,735,476 no-par-value bearer shares that are not subject to any restriction on transferability. As of the end of the reporting period, the Company held 142,919 treasury shares, from which no rights arise for the Company in accordance with section 71b of the German Stock Corporation Act (AktG).

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

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

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

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

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

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

On July 26, 2012, the Annual General Meeting had 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. It was permitted to disapply shareholders' preemptive subscription rights 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. For this purpose, the share capital of Heidelberger Druckmaschinen Aktiengesellschaft was now contingently increased by up to € 58,625,953.28, divided into 22,900,763 bearer shares (Contingent Capital 2012). In June 2017, 21,297,697 new shares were issued from Contingent Capital 2012 to serve rights under the 2013 convertible bond. This increased the share capital of Heidelberger Druckmaschinen Aktiengesellschaft from € 659,040,714.24 to € 713,562,818.56, now divided into 278,735,476 shares. The remaining issue volume of the 2013 convertible bond of € 3.7 million was fully repaid on maturity on July 10, 2017.

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' preemptive subscription rights can be disapplied in accordance with the further conditions of this authorization. For this purpose, the share capital of Heidelberger Druckmaschinen Aktiengesellschaft was originally contingently increased by up to € 58,625,953.28, divided into 22,900,763 bearer shares. On July 24, 2015, the Annual General Meeting resolved the cancellation of Contingent Capital 2014 to the extent that it is not intended to serve rights under the 2015 convertible bond. The share capital of Heidelberger Druckmaschinen Aktiengesellschaft is now contingently increased by up to € 48,230,453.76, divided into 18,840,021 bearer shares (CONTINGENT CAPITAL 2014), for this purpose; details of Contingent Capital 2014 can be found in Article 3(3) of the Articles of Association.

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

In accordance with the resolution of the Annual General Meeting on July 24, 2015, the Management Board was authorized, with the approval of the Supervisory Board, to increase the share capital of the Company by up to € 131,808,140.80 on one or more occasions by issuing up to 51,487,555 new shares against cash or non-cash contributions by July 23, 2020 (AUTHORIZED CAPITAL 2015). The Management Board was authorized, with the approval of the Supervisory Board, to determine the further content of share rights and the conditions for the issue of shares. Details on Authorized Capital 2015 can be found in Article 3(5) of the Articles of Association.

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

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

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

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

Non-financial Report

The separate combined non-financial report in accordance with sections 315b and 315c in conjunction with sections 289c to 289e HGB for the 2017/2018 financial year is permanently available on our website www.heidelberg.com under ‘Investor Relations’, ‘Reports and Presentations’.

Disclosures on Treasury Shares

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

Corporate Governance Declaration

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

SUPPLEMENTARY REPORT

No significant events occurred after the balance sheet date.

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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HEIDELBERG Annual Report 2017/2018

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Financial Section
2017/2018

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Financial section 2017/2018

Consolidated income statement 2017/2018

Figures in € thousands	Note	1-Apr-2016 to 31-Mar-2017	**1-Apr-2017 to 31-Mar-2018**
Net sales	8	2,524,101	2,420,154
Change in inventories		– 26,523	42,903
Other own work capitalized		58,914	44,347
Total operating performance		**2,556,492**	**2,507,404**
Other operating income	9	91,155	83,790
Cost of materials	10	1,159,519	1,127,502
Staff costs	11	861,961	885,525
Depreciation and amortization	12	72,268	68,972
Other operating expenses	13	463,709	422,078
Result of operating activities [1]		**90,190**	**87,117**
Financial income	15	6,921	3,461
Financial expenses	16	62,864	51,438
Financial result	14	**– 55,943**	**– 47,977**
Net result before taxes		**34,247**	**39,140**
Taxes on income	17	– 1,989	25,575
Net result after taxes		**36,236**	**13,565**
Basic earnings per share according to IAS 33 (in € per share)	34	**0.14**	**0.05**
Diluted earnings per share according to IAS 33 (in € per share)	34	**0.14**	**0.05**

[1] Result of operating activities excluding restructuring result: € 103,432 thousand (April 1, 2016 to March 31, 2017: € 107,824 thousand)

Restructuring result (€ – 16,315 thousand; April 1, 2016 to March 31, 2017: € – 17,634 thousand) = restructuring income (€ 2,091 thousand; April 1, 2016 to March 31, 2017: € 1,964 thousand) less restructuring expenses (€ – 18,406 thousand; April 1, 2016 to March 31, 2017: € – 19,598 thousand)

From the 2017/2018 financial year, the restructuring result (previously: special items) is reported within the corresponding items of the income statement; the figures for the previous year were restated accordingly

Consolidated statement of comprehensive income 2017/2018

Figures in € thousands	Note	1-Apr-2016 to 31-Mar-2017	**1-Apr-2017 to 31-Mar-2018**
Net result after taxes		**36,236**	**13,565**
Other comprehensive income not reclassified to the income statement			
Remeasurement of defined benefit pension plans and similar obligations		16,179	– 30,851
Deferred income taxes	22	– 3,238	– 979
		12,941	**– 31,830**
Other comprehensive income which may subsequently be reclassified to the income statement			
Currency translation			
Change in other comprehensive income		9,069	– 36,344
Change in profit or loss		–	–
		9,069	– 36,344
Financial assets available for sale			
Change outside of profit or loss		145	– 99
Change in profit or loss		–	–
		145	– 99
Cash flow hedges			
Change outside of profit or loss		– 2,555	5,566
Change in profit or loss		– 1,032	– 6,427
		– 3,587	– 861
Deferred income taxes	22	515	– 252
		6,142	**– 37,556**
Total other comprehensive income		19,083	– 69,386
Total comprehensive income		**55,319**	**– 55,821**

Consolidated statement of financial position as of March 31, 2018
Assets

Figures in € thousands	Note	31-Mar-2017	31-Mar-2018
Non-current assets			
Intangible assets	18	239,418	263,158
Property, plant and equipment	19	476,710	525,926
Investment property	19	11,234	9,216
Financial assets	20	13,439	12,186
Receivables from sales financing	21	33,647	37,621
Other receivables and other assets [1]	21	34,209	25,324
Income tax assets		0	79
Deferred tax assets	22	99,237	65,736
		907,894	939,246
Current assets			
Inventories	24	581,495	622,434
Receivables from sales financing	22	24,240	27,990
Trade receivables	22	374,732	369,808
Other receivables and other assets [2]	23	105,530	87,162
Income tax assets		7,477	7,418
Cash and cash equivalents	25	217,660	201,607
		1,311,134	1,316,419
Total assets		**2,219,028**	**2,255,665**

[1] Of which financial assets € 17,928 thousand (previous year: € 30,126 thousand) and non-financial assets € 7,396 thousand (previous year: € 4,083 thousand)
[2] Of which financial assets € 42,180 thousand (previous year: € 58,379 thousand) and non-financial assets € 44,982 thousand (previous year: € 47,151 thousand)

Consolidated statement of financial position as of March 31, 2018

Equity and liabilities

Figures in € thousands	Note	31-Mar-2017	**31-Mar-2018**
Equity	25		
Issued capital		658,676	713,198
Capital reserves, retained earnings and other reserves		– 354,825	– 385,849
Net result after taxes		36,236	13,565
		340,087	340,914
Non-current liabilities			
Provisions for pensions and similar obligations	26	488,253	523,445
Other provisions	27	170,384	141,744
Financial liabilities	28	371,891	402,989
Other liabilities [3]	30	38,966	31,752
Deferred tax liabilities	22	5,218	5,817
		1,074,712	1,105,747
Current liabilities			
Other provisions	27	239,609	212,388
Financial liabilities	28	98,208	35,031
Trade payables	29	190,392	237,454
Income tax liabilities		2,177	3,320
Other liabilities [4]	30	273,843	320,811
		804,229	809,004
Total equity and liabilities		**2,219,028**	**2,255,665**

[3] Of which financial liabilities € 435 thousand (previous year: € 640 thousand) and non-financial liabilities € 31,317 thousand (previous year: € 38,326 thousand)
[4] Of which financial liabilities € 94,505 thousand (previous year: € 91,761 thousand) and non-financial liabilities € 226,306 thousand (previous year: € 182,082 thousand)

Statement of changes in consolidated equity as of March 31, 2018 [1)]

Figures in € thousands	Issued capital	Capital reserves	Retained earnings
April 1, 2016	658,676	29,411	– 310,048
Profit carryforward	0	0	28,134
Total comprehensive income	0	0	12,941
Consolidation adjustments / other changes	0	0	– 1,772
March 31, 2017	**658,676**	**29,411**	**– 270,745**
April 1, 2017	658,676	29,411	– 270,745
Capital increase (partial conversion of convertible bond)	54,522	1,257	0
Profit carryforward	0	0	36,236
Total comprehensive income	0	0	– 31,830
Consolidation adjustments / other changes	0	0	869
March 31, 2018	**713,198**	**30,668**	**– 265,470**

[1)] For further details please refer to note 25

		Other retained earnings	**Total other retained earnings**	**Total capital reserves, retained earnings and other retained earnings**	**Net result after taxes**	**Total**
Currency translation	Fair value of other financial assets	Fair value of cash flow hedges				
–121,358	–803	2,528	–119,633	–400,270	28,134	286,540
0	0	0	0	28,134	–28,134	0
9,069	1,904	–4,831	6,142	19,083	36,236	55,319
0	0	0	0	–1,772	–	–1,772
–112,289	**1,101**	**–2,303**	**–113,491**	**–354,825**	**36,236**	**340,087**
–112,289	1,101	–2,303	–113,491	–354,825	36,236	340,087
0	0	0	0	1,257	0	55,779
0	0	0	0	36,236	–36,236	0
–36,344	–1,563	351	–37,556	–69,386	13,565	–55,821
0	0	0	0	869	–	869
–148,633	**–463**	**–1,952**	**–151,047**	**–385,849**	**13,565**	**340,914**

Consolidated statement of cash flows 2017/2018 [1)]

Figures in € thousands	1-Apr-2016 to 31-Mar-2017	**1-Apr-2017 to 31-Mar-2018**
Net result after taxes	36,236	13,565
Depreciation, amortization, write-downs and reversals [2)]	74,967	69,126
Change in pension provisions	9,144	6,869
Change in deferred tax assets/deferred tax liabilities/tax provisions	–13,853	13,327
Result from disposals [2)]	229	1,034
Cash flow	**106,723**	**103,921**
Change in inventories	30,146	–52,462
Change in sales financing	9,064	–9,854
Change in trade receivables/payables	4,358	26,594
Change in other provisions	–28,714	–29,659
Change in other items of the statement of financial position	17,661	49,143
Other operating changes	**32,515**	**–16,238**
Cash generated by operating activities [3)]	**139,238**	**87,683**
Intangible assets/property, plant and equipment/investment property		
Investments	–102,245	–114,567
Income from disposals	16,040	9,871
Business acquisitions/corporate sales		
Investments	–102	–14,007
Income from disposals	674	615
Financial assets		
Investments	–15	–15
Income from disposals	127	3
Cash used in investing activities before cash investment	**–85,521**	**–118,100**
Cash investment	–29,440	22,674
Cash used in investing activities	**–114,961**	**–95,426**
Borrowing of financial liabilities	125,386	14,323
Repayment of financial liabilities	–150,019	–18,302
Cash used in financing activities	**–24,633**	**–3,979**
Net change in cash and cash equivalents	**–356**	**–11,722**
Cash and cash equivalents at the beginning of the year	**215,472**	**217,660**
Changes in the scope of consolidation	–	1,408
Currency adjustments	2,544	–5,739
Net change in cash and cash equivalents	–356	–11,722
Cash and cash equivalents at the end of the year	**217,660**	**201,607**
Cash generated by operating activities	139,238	87,683
Cash used in investing activities	–114,961	–95,426
Free cash flow	**24,277**	**–7,743**

1) For further details please refer to note 35
2) Relates to intangible assets, property, plant and equipment, investment property and financial assets
3) Includes income taxes paid and refunded of € 11,684 thousand (previous year: € 15,557 thousand) and € 3,197 thousand (previous year: € 4,103 thousand) respectively.
The interest expenses and interest income amount to € 29,848 thousand (previous year: € 41,135 thousand) and €6,325thousand (previous year € 6,821 thousand) respectively

Financial section 2017/2018

Notes to the consolidated financial statements for the financial year April 1, 2017 to March 31, 2018

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	Reclas-sifications [1]	Currency adjustments	Disposals	**As of end of financial year**
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**
2017/2018							
Intangible assets							
Goodwill	126,051	3,013	–	–	-239	–	128,825
Development costs	326,442	–	27,338	–	– 188	–	353,592
Software/other rights	114,232	9,714	3,416	77	– 996	6,611	119,832
	566,725	**12,727**	**30,754**	**77**	**– 1,423**	**6,611**	**602,249**
Property, plant and equipment							
Land and buildings	630,978	3,863	29,592	3,906	– 8,176	2,298	657,865
Technical equipment and machinery	563,247	455	9,275	927	– 2,331	24,458	547,115
Other equipment, operating and office equipment	668,289	726	35,066	1,638	– 7,544	34,927	663,248
Advance payments and assets under construction	10,294	9	36,923	– 4,889	– 2	383	41,952
	1,872,808	**5,053**	**110,856**	**1,582**	**– 18,053**	**62,066**	**1,910,180**
Investment property	**15,699**	**–**	**–**	**– 1,721**	**– 47**	**–**	**13,931**

[1] Includes reclassifications to “Assets held for sale” of € 0 thousand (previous year: € 0 thousand)
[2] Including write-downs of € 175 thousand (previous year: € 1,902 thousand), see note 12

							Cumulative depreciation and amortization	**Carrying amounts**
As of start of financial year	Change in scope of consolidation	Depreciation and amortization [2), 3)]	Reclassifications [1)]	Currency adjustments	Disposals	Reversals	**As of end of financial year**	**As of end of financial year**
1,604	–	–	–	–	–	–	1,604	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**
1,604	–	–	–	–	–	–	1,604	127,221
239,524	–	10,044	–	– 2	–	–	249,566	104,026
86,179	1,444	7,553	76	– 814	6,517	–	87,921	31,911
327,307	**1,444**	**17,597**	**76**	**– 816**	**6,517**	**–**	**339,091**	**263,158**
438,616	–	11,102	912	– 4,560	2,240	–	443,830	214,035
432,617	–	14,827	– 476	– 1,920	19,692	–	425,356	121,759
524,865	18	25,316	– 643	– 5,340	29,148	–	515,068	148,180
0	–	–	–	–	–	–	–	41,952
1,396,098	**18**	**51,245**	**– 207**	**– 11,820**	**51,080**	**–**	**1,384,254**	**525,926**
4,465	**0**	**130**	**140**	**– 20**	**–**	**–**	**4,715**	**9,216**

General notes

1 Basis for the preparation of the consolidated financial statements

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

Heidelberger Druckmaschinen Aktiengesellschaft, based in Heidelberg, Germany, Kurfürsten-Anlage 52 – 60, is the parent company of the Heidelberg Group and is entered in the commercial register of the Mannheim Local Court, Germany, under register number HRB 330004. The consolidated financial statements of Heidelberger Druckmaschinen Aktiengesellschaft were prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union and in accordance with the supplemental provisions of Section 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).

From the 2017/2018 financial year, what was previously reported as “special items” is reported as the “restructuring result” and within the corresponding items of the income statement.

These consolidated financial statements relate to financial year 2017/2018 (April 1, 2017, to March 31, 2018). They were approved for publication by the Management Board of Heidelberger Druckmaschinen Aktiengesellschaft on May 23, 2018.

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 2017/2018.

Standards	Publication by the IASB / IFRS IC	Date of adoption [1]	Published in Official Journal of the EU	Effects
Amendments to standards				
Amendments to IAS 7: Disclosure Initiative	29-Jan-2016	1-Jan-2017	9-Nov-2017	Expansion of disclosures under note 28
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	19-Jan-2016	1-Jan-2017	9-Nov-2017	None
Annual Improvements to IFRS Standards 2014 – 2016 Cycle	8-Dec-2016	1-Jan-2017 and 1-Jan-2018	8-Feb-2018	None

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

New accounting provisions

The IASB and the IFRS IC approved and amended other standards and interpretations, whose application is not yet compulsory in financial year 2017/2018 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 19: Plan Amendment, Curtailment or Settlement	7-Feb-2018	1-Jan-2019	TBD	¬ The amendments include the stipulation that the current service cost and the net interest expense for the period after an amendment, curtailment or settlement of a defined benefit plan must be determined using the current actuarial assumptions that were used for the necessary remeasurement of the net liability (of the asset).	Currently being examined
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures	12-Oct-2017	1-Jan-2019	TBD	¬ The amendments clarify that long-term interests in associates and joint ventures to which the equity method is not applied must be recognized and measured according to IFRS 9.	None
Amendments to IAS 40: Transfers to Investment Property	8-Dec-2016	1-Jan-2018	15-Mar-2018	¬ 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	27-Feb-2018	¬ 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	9-Nov-2017	¬ 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 9: Prepayment Features with Negative Compensation	12-Oct-2017	1-Jan-2019	26-Mar-2018	¬ The amendments enable measurement at amortized cost or fair value through other comprehensive income for prepayable financial assets for which the terminating party receives reasonable additional compensation.	None
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	TBD	TBD	¬ 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 Standards 2014 – 2016 Cycle	8-Dec-2016	1-Jan-2017 and 1-Jan-2018	8-Feb-2018	¬ 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
Annual Improvements to IFRS 2015 – 2017 Cycle	12-Dec-2017	1-Jan-2019	TBD	¬ Minor and non-urgent improvements are made to IFRS as part of the IASB's annual improvement project. These relate to the standards IFRS 3, IFRS 11, IAS 12 and IAS 23.	None
Amendments to References to the Conceptual Framework in IFRS Standards	29-Mar-2018	1-Jan-2020	TBD	¬ In March 2018, the IASB published a revised version of its Conceptual Framework. ¬ As individual standards and interpretations refer directly to the guidelines in the Conceptual Framework, these references were updated according to the revised version of the Conceptual Framework.	None
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	TBD	¬ 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. ¬ The European Commission has decided not to endorse IFRS 14 in EU law.	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

[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
IFRS 16: Leases	13-Jan-2016	1-Jan-2019	9-Nov-2017	¬ IFRS 16 replaces the previous standard IAS 17. ¬ The changes mainly relate to accounting by lessees, who will have to recognize assets for rights of use obtained and liabilities for payment obligations assumed under all leases in their statements of financial position. There are recognition exemptions for leased assets of a low value and for short-term leases.	Please refer to remarks below this table
IFRS 17: Insurance Contracts	18-May-2017	1-Jan-2021	TBD	¬ IFRS 17 replaces the previous standard IFRS 4. ¬ The standard provides three variants for the future accounting treatment of insurance contracts. On initial recognition, insurance contracts are measured at their settlement amount plus the service margin.	Currently being examined
New interpretations					
IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration	8-Dec-2016	1-Jan-2018	3-Apr-2018	¬ 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.	None
IFRIC Interpretation 23: Uncertainty over Income Tax Treatments	7-Jun-2017	1-Jan-2019	TBD	¬ The interpretation includes provisions on the recognition and measurement of uncertainties in income taxes and thus closes a loophole with regard to this issue in IAS 12.	Currently being examined

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

The effects of the introduction of IFRS 9: Financial Instruments were analyzed in a project on the implementation of the new standard. This focused on the analysis of the effects of the new impairment model and the revised hedge accounting requirements. The new requirements for classification will lead to recognition of financial assets largely 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. Heidelberg will choose the modified retrospective method as a transitional method for the initial application. Accordingly, the previous year’s figures will not be adjusted; the effects of the initial application will be recognized cumulatively in retained earnings as of April 1, 2018. No material changeover effect is expected with regard to the new classification and measurement provisions. In line with the modified retrospective method, Heidelberg expects equity to be reduced by a low seven-figure effect on trade receivables and receivables from sales financing as of April 1, 2018. There are no changeover effects with regard to hedge accounting.

The effects of the new requirements of IFRS 15: Revenue from Contracts with Customers was analyzed in a project on the implementation of the new standard. In particular, this comprised qualitative and quantitative analyses, contractual analyses and surveys of the sales-related areas. There will be changes in the statement of financial position due to the separate recognition of contractual assets and liabilities. The notes to the consolidated financial statements will contain additional qualitative and quantitative disclosures, such as the cumulative amount of the performance obligations of all relevant contracts with customers not yet fulfilled at the end of the reporting period. The ascertainment and structure of these disclosures were analyzed as part of the implementation project. Overall, the analysis in this project has shown 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 choose the modified retrospective method as a transitional method for the initial application, so that, in particular, the comparative figures of prior-year periods will not be adjusted.

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 effects of the new requirements of IFRS 16 are currently still being analyzed as part of a Group-wide project on the implementation of the new standard, which incorporates qualitative and quantitative analyses. Its impact on the presentation of financial position and performance therefore cannot yet be conclusively assessed at this time. In this context, please refer to the information on other financial obligations under operating leases in note 33. Heidelberg will presumably choose the modified retrospective method as a transitional method for initial application.

3 Scope of consolidation

The consolidated financial statements of Heidelberger Druckmaschinen Aktiengesellschaft include a total of 72 (previous year: 70) domestic and foreign companies controlled by Heidelberger Druckmaschinen Aktiengesellschaft within the meaning of IFRS 10. Of these companies, 61 (previous year: 61) are located outside Germany.

	2016/2017	**2017/2018**
April 1	73	70
Additions	–	3
Disposals (including mergers)	3	1
March 31	70	72

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 144 to 147).

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

As of July 1, 2017, Heidelberger Druckmaschinen Aktiengesellschaft took over the coatings and pressroom chemicals business for the Europe, Middle East and Africa region with a total of about 70 staff from Fujifilm Europe B.V., Tilburg, the Netherlands. The acquisition includes the development, production and marketing operations at the production sites in Reutlingen, Germany, and Kruibeke, Belgium, as well as at the sales locations in Belgium, Germany, Spain, Sweden and Finland. The takeover was concluded in the form of an asset deal by acquiring the assets and liabilities associated with this business in the relevant countries. Heidelberger Druckmaschinen Aktiengesellschaft is thereby expanding in the attractive growth segment for consumables. This transaction is another step in pursuing the Company's growth strategy of developing a comprehensive cross-sector portfolio geared toward specific customer requirements. The acquired operations account for a sales volume of approximately € 25 million. Heidelberg is thus roughly trebling its previous sales of pressroom chemicals and achieving a market share of around 10 percent in Europe.

With effect as of May 1, 2017, Heidelberger Druckmaschinen Aktiengesellschaft acquired all shares in docufy GmbH, Bamberg, Germany. docufy is a manufacturer of professional software solutions for technical documentation and the first provider of multi-level documentation. docufy solutions optimize processes for creating technical documentation and making them available to all business areas along the value chain. In recent years, docufy GmbH has enjoyed strong and profitable growth and most recently generated sales of € 6.5 million with around 80 employees. The acquisition of docufy is part of the plan to boost the Digital Platforms business area, which comprises IT solutions for the design, production and servicing of innovative high-tech products for industrial customers and offers end-to-end process support in digital product life cycle management. At the same time, the acquisition expands the existing base of industrial customers, offering Heidelberg additional sales and earnings potential.

The purchase price for both acquisitions totaling € 14,007 thousand was paid in cash. Performance-based payments (earn-out) were agreed in connection with the acquisition of docufy GmbH, which are linked to specific targets stipulated in the purchase agreement. The obligation of the earn-out is reported under other provisions. Total transaction costs in the low single-digit million euro range were incurred in connection with the two acquisitions. The transaction costs were reported in profit or loss in the result of operating activities under other operating expenses. The purchased assets and liabilities were carried at fair value in the context of purchase price allocation in accordance with IFRS 3. The fair values of the assets and liabilities identified in the two acquisitions were as follows at the date of acquisition:

	Fair value at date of acquisition
Non-current assets	
Intangible assets and property, plant and equipment	13,060
Current assets	
Inventories	3,040
Other assets	3,359
	6,399
Total assets	**19,459**
Non-current liabilities	
Provisions	687
Current liabilities	
Provisions	765
Liabilities	4,417
	5,182
Total liabilities	**5,869**
Net assets at fair value	**13,590**

The biggest effects of the acquisitions on the consolidated statement of financial position and the consolidated income statement resulted from the initial consolidation of intangible assets and property, plant and equipment at fair value, the goodwill (€ 3,013 thousand) from the acquisition of docufy and the reversal of the remaining difference (€ 2,596 thousand) included in “Other operating income” from the business activities acquired from Fujifilm Europe B.V. Intangible assets primarily include customer relationships, technologies, formulations and trademarks. The negative difference recognized for the corporate acquisition of Fujifilm Europe B.V. was caused by the purchase price, which among other things was influenced by Fujifilm Europe B.V.'s focus on its core business.

For Heidelberg, the goodwill from the acquisition of docufy GmbH of € 3,013 thousand reflects a strategic addition to the smart factory product portfolio and thus a further step toward Industry 4.0. In addition, the acquisition of docufy GmbH gives Heidelberg access to expertise and talent in the fields of web services, smart devices, internet technology, augmented reality, cloud computing and software as a service (SaaS) and thus enables the faster implementation of the service product life-cycle management road map at Heidelberg.

The pro rata net sales, which represent the additional sales for the Heidelberg Group and consequently do not include internal group sales generated by Heidelberg affiliates with business activities acquired from Fujifilm Europe B.V. and with docufy GmbH, for the period after the acquisition date amount to around € 22.6 million, assuming a pro rata net result after taxes. This pro rata net result after taxes also includes depreciation and amortization on intangible assets and property, plant and equipment recognized at fair value, but without consideration of the reversal in profit or loss of the negative difference from the business activities acquired from Fujifilm Europe B.V. or the expenses attributable to the integration of the acquired business activities into the Heidelberg Group.

Had these acquisitions already been included in the consolidated financial statements of the Heidelberg Group as of April 1, 2017, net sales would have been around € 6.5 million higher, with a negligible effect on the net result after taxes.

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	
	2016/2017 €1 =	**2017/2018 €1 =**	31-Mar-2017 €1 =	**31-Mar-2018 €1 =**
AUD	1.4563	1.5210	1.3982	1.6036
CAD	1.4376	1.5092	1.4265	1.5895
CHF	1.0827	1.1404	1.0696	1.1779
CNY	7.3725	7.7614	7.3642	7.7468
GBP	0.8417	0.8815	0.8555	0.8749
HKD	8.4854	9.2030	8.3074	9.6696
JPY	118.5267	130.3858	119.5500	131.1500
KRW	1,252.6275	1,302.7775	1,194.5400	1,310.8900
USD	1.0936	1.1781	1.0691	1.2321

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

6 General accounting policies

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

General principles

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

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

Uniform accounting policies

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

Consistency of accounting policies

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

Revenue recognition

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. 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):

	2016/2017	**2017/2018**
Development costs	3 to 12	3 to 12
Software/other rights	3 to 9	3 to 9
Buildings	25 to 50	25 to 50
Technical equipment and machinery	12 to 31	12 to 31
Other equipment, operating and office equipment	4 to 26	4 to 26
Investment property	25 to 50	25 to 50

Impairment of non-financial assets

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

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

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

Inventories

Inventories are carried at the lower of cost and net realizable value. 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 31 and to the Risk and Opportunity Report in the Group management report.

Financial assets

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

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

Securities are classified as financial assets available for sale. In line with IAS 39, these financial instruments are carried at fair value. 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 appropriate classification of securities is determined at the time of purchase and is reviewed as of the end of each reporting period.

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

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

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 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 28.15 percent (previous year: 28.19 percent) is used to calculate domestic deferred taxes. In addition to the corporation tax of 15 percent and the solidarity surcharge of 5.5 percent, the average trade tax rate was also taken into account.

In accordance with the provisions of IAS 12, neither deferred tax assets nor liabilities have been discounted. Deferred tax assets were offset against deferred tax liabilities when required according to the provisions of IAS 12. In line with this, offsetting must be effected if there is a legally enforceable right to offset the actual taxes and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority and originate from the same company or in the same group of controlled companies.

Provisions for pensions and similar obligations

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

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

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

Cash-settled share-based payment

From the 2017/2018 financial year, in the context of the multi-year variable remuneration of the Management Board, share-based, cash-settled payment has been granted on the basis of the total shareholder return performance indicator. This is then paid out at the end of the respective three-year performance period. In accordance with IFRS 2, this remuneration component is measured on the basis of fair value using a Monte Carlo situation. Given a three-year vesting period, the respective fair value is recalculated as of the end of each reporting period and as of the settlement date, and recognized in staff costs starting from the year granted.

Advance payments received

Advance payments received from customers are recognized under liabilities.

Government grants

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

Contingent liabilities

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

7 Estimates and judgments

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

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

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

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

The goodwill impairment test is based on the parameters listed in note 18. As in the previous year, increasing the discount rate before taxes by one percentage point to 7.5 percent (previous year: 7.8 percent) for the cash-generating unit Heidelberg Digital Technology (previous year: Heidelberg Equipment) and 7.6 percent (previous year: 7.9 percent) for the cash-generating unit Heidelberg Digital Business and Services (previous year: 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 26 for information on the sensitivity analysis regarding provisions for pensions and similar obligations.

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

Notes to the consolidated income statement

8 Net sales

In addition to income from sales of products and services, sales include income from commission, finance and operating leases totaling € 7,470 thousand (previous year: € 6,247 thousand) and interest income from sales financing and finance leases amounting to € 4,138 thousand (previous year: € 4,651 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 36.

9 Other operating income

	2016/2017	**2017/2018**
Reversal of other provisions and accruals	41,901	28,461
Hedging/exchange rate gains	7,343	14,015
Income from operating facilities	10,982	7,687
Recoveries on loans and other assets previously written down	6,076	3,315
Income from disposals of intangible assets, property, plant and equipment and investment property	643	804
Other income	24,210	29,508
	91,155	**83,790**

The items "Reversal of provisions/accruals" and "Other income" also include restructuring income totaling € 2,091 thousand (previous year: € 1,868 thousand) and € 0 thousand (previous year: € 96 thousand) respectively. In the reporting period, this resulted primarily from the reversal of provisions for HR measures recognized in the previous year, which essentially related to portfolio and capacity adjustments, of € 818 thousand (previous year: € 1,905 thousand) and of provisions for vacant premises of € 1,096 thousand (previous year: € 0 thousand).

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

10 Cost of materials

	2016/2017	**2017/2018**
Cost of raw materials, consumables and supplies, and of goods purchased and held for resale	1,038,359	1,004,878
Cost of purchased services	120,069	121,700
Interest expense of Heidelberg Financial Services	1,091	924
	1,159,519	**1,127,502**

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

11 Staff costs and number of employees

	2016/2017	**2017/2018**
Wages and salaries	717,814	742,362
Cost of/income from pension scheme	19,979	17,431
Other social security contributions and expenses	124,168	125,732
	861,961	**885,525**

The item "Wages and salaries" also includes restructuring expenses totaling € 16,908 thousand (previous year: € 14,888 thousand). In the reporting period, they primarily related to expenses in connection with the adjustment of personnel capacities at the Company sites in Germany of € 13,477 thousand (previous year: € 10,552 thousand).

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

	Average		As of	
	2016/2017	**2017/2018**	31-Mar-2017	**31-Mar-2018**
Europe, Middle East and Africa	8,392	8,519	8,440	8,585
Asia/Pacific	1,772	1,683	1,754	1,677
Eastern Europe	492	493	487	491
North America	739	721	733	712
South America	114	94	97	98
	11,509	11,510	11,511	11,563
Trainees	364	345	323	311
	11,873	**11,855**	**11,834**	**11,874**

[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 € 68,972 thousand (previous year: € 72,268 thousand), also including restructuring expenses of € 641 thousand (previous year: € 1,139 thousand), relate to intangible assets of € 17,597 thousand (previous year: € 19,396 thousand), property, plant and equipment of € 51,245 thousand (previous year: € 52,603 thousand) and investment property of € 130 thousand (previous year: € 269 thousand).

Impairment of € 175 thousand (previous year: € 1,902 thousand) essentially relates to software and other rights and is attributable to the Heidelberg Digital Technology and Heidelberg Digital Business and Services segments.

13 Other operating expenses

	2016/2017	**2017/2018**
Other deliveries and services not included in the cost of materials	143,190	137,337
Special direct sales expenses including freight charges	96,128	88,922
Travel expenses	41,259	39,534
Rent and leases	47,741	39,352
Hedging/exchange rate losses	6,242	13,259
Insurance expense	10,592	9,847
Bad debt allowances and impairment on other assets	5,564	9,143
Additions to provisions and accruals relating to several types of expense	28,233	8,377
Costs of car fleet (excluding leases)	5,859	5,767
Other overheads	78,901	70,540
	463,709	**422,078**

The item "Additions to provisions and accruals relating to several types of expense" also includes restructuring expenses totaling € 857 thousand (previous year: € 3,571 thousand).

14 Financial result

	2016/2017	**2017/2018**
Financial income	6,921	3,461
Financial expenses	62,864	51,438
Financial result	**– 55,943**	**– 47,977**

15 Financial income

	2016/2017	**2017/2018**
Interest and similar income	3,840	2,885
Income from financial assets/loans/securities	3,081	576
Financial income	**6,921**	**3,461**

16 Financial expenses

	2016/2017	**2017/2018**
Interest and similar expenses	56,149	48,593
of which: net interest cost of pensions	(11,653)	(10,675)
Expenses for financial assets/loans/securities	6,715	2,845
Financial expenses	**62,864**	**51,438**

Interest and similar expenses include primarily expenses in connection with the convertible bond 2015, the corporate bond, the credit facility and the development loan (see note 28). The net interest expense for pensions is the net total of interest expenses on defined benefit obligations (DBO) and (interest) income on plan assets.

The cost of financial assets/loans/securities includes write-downs of € 193 thousand (previous year: € 2,713 thousand).

17 Taxes on income

Taxes on income are broken down as follows:

	2016/2017	**2017/2018**
Current taxes	8,124	4,025
of which Germany	(1,286)	(2,015)
of which abroad	(6,838)	(2,010)
Deferred taxes	– 10,113	21,550
of which Germany	(– 100)	(– 408)
of which abroad	(– 10,013)	(21,958)
	– 1,989	**25,575**

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 (12.32 percent; previous year: 12.36 percent) and comparable taxes of the foreign subsidiaries. The nominal total German tax rate is 28.15 percent for the financial year (previous year: 28.19 percent).

No deferred tax liabilities were recognized for temporary differences on shares in subsidiaries of € 181,564 thousand (previous year: € 185,534 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 € 0 thousand (previous year: € 459 thousand) and € 1,992 thousand (previous year: € 3,206 thousand) respectively. Driven by the US tax reform, the US tax group is reporting deferred tax expenses of € 25,120 thousand, while the cut in the US federal corporate income tax rate from 35 percent to 21 percent did not affect cash.

Total tax loss carryforwards for which no deferred tax assets were recognized amount to € 1,284,018 thousand (previous year: € 1,277,236 thousand). Of these, € 12,534 thousand can be used by 2021 (previous year: € 7,517 thousand by 2020), € 3 thousand by 2022 (previous year: € 2 thousand by 2021) € 428 thousand by 2023 (previous year: € 593 thousand by 2022) and € 1,271,053 by 2024 and later (previous year: € 1,269,124 by 2023 and later).

For interest carryforwards amounting to € 78,712 thousand (previous year: € 73,996 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 € 1,802 thousand in the year under review (previous year: € 840 thousand). Deferred tax assets totaling € 5,468 thousand (previous year: € 7,270 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 € 897 thousand (previous year: € 1,126 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 foreign European sales companies. The reversal is essentially due to the economic recovery of the sales company.

Deferred tax assets of € 7,786 thousand (previous year: € 76,070 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 € 3,801 thousand (previous year: € 4,752 thousand).

Current taxes were reduced in the reporting year by € 1,675 thousand (previous year: € 2,424 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 € 5,788 thousand (previous year: € 1,813 thousand).

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

	2016/2017	**2017/2018**
Net result before taxes	34,247	39,140
Theoretical tax rate in percent	28.19	28.15
Theoretical tax income/expense	**9,654**	**11,018**
Change in theoretical tax income/expense due to:		
Differing tax rate	– 2,246	21,123
Tax loss carryforwards [1]	13,971	4,729
Reduction due to tax-free income	– 15,425	– 4,494
Tax increase due to non-deductible expenses	9,527	10,034
Change in tax provisions/taxes attributable to previous years/impairment or reversal of deferred tax assets on temporary differences	– 17,724	– 16,808
Other	254	– 27
Taxes on income	**– 1,989**	**25,575**
Tax rate in percent	**– 5.81**	**65.34**

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

Notes to the consolidated statement of financial position

18 Intangible assets

GOODWILL includes amounts arising from the takeover of businesses (asset deals) and from the acquisition of shares in companies (share deals). For the purpose of impairment testing, assets are allocated to cash-generating units. These are the same as the segments (see note 36). The carrying amounts of the goodwill associated with the cash-generating units Heidelberg Digital Technology (previous year: Heidelberg Equipment) and Heidelberg Digital Business and Services (previous year: Heidelberg Services) total € 60,816 thousand (previous year: € 64,948 thousand) and € 66,405 thousand (previous year: € 59,499 thousand) respectively.

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

As a result, and as in the previous year, there were no impairment requirements for the Heidelberg Digital Technology (previous year: Heidelberg Equipment), Heidelberg

Digital Business and Services (previous year: 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 6.5 percent (previous year: 6.8 percent) for the Heidelberg Digital Technology (previous year: Heidelberg Equipment) cash-generating unit and of 6.6 percent (previous year: 6.9 percent) for the Heidelberg Digital Business and Services (previous year: Heidelberg Services) cash-generating unit.

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

Capitalized **DEVELOPMENT COSTS** mainly relate to the development of machinery in the digital printing sector in the Heidelberg Digital Technology and the Heidelberg Digital Business and Services segments. Non-capitalized development costs from all segments – including research expenses – amount to € 93,485 thousand in the reporting year (previous year: € 84,038 thousand).

19 Property, plant and equipment and investment property

The carrying amounts of assets capitalized in non-current assets from finance leases in which we are the lessee are € 769 thousand (previous year: € 1,204 thousand) for land and buildings and € 3,146 thousand (previous year: € 3,946 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 € 9,075 thousand (previous year: € 10,779 thousand). These assets are reported under technical equipment and machinery. These assets are printing presses leased to customers. The gross carrying amounts were € 19,803 thousand (previous year: € 30,763 thousand) and cumulative depreciation amounted to € 10,728 thousand (previous year: € 19,983 thousand). Depreciation of € 3,485 thousand (previous year: € 4,039 thousand) was recognized in the reporting year. Future lease income of € 10,217 thousand (previous year: € 3,280 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 € 2,700 thousand (previous year: € 1,236 thousand), € 7,517 thousand (previous year: € 2,021 thousand) and € 0 thousand (previous year: € 23 thousand) respectively.

In connection with the refinancing of the Heidelberg Group (see note 28), property, plant and equipment, as well as investment property were pledged as collateral by way of assignment and the appointment of a collective land charge. The carrying amounts of this collateral as of the end of the reporting period were € 381,798 thousand (previous year: € 331,156 thousand) and € 5,097 thousand (previous year: € 5,064 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 € 12,352 thousand (previous year: € 12,879 thousand). Investment property with a fair value of € 5,191 thousand (previous year: € 6,942 thousand) was measured by non-Group independent experts in line with internationally acknowledged valuation methods. The other fair values were derived from current market prices of comparable real estate.

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

20 Financial assets

Financial assets include shares in subsidiaries totaling € 4,945 thousand (previous year: € 5,920 thousand), other investments of € 3,388 thousand (previous year: € 3,388 thousand) and securities of € 3,853 thousand (previous year: € 4,131 thousand). Information on the fair value of the securities is included in note 31.

21 Receivables and other assets

			31-Mar-2017			**31-Mar-2018**
	Current	Non-current	Total	Current	Non-current	**Total**
Receivables from sales financing	**24,240**	**33,647**	**57,887**	**27,990**	**37,621**	**65,611**
Trade receivables	**374,732**	**–**	**374,732**	**369,808**	**–**	**369,808**
Other receivables and other assets						
Other tax assets	19,323	4	19,327	22,727	4	22,731
Loans	3,468	28,565	32,033	10,199	16,857	27,056
Derivative financial instruments	3,386	–	3,386	2,885	–	2,885
Deferred income	13,549	666	14,215	11,710	625	12,335
Other assets	65,804	4,974	70,778	39,641	7,838	47,479
	105,530	**34,209**	**139,739**	**87,162**	**25,324**	**112,486**

In the reporting year, plan assets of € 1,900 thousand (previous year: € 2,433 thousand) are included in non-current other assets (see note 26).

In connection with the refinancing of the Heidelberg Group (see note 28), trade receivables, receivables from sales financing and other receivables and other assets were assigned as collateral by way of undisclosed assignment. The carrying amounts of this collateral as of the end of the reporting period were € 89,869 thousand (previous year: € 92,814 thousand), € 1,146 thousand (previous year: € 33,029 thousand) and € 0 thousand (previous year: € 1,889 thousand) respectively. Other assets include, among other things, time deposits of € 0 thousand (previous year: € 20,000 thousand).

Receivables from sales financing

RECEIVABLES FROM SALES FINANCING are shown in the following table:

Contract currency	Carrying amount 31-Mar-2017 in € thousands	Remaining term in years	Effective interest rate in percent	Carrying amount **31-Mar-2018** in € thousands	Remaining term in years	Effective interest rate in percent
EUR	31,231	up to 7	up to 14	35,195	up to 8	up to 14
KRW	16,181	up to 7	up to 9	19,179	up to 7	up to 9
AUD	5,158	up to 7	up to 9	3,293	up to 6	up to 9
USD	325	up to 2	up to 10	525	up to 4	up to 12
Various	4,992			7,419		
	57,887			**65,611**		

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 € 6,698 thousand (previous year: € 6,113 thousand) was recognized for receivables from sales financing with a gross carrying amount of € 12,440 thousand (previous year: € 16,684 thousand). The derived market value of the collateral held for receivables from sales financing was € 57,135 thousand (previous year: € 49,954 thousand) as of the end of the reporting period. This collateral is essentially reservations of title, with the amount of security varying from region to region.

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

	31-Mar-2017	**31-Mar-2018**
Receivables from sales financing neither past due nor impaired	41,276	54,963
Receivables past due but not impaired		
less than 30 days	2,027	2,754
between 30 and 60 days	1,397	207
between 60 and 90 days	58	135
between 90 and 180 days	632	283
more than 180 days	1,926	1,527
Total	6,040	4,906
	47,316	**59,869**

The total impairment loss in the period for receivables from sales financing was € 2,296 thousand (previous year: € 1,152 thousand). Of this, impairment amounts booked to allowance accounts developed as follows:

	2016/2017	**2017/2018**
As of the start of the financial year	9,146	6,113
Additions	1,054	2,253
Utilization	– 830	– 372
Reversals	– 3,270	– 1,277
Change in scope of consolidation, currency adjustments, other changes	13	– 19
As of the end of the financial year	**6,113**	**6,698**

Receivables from sales financing include lease receivables from finance leases in which in particular our financing companies act as lessors. The present value of outstanding lease payments (carrying amount) is € 1,275 thousand (previous year: € 663 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 € 14,049 thousand (previous year: € 17,714 thousand) was recognized for trade receivables with a gross carrying amount of € 78,236 thousand (previous year: € 79,763 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-2017	**31-Mar-2018**
Trade receivables neither past due nor impaired	238,807	219,662
Receivables past due but not impaired		
less than 30 days	41,757	49,178
between 30 and 60 days	14,074	19,106
between 60 and 90 days	3,935	6,089
between 90 and 180 days	6,922	4,409
more than 180 days	7,188	7,177
Total	73,876	85,959
	312,683	**305,621**

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 € 189,885 thousand (previous year: € 175,507 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 € 6,505 thousand (previous year: € 4,967 thousand). Of this, impairment amounts booked to allowance accounts developed as follows:

	2016/2017	**2017/2018**
As of the start of the financial year	30,045	17,714
Additions	4,103	5,149
Utilization	−12,179	−5,888
Reversals	−3,612	−2,317
Change in scope of consolidation, currency adjustments, other changes	−643	−609
As of the end of the financial year	**17,714**	**14,049**

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 € 4,470 thousand (previous year: € 4,648 thousand) and € 4,533 thousand (previous year: € 6,521 thousand) relate to loans (gross carrying amount: € 31,526 thousand; previous year: € 36,681 thousand) and other financial assets (gross carrying amount: € 34,700 thousand; previous year: € 59,607 thousand) respectively.

Of the impairment recognized on loans in the previous year, € 79 thousand (previous year: € 6 thousand) was utilized and € 0 thousand (previous year: € 0 thousand) was reversed. Additions to impairment losses were not required (previous year: € 32 thousand). Of the impairment recognized on other financial assets in the previous year, € 23 thousand (previous year: € 428 thousand) was utilized and € 0 thousand (previous year: € 660 thousand) was reversed. Additions of € 309 thousand were required (previous year: € 94 thousand).

€ 1,157 thousand (previous year: € 1,364 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 € 1,369 thousand (previous year: € 1,699 thousand) and asset fair value hedges of € 1,516 thousand (previous year: € 1,687 thousand).

22 Deferred tax assets and deferred tax liabilities

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

	31-Mar-2017		**31-Mar-2018**	
	Assets	Liabilities	Assets	Liabilities
Tax loss carry-forwards	32,094	–	23,064	–
Assets:				
Intangible assets/property, plant and equipment/investment property/financial assets	1,580	5,986	2,889	8,500
Inventories, receivables and other assets	9,749	2,043	8,634	1,779
Securities	52	–	4	–
Liabilities:				
Provisions	38,954	1,135	21,891	616
Liabilities	20,911	157	14,580	248
Gross amount	103,340	9,321	71,062	11,143
Offsetting	4,103	4,103	5,326	5,326
Carrying amount	**99,237**	**5,218**	**65,736**	**5,817**

Deferred tax assets include non-current deferred taxes of € 40,553 thousand (previous year: € 60,484 thousand). Deferred tax liabilities include non-current deferred taxes of € 4,706 thousand (previous year: € 3,739 thousand).

Due to currency translation, deferred tax assets decreased by € 9,604 thousand (previous year: increased by € 3,755 thousand) in the reporting year. Due to the change in the scope of consolidation, deferred tax assets decreased by € 1,715 thousand (previous year: 0).

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

			2016/2017			**2017/2018**
	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	16,179	– 3,238	12,941	– 30,851	– 979	– 31,830
Currency translation	9,069	–	9,069	– 36,344	–	– 36,344
Financial assets available for sale	145	1,759	1,904	– 99	– 1,464	– 1,563
Cash flow hedges	– 3,587	– 1,244	– 4,831	– 861	1,212	351
Total other comprehensive income	**21,806**	**– 2,723**	**19,083**	**– 68,155**	**– 1,231**	**– 69,386**

23 Inventories

	31-Mar-2017	**31-Mar-2018**
Raw materials and supplies	124,956	108,276
Work and services in progress	220,217	285,471
Finished goods and goods for resale	232,747	225,552
Advance payments	3,575	3,135
	581,495	**622,434**

In order to adjust inventories to the net realizable value, impairment of € 1,502 thousand was recognized in the year under review (previous year: € 1,432 thousand). The reason for the write-down to the lower net realizable value is primarily the decreased likelihood of market success for a small portion of our inventories. Remarketed equipment was repossessed as collateral owing to the insolvency of customers. In the year under review, remarketed equipment of € 0 thousand (previous year: € 1,340 thousand) was reported under finished goods and goods held for resale. The repossession of this collateral resulted in cash and cash equivalents of € 3,451 thousand (previous year: € 717 thousand) at German companies in the reporting period.

The carrying amount of the inventories pledged as collateral in connection with the refinancing of the Heidelberg Group (see note 28) was € 386,570 thousand (previous year: € 356,637 thousand).

24 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and bank balances; their carrying amount is to be taken as an appropriate estimate of the fair value. Restrictions on disposal of cash and cash equivalents due to foreign exchange restrictions amount to € 32,810 thousand (previous year: € 35,564 thousand). Bank balances are exclusively held for short-term cash management purposes.

25 Equity

Share capital/number of shares outstanding/treasury stock

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

The share capital of Heidelberger Druckmaschinen Aktiengesellschaft amounts to € 713,562,818.56 and is divided into 278,735,476 shares. Please see "Contingent capital" for information on new shares issued from Contingent Capital 2012 in the reporting year to meet demands under the convertible bond 2013.

As of March 31, 2018, the Company holds 142,919 shares, as in the previous year. The amount of these shares allocated to share capital is € 366 thousand, as in the previous year, with a notional share of share capital of 0.05 percent as of March 31, 2018 (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 had 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 could 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 had 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 was 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 had been entitled to repay the 2013 convertible bond in full ahead of schedule at the nominal value plus accrued interest. This required 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 exceeded 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 was now contingently increased by up to € 58,625,953.28, divided into 22,900,763 shares, through Contingent Capital 2012. The resolution became effective on entry in the commercial register of the Mannheim Local Court on October 2, 2015.

In June 2017, 21,297,697 new shares were issued from Contingent Capital 2012 to meet demands under the convertible bond 2013. This increased the share capital of Heidelberger Druckmaschinen Aktiengesellschaft from € 659,040,714.24 to € 713,562,818.56, now divided into 278,735,476 shares. The remaining issue volume of the convertible bond 2013 of € 3.7 million was fully repaid at maturity on July 10, 2017.

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 (3) of the Articles of Association. The resolution became effective on entry in the commercial register of the Mannheim Local Court on October 2, 2015.

Contingent Capital 2015

On July 24, 2015, the Annual General Meeting authorized the Management Board, with the approval of the Supervisory Board, to issue warrants, convertible bonds 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 (4) of the Articles of Association.

Authorized capital

In accordance with the resolution of the Annual General Meeting on July 24, 2015, the Management Board was authorized, with the approval of the Supervisory Board, to increase the share capital of the Company by up to € 131,808,140.80 on one or more occasions by issuing up to 51,487,555 new shares against cash or non-cash contributions by July 23, 2020 (AUTHORIZED CAPITAL 2015). The Management Board was authorized, with the approval of the Supervisory Board, to determine the further content of share rights and the conditions for the issue of shares. Details on Authorized Capital 2015 can be found in Article 3 (5) 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 € 70,743,201.99 generated in financial year 2016/2017 was offset against the loss carryforward from financial year 2015/2016 of € 40,604,705.69. In accordance with section 150 (1) and (2) AktG, € 1,506,924.82 of the remaining net profit of € 30,138,496.30 of financial year 2016/2017 was transferred to the legal reserve and € 28,631,571.48 to other retained earnings.

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

26 Provisions for pensions and similar obligations

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

Notes on significant pension commitments

HEIDELBERGER DRUCKMASCHINEN AKTIENGESELLSCHAFT (BASED IN HEIDELBERG, GERMANY), HEIDELBERGER DRUCKMASCHINEN VERTRIEB DEUTSCHLAND GMBH, HEIDELBERG POSTPRESS DEUTSCHLAND GMBH and HEIDELBERG MANUFACTURING DEUTSCHLAND GMBH (EACH BASED IN WIESLOSCH, GERMANY) accounted for € 938 million (previous year: € 905 million) of the present value of the defined benefit obligation (DBO) and € 461 million (previous year: € 472 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 12 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 € 242 million (previous year: € 250 million) of the present value of the defined benefit obligation (DBO) and € 230 million (previous year: € 233 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 assessment of technical funding as of March 31, 2018 has not been completed.

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 € 139 million (previous year: € 153 million) of the present value of the defined benefit obligation (DBO) and € 138 million (previous year: € 150 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 € 7 million (previous year: € 9 million) of the present value of the defined benefit obligation (DBO) and € 9 million (previous year: € 12 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-2017	**31-Mar-2018**
Provisions for pensions and similar obligations	488,253	523,445
Assets from defined benefit pension plans	2,433	1,900
Net carrying amounts at the end of the financial year	**485,820**	**521,545**

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, 2016	**1,335,000**	**65,034**	**1,400,034**	**– 867,760**	**532,274**
Current service cost	7,630	2,696	10,326	0	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	0	132
Remeasurements:	18,675	667	19,342	– 35,521	– 16,179
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			0	– 35,521	– 35,521
Currency translation differences	– 14,788	1,218	– 13,570	13,662	92
Contributions:	3,393	204	3,597	– 7,900	– 4,303
Employers			0	– 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	0	– 39,510
As of March 31, 2017	**1,291,749**	**69,396**	**1,361,145**	**– 875,325**	**485,820**

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

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

In percent	2016/2017		2017/2018	
	Domestic	Foreign	Domestic	Foreign
Discount rate	2.40	1.89	2.10	1.84
Expected future salary increases	2.75	0.44	2.75	0.51
Expected future pension increases	1.60	1.77	1.60	1.60

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-2017	of which:		31-Mar-2018	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	20,382	20,326	56	23,837	23,775	62
Equity instruments	155,777	155,463	314	149,534	148,117	1,417
Debt instruments	265,267	259,132	6,135	280,908	273,735	7,173
Real estate	21,309	–	21,309	18,912	–	18,912
Derivatives	517	98	419	669	– 634	1,303
Securities funds	358,119	293,669	64,450	319,125	269,615	49,510
Qualifying insurance policies	29,413	–	29,413	28,903	–	28,903
Other	24,541	24,541	–	23,828	23,828	0
	875,325	**753,229**	**122,096**	**845,716**	**738,436**	**107,280**

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 € 49,592 thousand (previous year: € 47,666 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-2017	Change in %	**31-Mar-2018**	Change in %
Present value of the essential defined benefit obligations [1]	1,317,372		1,325,993	
Present value of the essential defined benefit obligations assuming that				
the discount rate was				
0.50 percentage point higher	1,220,236	– 7.4	1,228,255	– 7.4
0.50 percentage point lower	1,427,359	+ 8.3	1,436,627	8.3
the expected future salary increase was				
0.25 percentage point higher	1,317,911	0.0	1,326,456	0.0
0.25 percentage point lower	1,316,851	0.0	1,325,533	0.0
the expected future pension increase was				
0.25 percentage point higher	1,353,544	+ 2.7	1,362,663	2.8
0.25 percentage point lower	1,285,812	– 2.4	1,294,660	– 2.4
Increase in life expectancy per entitled beneficiary [2]	1,372,109	+ 4.2	1,382,929	4.3

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

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

6) The forecast contributions to plan assets are expected to amount to € 8 million in financial year 2018/2019 (previous year: € 8.5 million). With regard to the essential defined benefit obligations, undiscounted pension payments amounting to € 43 million (previous year: € 44.5 million) are anticipated for financial year 2018/2019. The weighted average duration of the material defined benefit obligations is 16 years (previous year: 16.5 years).

27 Other provisions

	31-Mar-2017			31-Mar-2018		
	Current	Non-current	Total	Current	Non-current	**Total**
Tax provisions	11,275	56,867	**68,142**	7,453	51,519	**58,972**
Other provisions						
Staff obligations	57,061	34,223	91,284	54,004	29,993	83,997
Sales obligations	77,164	5,080	82,244	65,232	5,877	71,109
Other	94,109	74,214	168,323	85,699	54,355	140,054
	228,334	113,517	**341,851**	204,935	90,225	**295,160**
	239,609	170,384	**409,993**	212,388	141,744	**354,132**

	As of 1-Apr-2017	Change in scope of consolidation, currency adjustments, reclassification	Utilization	Reversal	Addition	**As of 31-Mar-2018**
Tax provisions	**68,142**	– 946	5,087	5,826	2,689	**58,972**
Other provisions						
Staff obligations	91,284	– 2,587	43,606	2,597	41,503	83,997
Sales obligations	82,244	– 4,519	26,776	19,908	40,068	71,109
Other	168,323	– 9,927	41,350	4,682	27,690	140,054
	341,851	– 17,033	111,732	27,187	109,261	**295,160**
	409,993	– 17,979	116,819	33,013	111,950	**354,132**

Additions include accrued interest and the effects of the change in discount rates of € 2,408 thousand (previous year: € 1,886 thousand). These relate to expenses of € 326 thousand (previous year: € 358 thousand) for staff obligations, € 19 thousand (previous year: € 30 thousand) for sales obligations and expenses of € 2,063 thousand (previous year: € 1,498 thousand) for miscellaneous other provisions.

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

STAFF PROVISIONS essentially relate to bonuses (€ 49,426 thousand; previous year: € 53,838 thousand) and the cost of early retirement payments and partial retirement programs (€ 8,256 thousand; previous year: € 9,276 thousand).

SALES PROVISIONS mainly relate to warranties, reciprocal liability and buyback obligations (€ 42,180 thousand; previous year: € 46,751 thousand). The provisions for warranty obligations and obligations to provide subsequent performance and product liability serve to cover risks that are either not insured or which go beyond insurable risks. Utilization of these provisions in Germany is predominantly expected over a short- to medium-term horizon. The reciprocal liability and buyback obligations of € 1,859 thousand (previous year: € 3,038 thousand) relate entirely to financial guarantees (previous year: € 3,038 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 € 17,832 thousand (previous year: € 21,724 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 € 44,599 thousand (previous year: € 58,663 thousand) and provisions for legal disputes of € 14,629 thousand (previous year: € 16,526 thousand). Furthermore, there are provisions of € 60,681 thousand (previous year: € 66,244 thousand) relating to portfolio and capacity adjustments and measures to optimize our management and organizational structure. Utilization of these provisions is primarily expected over a short- to medium-term horizon.

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

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

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

28 Financial liabilities

				31-Mar-2017				**31-Mar-2018**
	Up to 1 year	Between 1 and 5 years	More than 5 years	Total	Up to 1 year	Between 1 and 5 years	More than 5 years	**Total**
Corporate bond[1]	6,208	–	196,735	202,943	6,208	198,112	–	204,320
Amounts due to banks[1]	27,152	71,918	45,805	144,875	22,563	111,464	35,864	169,891
Convertible bonds[1]	60,410	53,545	–	113,955	786	55,104	–	55,890
From finance leases	2,178	3,888	–	6,066	2,203	2,445	–	4,648
Other	2,260	–	–	2,260	3,271	–	–	3,271
	98,208	129,351	242,540	**470,099**	35,031	367,125	35,864	**438,020**

[1] Including deferred interest

Financial liabilities developed as follows:

	As of 1-Apr-2017	Cash changes		Non-cash changes			**As of 31-Mar-2018**
		Free cash flow	From financing activities	Change in scope of consolidation	Currency adjustments	Other	
Corporate bond	202,943	–16,432	–	–	–	17,809	204,320
Amounts due to banks	144,875	19,141	–125	–	–788	6,788	169,891
Convertible bonds	113,955	–4,775	–2,575	–	–	–50,715	55,890
From finance leases	6,066	–	–2,250	–	–543	1,375	4,648
Other	2,260	–	971	24	16	–	3,271
	470,099	2,066	–3,979	24	–1,315	–24,743	**438,020**

Corporate bond

On May 5, 2015, Heidelberger Druckmaschinen Aktiengesellschaft issued an unsecured corporate bond of € 205 million with a maturity of seven years and a coupon of 8.00 percent (2015 corporate bond).

The fair value of the 2015 corporate bond on the basis of the stock exchange listing is € 214,503 thousand (previous year: € 222,555 thousand) compared to the carrying amount of € 204,320 thousand (previous year: € 202,943 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 had an initial volume of € 60 million and a term of four years.

As a result of the conversion of five partial bonds on November 18, 2013 (see note 25), the original total nominal amount of the convertible bond had decreased by € 0.5 million from € 60 million to € 59.5 million.

From July 30, 2014, Heidelberger Druckmaschinen Aktiengesellschaft was entitled to repay the 2013 convertible bond in full ahead of schedule at the nominal value plus accrued interest.

The liability component of the 2013 convertible bond was recognized at present value on issue, taking into account a market interest rate, and was 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 € 99 thousand in the year under review.

In June 2017, 21,297,697 new shares were issued from Contingent Capital 2012 to meet demands under the convertible bond 2013. This increased the share capital of Heidelberger Druckmaschinen Aktiengesellschaft from € 659,040,714.24 to € 713,562,818.56, now divided into 278,735,476 shares. The remaining issue volume of the convertible bond 2013 of € 3.7 million was fully repaid at maturity on July 10, 2017.

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 € 1,197 thousand in the year under review.

The fair value of the 2015 convertible bond on the basis of the stock exchange listing corresponds to the first level of the IFRS 13 measurement hierarchy and is € 69,833 thousand (previous year: € 61,487 thousand) compared to the carrying amount of € 55,890 thousand (previous year: € 53,562 thousand).

Amounts due to banks

Amounts due to banks are shown in the table below:

Type	Contract currency	Carrying amount 31-Mar-2017 in € thousands	Remaining term in years	Effective interest rate in %	Carrying amount **31-Mar-2018** in € thousands	Remaining term in years	Effective interest rate in %
Loans	EUR	135,325	up to 7	up to 6.74	158,274	up to 9	up to 5.35
Loans	Various	8,001	up to 1	up to 16.20	10,291	up to 1	up to 16.00
Other	Various	1,549	up to 1	up to 2.50	1,326	up to 1	up to 2.50
		144,875			**169,891**		

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, 2018: € 0 thousand; previous year: € 9,082 thousand), the lender was granted usufructuary rights to three developed properties. The basis of this was a sale (usufructuary rights) and leaseback transaction in accordance with SIC 27, which had a fixed basic term for the lease agreement of ten years and provided for two renewal options of four years each. The usufructuary rights each had an original term of 18 years. The usufructuary rights were able to be commuted after ten years. On December 11, 2017, Heidelberger Druckmaschinen Aktiengesellschaft exercised the contractually agreed call option. The usufructuary rights to the three developed properties accordingly expired at the end of the fixed basic term on March 26, 2018.

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 € 336,738 thousand (previous year: € 286,096 thousand) can be used as financing for general business purposes and for measures in connection with our portfolio adjustments.

The revolving credit facility that came into force in 2011 with an original term until the end of 2014 was extended ahead of schedule in December 2013 until mid-2017 and ahead of schedule in July 2015 until June 2019. In March 2018, this revolving credit facility was agreed anew with a consortium of banks at improved conditions with a volume of € 320 million and a term until March 2023.

An amortizing loan funded by the KfW in the amount of € 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 € 4,264 thousand (previous year: € 8,521 thousand) compared to the carrying amount of € 4,211 thousand (previous year: € 7,368 thousand).

Another amortizing loan funded by the KfW in the amount of € 5 million maturing in September 2020 was issued in December 2015. Its fair value on the basis of the discounted cash flow method using market interest rates likewise corresponds to the second level of the IFRS 13 fair value hierarchy and is € 2,769 thousand (previous year: € 3,768 thousand) compared to the carrying amount of € 2,750 thousand (previous year: € 3,500 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 IFRS 13 fair value hierarchy and is € 90,388 thousand (previous year: € 88,360 thousand) compared to the carrying amount of € 100,739 thousand (previous year: € 100,739 thousand).

To finance the investment in relocating our research and development activities to our Wiesloch-Walldorf site, a development loan of € 42.1 million maturing in September 2024 was arranged with a syndicate of banks refinanced by KfW (“Energy Efficiency Program – Energy-efficient Construction and Renovation”). The funding 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 and a second tranche of € 20.7 million in March 2018. 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 € 24,658 thousand (previous year: € 4,968 thousand) compared to the carrying amount of € 25,798 thousand (previous year: € 5,138 thousand).

A loan of € 25.7 million amortizing by the end of June 2027 was borrowed in May 2017. It is secured by the lender’s equal participation in the existing collateral concept. The fair value of this loan 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 € 22,242 thousand (previous year: € 0 thousand) compared to the carrying amount of € 24,637 thousand (previous year: € 0 thousand).

The financing agreements for the revolving credit facility, the European Investment Bank loan and other significant loans contain standard financial covenants regarding the financial situation of the Heidelberg Group. Two of the key performance indicators relate to the Heidelberg Group’s equity and cash funds. The minimum required liquidity of € 80 million is significantly less than the cash available in recent financial years.

With the existing financing portfolio, Heidelberg has total credit facilities with balanced diversification and a balanced maturity structure until 2023.

The carrying amounts of the collateral pledged in connection with the loan agreements as part of a collateral pool concept is shown under the appropriate notes. The carrying amount of the other amounts due to banks and other financial liabilities is primarily to be taken as an appropriate estimate of the fair value.

Liabilities from finance leases

Liabilities from finance leases are as follows:

				31-Mar-2017				**31-Mar-2018**
	Up to 1 year	Between 1 and 5 years	More than 5 years	Total	Up to 1 year	Between 1 and 5 years	More than 5 years	**Total**
Total lease payments	–	–	–	14,903	–	–	–	14,088
Lease payments already made	–	–	–	– 8,395	–	–	–	– 9,208
Outstanding lease payments	2,440	4,068	–	6,508	2,369	2,511	–	4,880
Interest portion of outstanding lease payments	– 262	– 180	–	– 442	– 165	– 67	–	– 232
Present value of outstanding lease payments (carrying amount)	2,178	3,888	–	**6,066**	2,204	2,444	–	**4,648**

29 Trade payables

Trade payables are usually secured by reservation of title until payment has been completed. The carrying amount of the trade payables is to be taken as an appropriate estimate of the fair value.

30 Other liabilities

				31-Mar-2017				**31-Mar-2018**
	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)	54,110	–	–	54,110	57,472	–	–	57.472
Advance payments on orders	98,962	–	–	98,962	144,725	–	–	144.725
From derivative financial instruments	3,170	–	–	3,170	3,465	–	–	3.465
From other taxes	31,488	–	–	31,488	34,077	34	–	34.111
For social security contributions	7,022	622	–	7,644	6,498	423	–	6.921
Deferred income	44,949	22,019	3,113	70,081	42,864	20,505	80	63.449
Other	34,142	18	13,194	47,354	31,710	10,710	–	42.420
	273,843	22,659	16,307	**312,809**	320,811	31,672	80	**352.563**

Derivative financial instruments

Derivative financial instruments include liabilities from cash flow hedges of € 1,906 thousand (previous year: € 2,343 thousand) and from fair value hedges of € 1,559 thousand (previous year: € 827 thousand).

Deferred income

Deferred income includes taxable investment subsidies of € 696 thousand (previous year: € 819 thousand), tax-free investment allowances of € 426 thousand (previous year: € 682 thousand) and other deferred income of € 61,924 thousand (previous year: € 68,579 thousand).

The TAXABLE SUBSIDIES item essentially relates to subsidies for an investment at the Shanghai/Qingpu production site in China of € 670 thousand (previous year: € 732 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 € 426 thousand (previous year: € 682 thousand) for the Brandenburg production site.

OTHER DEFERRED INCOME essentially includes advance payments for future maintenance and services. 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.

31 Disclosures on financial instruments

Carrying amounts of financial instruments

The carrying amounts of financial instruments can be transitioned to the measurement categories of IAS 39:

Reconciliation > Assets

Items in statement of financial position	IAS 39 measurement category[1]	Carrying amounts			Carrying amounts		
				31-Mar-2017			**31-Mar-2018**
		Current	Non-current	Total	Current	Non-current	**Total**
Financial assets							
Shares in affiliated companies	n.a.	–	5,920	5,920	–	4,945	4,945
Other investments	n.a.	–	3,388	3,388	–	3,388	3,388
Securities	AfS	–	4,131	4,131	–	3,853	3,853
		–	13,439	13,439	–	12,186	12,186
Receivables from sales financing							
Receivables from sales financing not including finance leases	LaR	24,026	33,198	57,224	27,336	37,000	64,336
Receivables from finance leases	n. a.	214	449	663	654	621	1,275
		24,240	33,647	57,887	27,990	37,621	65,611
Trade receivables	LaR	374,732	–	374,732	369,808	–	369,808
Other receivables and other assets							
Derivative financial instruments	n. a.[2]	3,386	–	3,386	2,885	–	2,885
Miscellaneous financial assets	LaR	51,933	7,015	58,948	29,365	7,214	36,579
Miscellaneous financial assets	AfS	3,060	23,111	26,171	9,929	10,715	20,644
		58,379	30,126	88,505	42,179	17,929	60,108
Miscellaneous other assets		47,151	4,083	51,234	49,181	3,197	52,378
		105,530	34,209	139,739	91,360	21,126	112,486
Cash and cash equivalents	LaR	217,660	–	217,660	201,607	–	201,607

[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-2017			**31-Mar-2018**
		Current	Non-current	Total	Current	Non-current	**Total**
Financial liabilities							
Corporate bond	FLaC	6,208	196,735	202,943	6,208	198,112	204,320
Convertible bonds	FLaC	60,410	53,545	113,955	786	55,104	55,890
Amounts due to banks	FLaC	27,152	117,723	144,875	22,563	147,328	169,891
Liabilities from finance leases	n. a.	2,178	3,888	6,066	2,203	2,445	4,648
Other financial liabilities	FLaC	2,260	–	2,260	3,271	–	3,271
		98,208	371,891	470,099	35,031	402,989	438,020
Trade payables	FLaC	190,392	–	190,392	237,454	–	237,454
Other liabilities							
Derivative financial instruments	n. a. [2]	3,170	–	3,170	3,465	–	3,465
Miscellaneous financial liabilities	FLaC	88,591	640	89,231	91,040	435	91,475
		91,761	640	92,401	94,505	435	94,940
Miscellaneous other liabilities		182,082	38,326	220,408	226,306	31,317	257,623
		273,843	38,966	312,809	320,811	31,752	352,563

[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 March 2023.

	31-Mar-2017	**31-Mar-2018**
Up to 1 year	398,062	382,665
Between 1 and 5 years	224,747	458,089
More than 5 years	260,839	37,117
	883,648	**877,871**

Net gains and losses

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

	2016/2017	**2017/2018**
Financial assets available for sale	– 195	258
Loans and receivables	2,145	– 3,468
Financial liabilities at amortized cost	– 37,540	– 35,066

Changes in the value of financial assets available for sale of € 99 thousand (previous year: € – 145 thousand) were also recognized in other comprehensive income.

Net gains and losses include € 3,963 thousand (previous year: € 2,639 thousand) of interest income and € 36,167 thousand (previous year: € 40,183 thousand) of interest expenses for financial assets and financial liabilities not measured at fair value through profit or loss.

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-2017	**31-Mar-2018**	31-Mar-2017	**31-Mar-2018**
Currency hedging				
Cash flow hedge				
Forward exchange transactions	263,576	245,929	– 644	– 537
of which: assets	(96,516)	(67,243)	(1,699)	(1,369)
of which: liabilities	(167,060)	(178,686)	(– 2,343)	(– 1,906)
Fair value hedge				
Forward exchange transactions	263,887	240,361	860	– 43
of which: assets	(161,070)	(127,590)	(1,687)	(1,516)
of which: liabilities	(102,817)	(112,771)	(– 827)	(– 1,559)

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

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-2017	**31-Mar-2018**
	Total undiscounted cash flows [1]	Total undiscounted cash flows [1]
Derivative financial liabilities		
Outgoing payments	– 271,369	– 293,576
Associated incoming payments	269,568	293,303
Derivative financial assets		
Outgoing payments	– 256,334	– 193,580
Associated incoming payments	259,609	196,504

[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, 25 percent (previous year: 8 percent) of the hedging volume relates to the Japanese yen and 33 percent (previous year: 27 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 € 1,369 thousand (previous year: € 1,699 thousand) and liabilities of € 1,906 thousand (previous year: € 2,343 thousand). The change in value of the designated portion of the hedge was recognized outside profit and loss and will be recognized in income from operating activities over the subsequent 12 months. As the forecast purchasing volumes of our subsidiaries are no longer highly likely, no cash flow hedges were terminated early and no expenses were transferred from the hedge reserve to the financial result (previous year: € 0 thousand).

Fair value hedge

This is essentially the exchange rate hedge for loan receivables and liabilities in foreign currencies within the Group. The net results on the fair value of hedges of € – 14,126 thousand (previous year: € – 21 thousand) and the translation of hedged items at closing rates of € 13,905 thousand (previous year: € – 337 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, 2017.

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 € 2,595 thousand (previous year: € 4,649 thousand) higher as of the end of the reporting period and the financial result would have been € 9 thousand higher (previous year: € 34 thousand lower). Assuming a 10 percent decrease in the value of the euro, the hedge reserve would have been € 3,172 thousand (previous year: € 5,682 thousand) lower and the financial result would have been € 11 thousand lower (previous year: € 41 thousand higher).

In accordance with IFRS 7, **RECOGNIZED INTEREST RATE RISKS** of the Heidelberg Group must also be shown. These are partly due to the portion of primary floating rate financial instruments that were not hedged through the use of derivative financial instruments within cash flow 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: € 0 thousand lower) as of the end of the reporting period and the financial result would have been € 1,096 thousand (previous year: € 764 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: € 0 thousand higher) and the financial result would have been € 1,096 thousand (previous year: € 764 thousand) lower.

Risk of default

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

Fair values of securities, loans and derivative financial instruments

Financial assets and financial liabilities are allocated to the three levels of the fair value hierarchy as set out in IFRS 13 depending on the availability of observable market data.

The individual levels are defined as follows:

LEVEL 1: Financial instruments traded on active markets whose quoted prices can be used to measure fair value without adjustment.

LEVEL 2: Measurement on the basis of measurement procedures whose inputs are derived from observable market data, either directly or indirectly.

LEVEL 3: Measurement on the basis of measurement procedures whose inputs are not derived from observable market data.

Securities are classified as financial assets 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 a financial asset available for sale 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 13.85 percent as of March 31, 2018. If this had been 0.5 percentage points higher (lower), the fair value would have been € 93 thousand lower (€ 94 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, 2018:

	31-Mar-2017				31-Mar-2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	**Total**
Securities	3,647	–	–	3,647	3,412	–	–	3,412
Loans	–	–	26,171	26,171	–	–	20,644	20,644
Derivative financial assets	–	3,386	–	3,386	–	2,885	–	2,885
Assets carried at fair value	**3,647**	**3,386**	**26,171**	**33,204**	**3,412**	**2,885**	**20,644**	**26,941**
Derivative financial liabilities	–	3,170	–	3,170	–	3,465	–	3,465
Liabilities carried at fair value	**–**	**3,170**	**–**	**3,170**	**–**	**3,465**	**–**	**3,465**

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, 2018 (€ 20,644 thousand), is reconciled as follows:

Carrying amount as of April 1, 2017 (€ 26,171 thousand), disposal (€ 2,674 thousand), other changes recognized outside or in profit or loss (€ − 2,853 thousand).

Offsetting financial assets and financial liabilities

For Germany, the following table shows the carrying amounts of the recognized derivative financial instruments subject to master netting agreements and the offsetting between trade receivables and payables:

	Gross amount	Offsetting implemented	Reported net amount	Amounts not offset	Net amount
31-Mar-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
31-Mar-2018					
Derivative financial instruments (assets)	2,885	–	2,885	− 1,090	1,795
Trade receivables	370,813	− 1,005	369,808	–	369,808
Derivative financial instruments (liabilities)	3,465	–	3,465	− 1,090	2,375
Trade payables	238,459	− 1,005	237,454	–	237,454

32 Guarantees and contingent liabilities

Contingent liabilities from warranties and guarantees, amounting to € 6,726 thousand as of March 31, 2018 (previous year: € 3,750 thousand), comprise among others reciprocal liability and buyback obligations for third-party liabilities in connection with long-term sales financing, which in turn largely correspond to rights of recourse on the delivered products.

The contingent liabilities in connection with legal disputes are immaterial.

33 Other financial liabilities

Other financial liabilities break down as follows:

	31-Mar-2017				**31-Mar-2018**			
	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	36,884	80,189	10,756	127,829	28,889	60,951	7,014	96,854
Investments and other purchasing commitments	12,038	6,928	–	18,966	32,116	13,367	–	45,483
	48,922	**87,117**	**10,756**	**146,795**	**61,005**	**74,318**	**7,014**	**142,337**

The figures shown are nominal values.

The lease obligations comprise primarily the following minimum lease payments for operating leases:

- the research and development center (Heidelberg) in the amount of € 14,052 thousand (previous year: € 17,560 thousand);
- the administrative building in Tokyo, Japan in the amount of € 12,090 thousand (previous year: € 16,117 thousand);
- the administrative building in Kennesaaw, USA, in the amount of € 11,828 thousand (previous year: € 14,991 thousand);
- the administrative building in Brussels, Belgium, in the amount of € 5,050 thousand (previous year: € 5,267 thousand);
- the administrative and production building in Durham, USA, in the amount of € 4,665 thousand (previous year: € 7,762 thousand);
- the administrative and production building in Rochester, New York, USA, in the amount of € 2,634 thousand (previous year: € 3,036 thousand); and
- motor vehicles with a total value of € 25,528 thousand (previous year: € 22,912 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

34 Earnings per share in accordance with IAS 33

	2016/2017	2017/2018
Net result after taxes (€ thousands)	36,236	13,565
Number of shares in thousands (weighted average)	257,295	273,429
Basic earnings per share (€)	0.14	0.05
Diluted earnings per share (€)	0.14	0.05

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 273,429 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, 2018.

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

Taking into account the corresponding number of shares from the convertible bond issued 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, such 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:

	2017/2018	
	Potentially dilutive financial instruments (total)	Dilutive financial instruments applied in calculation
Numerator for basic earnings (€ thousands)	**13,565**	**13,565**
Plus effects from the convertible bond recognized in profit or loss (€ thousands)	2,136	0
Numerator for diluted earnings (€ thousands)	**15,701**	**13,565**
Number of shares (thousands)		
Denominator for basic earnings per share (weighted average number of shares, thousands)	**273,429**	**273,429**
Convertible bond 2015	18,840	0
Denominator for diluted earnings per share (thousands)	**–**	**273,429**
Denominator for potentially diluted earnings per share (thousands)	**292,269**	**–**
Basic earnings per share (€)	–	0.05
Diluted earnings per share (€)	–	0.05

35 Information on the consolidated statement of cash flows

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

€ 30,754 thousand (previous year: € 38,011 thousand) of investments in intangible assets, property, plant and equipment and investment property relate to intangible assets, € 83,813 thousand (previous year: € 64,234 thousand) to property, plant and equipment. Investments do not include additions from finance leases of € 1,343 thousand (previous year: € 2,290 thousand). € 90 thousand (previous year: € 178 thousand) of income from the disposal of intangible assets, property, plant and equipment and investment property relates to intangible assets and € 9,781 thousand (previous year: € 15,862 thousand) to property, plant and equipment. Investments in corporate acquisitions relate to the acquisition of docufy GmbH and of Fujifilm Europe's coatings and pressroom chemicals business in the Europe, Middle East and Africa region.

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 28 for information on the unutilized credit lines.

Cash and cash equivalents include cash and cash equivalents only (€ 201,607 thousand; previous year: € 217,660 thousand).

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

37 Information on segment reporting

	Heidelberg Digital Technology [1]		Heidelberg Digital Business and Services [2]		Heidelberg Financial Services		**Heidelberg Group**	
	1-Apr-2016 to 31-Mar-2017 [3]	**1-Apr-2017 to 31-Mar-2018**	1-Apr-2016 to 31-Mar-2017 [3]	**1-Apr-2017 to 31-Mar-2018**	1-Apr-2016 to 31-Mar-2017	**1-Apr-2017 to 31-Mar-2018**	1-Apr-2016 to 31-Mar-2017 [3]	**1-Apr-2017 to 31-Mar-2018**
External sales	1,367,479	1,315,180	1,151,971	1,100,836	4,651	4,138	2,524,101	2,420,154
EBITDA excluding restructuring result [4] (segment result)	70,213	75,043	103,539	93,656	5,201	3,064	178,953	171,763
Depreciation and amortization excluding depreciation and amortization due to restructuring [5]	49,506	44,689	20,980	22,822	643	820	71,129	68,331
EBIT excluding restructuring result [6]	20,707	30,354	82,559	70,834	4,558	2,244	107,824	103,432
Non-cash expenses	169,082	138,356	69,861	46,956	2,088	2,703	241,031	188,015

[1] Until March 31, 2017: Heidelberg Equipment
[2] Until March 31, 2017: Heidelberg Services
[3] Figures for the previous year were adjusted
[4] Result of operating activities before interest, taxes, depreciation and amortization, excluding restructuring result (previously: special items)
[5] Depreciation and amortization including impairment
[6] Previously: EBIT excluding special items

In the Heidelberg Group, segments are defined by the services performed by the divisions. The segments are based on internal reporting in line with the MANAGEMENT APPROACH.

As part of the adjustment of the corporate strategy, the segments were reorganized as of April 1, 2017. The previous Heidelberg Equipment and Heidelberg Services segments were restructured; the Heidelberg Financial Services segment remained unchanged. The Heidelberg Group's structure has since been broken down in line with the internal organizational and reporting structure into the segments Heidelberg Digital Technology, Heidelberg Digital Business and Services, and Heidelberg Financial Services. Heidelberg Digital Technology essentially comprises sheetfed offset, label printing and postpress business. Services, consumables and remarketed equipment business as well as digital printing technologies and solutions along the value chain are bundled in the Heidelberg Digital Business and Services segment. The Heidelberg Financial Services segment continues to comprise sales financing business. The figures of the previous year were adjusted accordingly. In the period from April 1, 2016, to March 31, 2017, there was accordingly a € 12,503 thousand reduction in sales for the Heidelberg Digital Business and Services segment and a € 1,257 thousand reduction in EBITDA excluding restructuring result. 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 units" in the Group management report.

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

Further information on the business areas can be found in the chapters "Segment report" and "Report on the regions" in the Group management report. Transfer prices for internal Group sales are determined using a market-driven approach, based on the principle of dealing at arm's length.

Notes on segment data

Segment performance is measured on the basis of EBITDA excluding restructuring result – the result of operating activity before interest, taxes and depreciation and amortization excluding restructuring result.

In the year under review and the previous year, the Heidelberg Group did not generate more than 10 percent of (net) sales with any one customer.

Inter-segment sales are of minor financial significance.

The segment result is transitioned to the net result before taxes as follows:

	1-Apr-2016 to 31-Mar-2017	**1-Apr-2017 to 31-Mar-2018**
EBITDA excluding restructuring result (segment result)	178,953	171,763
Depreciation and amortization excluding depreciation and amortization due to restructuring	71,129	68,331
EBIT excluding restructuring result	107,824	103,432
Restructuring result	– 17,634	– 16,315
Result of operating activities	90,190	87,117
Financial income	6,921	4,583
Financial expenses	62,864	52,560
Financial result	– 55,943	– 47,977
Net result before taxes	**34,247**	**39,140**

Information by region

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

	1-Apr-2016 to 31-Mar-2017	**1-Apr-2017 to 31-Mar-2018**
Europe, Middle East and Africa		
Germany	382,982	364,946
Other Europe, Middle East and Africa region	705,210	719,927
	1,088,192	1,084,873
Asia/Pacific		
China	240,231	254,422
Other Asia/Pacific region	405,391	355,094
	645,622	609,516
Eastern Europe	254,412	264,862
North America		
USA	350,640	306,212
Other North America region	102,201	92,670
	452,841	398,882
South America	83,034	62,021
	2,524,101	**2,420,154**

Of the non-current assets, which comprise intangible assets, property, plant and equipment and investment property, € 562,780 thousand (previous year: € 489,109 thousand) relate to Germany and € 235,521 thousand (previous year: € 238,253 thousand) to other countries.

37 Capital management

In the context of implementing the holistic management approach, it is the task of capital management to provide the best possible support in the attainment of the Heidelberg Group's goals. The focus here is on ensuring liquidity and creditworthiness and increasing the enterprise value of the Heidelberg Group on an ongoing basis. We calculate the value contribution for a reporting period, the benchmark used for this, as the net total of return on capital employed (ROCE) and capital costs (see Group management report, page 38). The value contribution can be seen as the profit remaining after deducting the capital costs for the capital employed in the reporting period. If the value contribution is positive, the Heidelberg Group has earned more than its capital costs. The following capital structure is used to calculate the cost of capital:

	2016/2017	**2017/2018**
Equity	340,087	340,914
Net deferred taxes	94,019	59,919
Adjusted equity	**246,068**	**280,995**
Annual average	224,867	263,532
Pension provisions	488,253	523,445
Tax provisions	68,142	58,972
Net tax receivables/liabilities	6,861	7,203
Non-operating financial liabilities	455,733	423,720
Liabilities	**1,018,989**	**1,013,340**
Annual average	1,056,455	1,016,165
Adjusted total capital	**1,265,057**	**1,294,335**
Annual average	1,281,322	1,279,696

For the Heidelberg Group, capital management prioritizes reducing the commitment of capital, strengthening the equity and securing liquidity. In the year under review, the equity of the Heidelberg Group increased from € 340,087 thousand to € 340,914 thousand. Based on total assets, the equity ratio is close to the previous year's level at 15.1 percent (previous year: 15.3 percent).

Despite the slightly negative free cash flow in the year under review, net debt was down year on year at € 236,413 thousand (previous year: € 252,439 thousand). The net debt is total financial liabilities less cash and cash equivalents and current securities.

Heidelberg is not subject to any capital requirements arising from its Articles of Association.

As of March 31, 2018, 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 € 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, a loan of € 25.7 million borrowed in May 2017 and maturing at the end of June 2027, and a revolving credit facility with a banking syndicate totaling around € 320 million with a maturity until March 2023.

The financing agreements for the revolving credit facility, the European Investment Bank loan and other significant loans contain standard financial covenants regarding the financial situation of the Heidelberg Group. Two of the key performance indicators relate to the Heidelberg Group's equity and cash funds. The minimum required liquidity of € 80 million is significantly less than the cash available in recent financial years.

The 2013 convertible bond was almost entirely converted into new shares of Heidelberger Druckmaschinen Aktiengesellschaft in the year under review. The remaining issue volume of € 3.7 million was fully repaid at maturity in July 2017.

Heidelberg's financing structure is thus well-balanced with regard to the diversification of instruments and the maturity profile. For further details regarding the financing instruments, please refer to note 28.

38 Declaration of compliance in accordance with section 161 AktG

The Management Board and the Supervisory Board of Heidelberger Druckmaschinen Aktiengesellschaft issued the declaration of compliance in accordance with Section 161 of the German Stock Corporation Act (AktG) and made it permanently accessible to the shareholders on the website WWW.HEIDELBERG.COM under Company > About Us > Corporate Governance. Earlier declarations of compliance are also permanently available here.

39 Executive bodies of the Company

The basic characteristics of the compensation system and amounts of compensation for the members of the Management Board and Supervisory Board are presented in the remuneration report. The 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 148 to 149 (Supervisory Board) and 150 (Management Board).

MEMBERS OF THE MANAGEMENT BOARD: The total cash compensation (= total compensation) in accordance with HGB amounts to € 5,072 thousand (previous year: € 4,807 thousand), comprising the fixed compensation including fringe benefits of € 1,940 thousand (previous year: € 1,849 thousand), one-year variable compensation of € 1,669 thousand (previous year: € 1,599 thousand) and multi-year variable compensation of € 1,463 thousand (previous year: € 1,359 thousand). The multi-year variable compensation includes € 666 thousand (previous year: € 0 thousand) for the fair value calculated as of the grant date for the total shareholder return (cash-settled share-based compensation); this is not distributed over the performance period (three years). Deviating from the amount included in total compensation, the cost of the share-based payment for the reporting year in accordance with HGB is € 437 thousand (previous year: € 0 thousand).

The total compensation according to IFRS of € 5,771 thousand (previous year: € 8,411 thousand) relates to short-term benefits of € 3,609 thousand (previous year: € 3,448 thousand), post-employment benefits of € 650 thousand (previous year: € 1,184 thousand), other long-term benefits of € 1,075 thousand (previous year: € 1,359 thousand), termination benefits of € 0 thousand (previous year: € 2,420 thousand) and share-based payments of € 437 thousand (previous year: € 0 thousand). In accordance with IFRS, total compensation includes the fair value of the claim to share-based payment earned in the respective financial year in the form of cash settlement; this means that, given a three-year vesting period, the respective fair value is recognized in profit or loss over three years from the grant year. No preemptive subscription rights or options were granted. Rather, cash settlement was granted depending on the development of the price of Heidelberger Druckmaschinen Aktiengesellschaft shares.

From the 2017/2018 financial year, the multi-year variable compensation granted is determined according to two benchmarks: earnings before taxes (EBT) according to the IFRS consolidated income statement and total shareholder return (TSR). The targets for these two benchmarks, the respective thresholds and the maximum overfulfillment are all defined at the beginning of the relevant three-year period (performance period). Half the multi-year variable compensation is attributable to each benchmark, i.e. 45 percent of the fixed annual compensation in the event of 100 percent fulfillment of the targets for each of the relevant benchmarks. Overfulfillment of a benchmark is recognized and can at most result in a doubling of the attributable multi-year variable target compensation. Both benchmarks are associated with an objective fulfillment threshold that must be reached in order for the multi-year variable compensation for the benchmark in question to be paid out. However, overfulfillment of a benchmark can only increase the multi-year variable compensation if the other benchmark reaches at least the threshold. The basis for target measurement for the total shareholder return is the long-term expected return (Heidelberg share price increases) during the performance period. The baseline value for each performance period is determined at the beginning of the first financial year of the performance period. The achievement of objectives is checked and ascertained at the end of each three-year period. The multi-year variable compensation is paid out at the end of the month in which the Annual General Meeting – after the end of the final financial year of the three-year period – resolves on the appropriation of the net result. For the multi-year variable compensation, achievement of the relevant threshold results in a payout amounting to 25 percent of the amount that would be payable in the event of 100 percent objective fulfillment. If the objective attainment lies between the threshold and the defined objective, the payout is determined by linear interpolation. If overfulfillment is to be recognized, the amount of the payout is either determined as a percentage according to the degree of overfulfillment or – if a maximum recognizable value for overfulfillment has been defined – by linear interpolation between the objective and the maximum recognizable value. In the event of a member joining or leaving within an ongoing performance period, that member has a pro rata temporis claim to any multi-year variable compensation determined after the end of the performance period. In the event of a member leaving, pro rata temporis multi-year variable compensation is calculated for the performance periods still ongoing at this time on the basis of the determination of goals as of the exit date, which is then frozen.

This share-based payment is measured using a Monte Carlo simulation. This simulates the log-normal processes for the price of Heidelberger Druckmaschinen Aktiengesellschaft to establish an average share price at the end of the respective performance period. Depending on the total shareholder return, a percentage of the target value to be paid out is calculated using the TSR performance matrix. The fair value for the 2018 to 2020 performance period was € 714 thousand in total (previous year: € 0 thousand) as of March 31, 2018. The underlying measurement parameters used to calculate the fair value as of March 31, 2018 are as follows: risk-free continuous zero interest rates: end of performance period: – 0.61 percent and payout date: – 0.57 percent; interest rates based on the yield curve for government bonds; dividend payments as the arithmetic mean, based on publicly available estimates for the years 2018 and 2019; historic volatility based on closing prices for Heidelberger Druckmaschinen Aktiengesellschaft shares: 32.68 percent.

As of March 31, 2018, Heidelberger Druckmaschinen Aktiengesellschaft had recognized provisions and liabilities for the compensation of active members of the Management Board with short-term benefits of € 1,669 thousand (previous year: € 1,072 thousand), post-employment benefits of € 4,153 thousand (previous year: € 3,330 thousand), other long-term benefits of € 1,904 thousand (previous year: € 1,534 thousand) and share-based payments of € 437 thousand (previous year: € 0 thousand).

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

FORMER MEMBERS OF THE MANAGEMENT BOARD AND THEIR SURVIVING DEPENDENTS: The total cash compensation (= total compensation) amounts to € 3,574 thousand (previous year: € 5,811 thousand), comprising € 903 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 the financial year 1997/1998 under the provisions of universal succession, and € 0 thousand (previous year: € 2,420 thousand) in benefits to the two Management Board members who left the company in the 2016/2017 financial year, which were recognized as expenses. As in the previous year, no share options were held as of the end of the reporting period. The pension obligations (defined benefit obligations as per IFRS) amounted to € 51,146 thousand (previous year: € 53,797 thousand); € 8,186 thousand (previous year: € 8,578 thousand) of which relating to pension obligations of the former Linotype-Hell Aktiengesellschaft, which were assumed in the 1997/1998 financial year under the provisions of universal succession.

MEMBERS OF THE SUPERVISORY BOARD: For the year under review, fixed annual compensation plus an attendance fee of € 500 per meeting day and compensation for sitting on the Management Committee, the Audit Committee and the Committee on Arranging Personnel Matters were granted, totaling € 754 thousand (previous year: € 739 thousand). One member of the Supervisory Board received fixed compensation of € 53 thousand (previous year: € 56 thousand) for his membership on the Board of Directors of a foreign subsidiary. This compensation does not include VAT. Furthermore, members of the Supervisory Board who are investees in a company of the Heidelberg Group receive standard market compensation. No loans or advances were granted to members of the Supervisory Board in the reporting period; the Heidelberg Group has not undertaken any contingent liabilities for Supervisory Board members.

40 Related party transactions

Business relations exist between numerous companies and Heidelberger Druckmaschinen Aktiengesellschaft and its subsidiaries in the course of ordinary business. This also includes a joint venture, which is regarded as a related company of the Heidelberg Group. Related parties include members of the Management Board and the Supervisory Board.

In the reporting year, transactions were carried out with related parties that resulted in liabilities of € 3,436 thousand (previous year: € 3,620 thousand), receivables of € 4,397 thousand (previous year: € 6,389 thousand), expenses of € 3,940 thousand (previous year: € 5,709 thousand) and income of € 6,312 thousand (previous year: € 7,729 thousand), which essentially includes net sales. Write-downs of € 309 thousand were recognized on receivables from related parties in the reporting year (previous year: € 94 thousand). All transactions were concluded at standard market terms and did not differ from trade relationships with other companies.

41 Exemption under section 264 (3) and section 264 b of the German Commercial Code

The following subsidiaries exercised the exemption provisions of Sections 264 (3) and 264 b of the Handelsgesetzbuch (HGB - German Commercial Code) with regard to the preparation and disclosure of financial statements in the period under review:

- 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)].
- Hi-Tech Coatings Deutschland GmbH, Wiesloch [2)].

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

42 Auditor's fees

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

	2016/2017	**2017/2018**
Fees for		
Audits of financial statements	834	1,089
Other assurance services	58	18
Tax advisory services	–	–
Other services	122	70
	1,014	**1,177**

Material other assurance services provided by the auditor for Heidelberger Druckmaschinen Aktiengesellschaft related to the business audit according to the German Securities Trading Act (WpHG) and an energy audit.

43 Events after the end of the reporting period

No significant events occurred after the balance sheet date.

Heidelberg, May 23, 2018

HEIDELBERGER DRUCKMASCHINEN
AKTIENGESELLSCHAFT
The Management Board

Rainer Hundsdörfer　　Dirk Kaliebe

Prof. Dr. Ulrich Hermann　　Stephan Plenz

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Heidelberg, May 23, 2018

HEIDELBERGER DRUCKMASCHINEN
AKTIENGESELLSCHAFT
The Management Board

Rainer Hundsdörfer | Dirk Kaliebe

Prof. Dr. Ulrich Hermann | Stephan Plenz

Independent auditor's report

To Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg

Report on the audit of the consolidated financial statements and of the group management report

Audit Opinions

We have audited the consolidated financial statements of Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at March 31, 2018, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from April 1, 2017 to March 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Heidelberger Druckmaschinen Aktiengesellschaft for the financial year from April 1, 2017 to March 31, 2018. We have not audited the content of those parts of the group management report listed in the "Other information" section of our auditor's report in accordance with the German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at March 31, 2018, and of its financial performance for the financial year from April 1, 2017 to March 31, 2018, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to §322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with §317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from April 1, 2017 to March 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

1 **Recoverability of goodwill**
2 **Deferred tax assets in respect of tax loss carryforwards**

Our presentation of these key audit matters has been structured in each case as follows:

1 Matter and issue
2 Audit approach and findings
3 Reference to further information

Hereinafter we present the key audit matters:

1 **Recoverability of goodwill**

1 In the Company's consolidated financial statements goodwill amounting in total to EUR 127.2 million (5.6 % of total assets or 37.3 % of equity) is reported under the "Intangible assets" balance sheet item. Goodwill is tested for impairment by the Company once a year or when there are indications of impairment to determine any possible need for write-downs. The impairment test is carried out at the level of the groups of cash-generating units to which the relevant goodwill is allocated. The carrying amount of the relevant cash-generating units, including goodwill, is compared with the corresponding recoverable amount in the context of the impairment test. The recoverable amount is generally determined using the value in use. The present value of the future cash flows from the respective group of cash-generating units normally serves as the basis of valuation. Present values are calculated using discounted cash flow models. For this purpose, the adopted medium-term business plan of the Group forms the starting point which is extrapolated based on assumptions about long-term rates of growth. Expectations relating to future market developments and assumptions about the development of macroeconomic factors are also taken into account. The discount rate used is the weighted average cost of capital for the respective group of cash-generating units. The impairment test determined that no write-downs were necessary. The outcome of this valuation is dependent to a large extent on the estimates made by the executive directors with respect to the future cash inflows from the respective group of cash-generating units, the discount rate used, the rate of growth and other assumptions, and is therefore subject to associated uncertainty. Against this background and due to the highly complex nature of the valuation, this matter was of particular significance in the context of our audit.

2 As part of our audit, we assessed the methodology used for the purposes of performing the impairment test, among other things. After matching the future cash inflows used for the calculation against the adopted medium-term business plan of the Group, we assessed the appropriateness of the calculation, in particular by reconciling it with general and sector-specific market expectations. We discussed and examined supplementary adjustments to the medium-term business plan for the purposes of the impairment test with the members of the Company's staff responsible. In addition, we assessed the appropriate consideration of the costs of Group functions. In the knowledge that even relatively small changes in the discount rate applied can have a material impact on the value of the entity calculated in this way, we also focused our testing on the parameters used to determine the discount rate applied, and assessed the calculation model. In order to reflect the uncertainty inherent in the projections, we evaluated the sensitivity analyses performed by the Company. Taking into account the information available, we determined that the carrying amounts of the cash-generating units, including the allocated goodwill, were adequately covered by the discounted future net cash flows. Overall, the valuation parameters and assumptions used by the executive directors are in line with our expectations and are also within the ranges considered by us to be reasonable.

3 The Company's disclosures on impairment testing and goodwill are contained in numbers 6, 7 and 18 of the notes to the consolidated financial statements.

2 Deferred tax assets in respect of tax loss carryforwards

1 In the consolidated financial statements of Heidelberger Druckmaschinen Aktiengesellschaft, deferred tax assets amounting to EUR 65.7 million (of which EUR 23.1 million relates to tax loss carryforwards) are reported in the consolidated statement of financial position. The deferred tax assets in respect of tax loss carryforwards concern in particular the US consolidated tax group (EUR 11.8 million), which decreased by EUR 9.1 million due mainly to the reduction of the US federal corporate income tax rate from 35 % to 21 %. This item was recognized to the extent that the executive directors consider it probable that taxable profit will be available in the foreseeable future which will enable the unused tax losses to be utilized. For this purpose, future taxable profits are projected on the basis of the adopted business plan. No deferred tax assets were recognized in respect of tax loss and interest carryforwards amounting in total to EUR 1,362.7 million. The majority of these related to loss and interest carryforwards in Germany. From our point of view, the deferred tax assets in respect of loss carryforwards were of particular significance in the context of our audit, as they depend to a large extent on the estimates and assumptions made by the executive directors and are therefore subject to considerable uncertainties.

2 For the purposes of our audit we included internal tax accounting specialists in our audit team. With their assistance, we began by reviewing the internal processes and controls for recording tax matters as well as the methodology adopted for the determination, accounting treatment and measurement of deferred taxes, in particular against the background of the reduction in the US federal corporate income tax rate. We also assessed the recoverability of the deferred tax assets in respect of tax loss carryforwards on the basis of the Company's internal forecasts of its future earnings situation, and the appropriateness of the underlying estimates and assumptions. Based on our audit procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors are substantiated and sufficiently documented.

3 The Company's disclosures on deferred taxes in respect of tax loss carryforwards are contained in numbers 6, 17 and 22 of the notes to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in the "Legal disclosures" section of the group management report
- the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code
- the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to §315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on July 27, 2017. We were engaged by the supervisory board on July 27, 2017. We have been the group auditor of Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg, without interruption since the financial year 1997.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German public auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Stefan Hartwig.

Mannheim, May 24, 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Martin Theben	Stefan Hartwig
Wirtschaftsprüfer	Wirtschaftsprüfer

Financial section 2017/2018

Further information

List of shareholdings

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

Name	Country/Domicile		Shareholding in percent	Equity	Net result after taxes
Affiliated companies included in the consolidated financial statements					
Germany					
docufy GmbH[1]	D	Bamberg	100	2,133	1,240
Gallus Druckmaschinen GmbH[1]	D	Langgöns-Oberkleen	100	2,238	–1,191
Heidelberg Boxmeer Beteiligungs-GmbH[1]	D	Wiesloch	100	127,091	2,399
Heidelberg China-Holding GmbH[1]	D	Wiesloch	100	58,430	7,430
Heidelberg Consumables Holding GmbH[1]	D	Wiesloch	100	24,382	–572
Heidelberg Manufacturing Deutschland GmbH[1]	D	Wiesloch	100	42,561	–1,962
Heidelberg Postpress Deutschland GmbH[1]	D	Wiesloch	100	25,887	2,966
Heidelberg Print Finance International GmbH[1]	D	Wiesloch	100	34,849	692
Heidelberg Web Carton Converting GmbH	D	Weiden	100	3,020	–93
Heidelberger Druckmaschinen Vertrieb Deutschland GmbH[1]	D	Wiesloch	100	54,901	4,561
Hi-Tech Coatings Deutschland GmbH[1]	D	Wiesloch	100	1,925	–838
Outside Germany[2]					
Baumfolder Corporation	USA	Sidney, Ohio	100	786	–365
BluePrint Products N.V.	BE	Sint-Niklaas	100	5,959	992
Europe Graphic Machinery Far East Ltd.	PRC	Hong Kong	100	1,385	629
Gallus Ferd. Rüesch AG	CH	St. Gallen	100	50,342	6,910
Gallus Holding AG	CH	St. Gallen	100	79,080	602
Gallus Inc.	USA	Philadelphia, Pennsylvania	100	7,547	2,310
Hi-Tech Chemicals BVBA	BE	Brussels	100	2,438	–916
Heidelberg Americas, Inc.	USA	Kennesaw, Georgia	100	100,301	8,876
Heidelberg Asia Pte. Ltd.	SGP	Singapore	100	7,330	191
Heidelberg Baltic Finland OÜ	EST	Tallinn	100	1,526	231
Heidelberg Benelux B.V.	NL	Haarlem	100	49,412	3,368
Heidelberg Benelux BVBA	BE	Brussels	100	15,651	1,835
Heidelberg Boxmeer B.V.	NL	Boxmeer	100	42,208	–213
Heidelberg Canada Graphic Equipment Ltd.	CDN	Mississauga	100	4,121	580
Heidelberg China Ltd.	PRC	Hong Kong	100	3,664	–34
Heidelberg do Brasil Sistemas Graficos e Servicos Ltda.	BR	São Paulo	100	831	454
Heidelberg France S.A.S.	F	Roissy-en-France	100	9,260	1,820
Heidelberg Grafik Ticaret Servis Limited Sirketi	TR	Istanbul	100	3,478	–400
Heidelberg Graphic Equipment (Shanghai) Co. Ltd.	PRC	Shanghai	100	87,677	5,899
Heidelberg Graphic Equipment Ltd. – Heidelberg Australia –	AUS	Notting Hill, Melbourne	100	19,884	2,476
Heidelberg Graphic Equipment Ltd. – Heidelberg New Zealand –	NZ	Auckland	100	1,954	321
Heidelberg Graphic Equipment Ltd. – Heidelberg UK –	GB	Brentford	100	25,135	1,368
Heidelberg Graphic Systems Southern Africa (Pty) Ltd.	ZA	Johannesburg	100	1,428	368

Name	Country/Domicile		Shareholding in percent	Equity	Net result after taxes
Heidelberg Graphics (Beijing) Co. Ltd.	PRC	Beijing	100	7,158	3,042
Heidelberg Graphics (Thailand) Ltd.	TH	Bangkok	100	4,079	– 3,246
Heidelberg Graphics (Tianjin) Co. Ltd.	PRC	Tianjin	100	7,813	2,559
Heidelberg Graphics Taiwan Ltd.	TWN	Wu Ku Hsiang	100	4,718	292
Heidelberg Group Trustees Ltd.	GB	Brentford	100	0	0
Heidelberg Hong Kong Ltd.	PRC	Hong Kong	100	12,174	– 725
Heidelberg India Private Ltd.	IN	Chennai	100	3,722	– 406
Heidelberg International Finance B.V.	NL	Boxmeer	100	27	– 8
Heidelberg International Ltd. A/S	DK	Ballerup	100	60,148	3,498
Heidelberg International Trading (Shanghai) Co. Ltd.	PRC	Shanghai	100	170	19
Heidelberg Italia S.r.L.	IT	Bollate	100	34,641	7,499
Heidelberg Japan K.K.	J	Tokyo	100	23,598	345
Heidelberg Korea Ltd.	ROK	Seoul	100	4,137	704
Heidelberg Magyarország Kft.	HU	Kalasch	100	4,570	446
Heidelberg Malaysia Sdn Bhd	MYS	Petaling Jaya	100	– 2,791	– 568
Heidelberg Mexico Services, S. de R.L. de C.V.	MEX	Mexico City	100	686	89
Heidelberg Mexico, S. de R.L. de C.V.	MEX	Mexico City	100	8,616	1,012
Heidelberg Philippines, Inc.	PH	Makati City	100	3,895	179
Heidelberg Polska Sp z.o.o.	PL	Warsaw	100	7,793	1,363
Heidelberg Praha spol s.r.o.	CZ	Prague	100	2,218	803
Heidelberg Print Finance Australia Pty Ltd.	AUS	Notting Hill, Melbourne	100	23,087	222
Heidelberg Print Finance Korea Ltd.	ROK	Seoul	100	17,172	359
Heidelberg Print Finance Osteuropa Finanzierungsvermittlung GmbH	A	Vienna	100	11,961	– 102
Heidelberg Schweiz AG	CH	Bern	100	10,561	754
Heidelberg Slovensko s.r.o.	SK	Bratislava	100	898	– 29
Heidelberg Spain S.L.U.	ES	Cornella de Llobregat	100	10,332	1,268
Heidelberg Sverige AB	S	Solna	100	5,825	– 422
Heidelberg USA, Inc.	USA	Kennesaw, Georgia	100	48,522	6,873
Heidelberger CIS OOO	RUS	Moscow	100	– 9,733	– 2,034
Heidelberger Druckmaschinen Austria Vertriebs-GmbH	A	Vienna	100	29,959	4,709
Heidelberger Druckmaschinen Osteuropa Vertriebs-GmbH	A	Vienna	100	7,054	3,005
Heidelberger Druckmaschinen WEB-Solution CEE Ges.m.b.H	A	Vienna	100	2,046	0
Hi-Tech Coatings International B.V.	NL	Zwaag	100	6,566	– 77
Hi-Tech Coatings International Limited	GB	Aylesbury Bucks	100	3,524	756
Linotype-Hell Ltd.	GB	Brentford	100	3,919	0
Modern Printing Equipment Ltd.	PRC	Hong Kong	100	1,518	– 400
MTC Co., Ltd.	J	Tokyo	99.99	7,906	1
P.T. Heidelberg Indonesia	ID	Jakarta	100	8,542	1,549

Name	Country/Domicile		Shareholding in percent	Equity	Net result after taxes
Affiliated companies not included in the consolidated financial statements owing to immateriality for the net assets, financial positions and result of operations					
Germany					
D. Stempel AG i.A.[3]	D	Heidelberg	99.23	– 53	– 38
Heidelberg Catering Services GmbH[1]	D	Wiesloch	100	386	– 1,441
Heidelberger Druckmaschinen Vermögensverwaltungsgesellschaft mbH	D	Walldorf	100	25	0
Menschick Trockensysteme GmbH	D	Renningen	100	350	– 165
Heidelberg Digital Platforms GmbH[1][4]	D	Wiesloch	100	26	0
Outside Germany[2]					
Cerm Benelux N.V.	BE	Oostkamp	100	1,686	233
Gallus Ferd. Rüesch (Shanghai) Co. Ltd.	PRC	Shenzhen	100	166	57
Gallus India Private Limited	IN	Mumbai	100	97	1
Gallus Mexico S. de R.L. de C.V.	MEX	Mexico City	100	– 193	– 91
Gallus Printing Machinery Corp.	USA	Philadelphia, Pennsylvania	100	20	– 207
Heidelberg Asia Procurement Centre Sdn Bhd	MYS	Petaling Jaya	100	79	– 5
Heidelberg Hellas A.E.E.	GR	Metamorfosis	100	3,135	23
Heidelberg Used Equipment Ltd.[3]	GB	Brentford	100	905	45
Heidelberger Druckmaschinen Ukraina Ltd.	UA	Kiev	100	– 1,432	– 250

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	609	0
Other shareholdings (>5%)					
Germany					
InnovationLab GmbH [3]	D	Heidelberg	5	2,743	765
SABAL GmbH & Co. Objekt FEZ Heidelberg KG	D	Munich	99.90	–5,871	–285

[1] Before profit transfer
[2] Disclosures for companies outside Germany in accordance with IFRS
[3] Prior-year figures, since financial statements not yet available
[4] Former Sporthotel Heidelberger Druckmaschinen GmbH

The Supervisory Board (as of March 31, 2018)

Dr. Siegfried Jaschinski
Partner of Augur Capital AG, Frankfurt am Main
b) Augur Capital Advisors S.A., Luxembourg (Member of the Administration Board)
Augur FIS–Financial Opportunities II (Member of the Administration Board)
Augur General Partners S.A.R.L., Luxembourg (Member of the Administration Board)
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

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

Karen Heumann
Founder and Spokesperson of the Executive Board of thjnk AG, Hamburg
a) NDR Media GmbH
Studio Hamburg GmbH
b) aufeminin.com, France (Member of the Supervisory Board)
Commerzbank AG (Advisory Board of the North Region)

Oliver Jung
Member of the Management Board of Schaeffler AG, Herzogenaurach
a) SupplyOn AG

Kirsten Lange
Management Consultant and Member of the Supervisory Board, former Managing Director of Voith Hydro Holding GmbH & Co. KG, Heidenheim
a) ATS Automation Tooling Systems Inc., Toronto, Canada
b) Fritsch Gruppe AG (Member of the Supervisory Board)

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, Chairman of the Speakers Committee for the Executive Staff, Wiesloch-Walldorf

Roman Zitzelsberger*
Regional head of IG Metall Baden-Württemberg, Stuttgart
a) Daimler AG
Rolls-Royce Power Systems AG
MTU GmbH

* Employee representative
a) Membership in other statutory supervisory boards
b) Membership in comparable German and foreign control bodies of business enterprises

Committees of the Supervisory Board (as of March 31, 2018)

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
Karen Heumann (since June 1, 2017)
Beate Schmitt
Prof. Dr.-Ing. Günther Schuh
(until June 1, 2017)

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
Oliver Jung
Kirsten Lange
Dr. Herbert Meyer
Prof. Dr.-Ing. Günther Schuh

The Management Board

Rainer Hundsdörfer
Heidelberg
Chief Executive Officer and
Chief Human Resources Officer
- * Marquardt GmbH (Chairman)
- ** Heidelberg Americas, Inc., USA (Chairman of the Board of Directors)
  Heidelberg USA, Inc., USA (Chairman of the Board of Directors)
  Gallus Holding AG, Switzerland (Member of the Administration Board)

Prof. Dr. Ulrich Hermann
Heidelberg
Head of the Heidelberg Digital
Business and Services Segment
- * Heidelberger Druckmaschinen Vertrieb Deutschland GmbH (Chairman)
- ** Heidelberger Druckmaschinen Austria Vertriebs-GmbH (Member of the Advisory Board)
  Heidelberger Druckmaschinen Osteuropa Vertriebs-GmbH (Member of the Advisory Board)
  Heidelberg Graphic Equipment Ltd., Australia
  Heidelberg Japan K.K., Japan

Dirk Kaliebe
Sandhausen
Chief Financial Officer and
Head of the Heidelberg
Financial Services Segment
- * Heidelberger Druckmaschinen Vertrieb Deutschland GmbH
- ** Gallus Holding AG, Switzerland (Member of the Administration Board)
  Heidelberg Americas, Inc., USA
  Heidelberg USA, Inc., USA

Stephan Plenz
Sandhausen
Head of the Heidelberg
Digital Technology Segment
- ** Gallus Holding AG, Switzerland (Chairman of the Administration Board)
  Heidelberg Graphic Equipment (Shanghai) Co. Ltd., China (Chairman of the Board of Directors)

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

Supervisory Board and corporate governance

Report of the Supervisory Board

DR. SIEGFRIED JASCHINSKI
Chairman of the Supervisory Board

Dear shareholders,

In financial year 2017/2018, an extensive efficiency project was launched to optimize the Company's organization and processes and reduce ongoing costs by around € 50 million in the medium term (FIT efficiency project). In addition, Heidelberg focused its corporate strategy on establishing new digital business models and expanding its technology leadership by expanding the portfolio in growth markets, such as packaging and label printing, digital printing, selected consumables and software, as well as by making targeted acquisitions.

The acquisition of Fujifilm's European coatings and pressroom chemicals business in the EMEA region is also to be viewed in this context. With this acquisition, Heidelberg expanded in the attractive growth segment for consumables. The transaction was another step in pursuing the Company's growth strategy of developing a comprehensive cross-sector portfolio geared toward specific customer requirements and is intended to further enhance Heidelberg's position in the market for coatings and pressroom chemicals.

In addition, the Company acquired docufy GmbH in Bamberg. docufy is a manufacturer of professional software solutions for technical documentation and the first provider of multi-level documentation. This acquisition augments the portfolio of the Heidelberg Digital Platforms segment, which offers IT solutions for the digitalization and automation of processes in the design, production and servicing of innovative high-tech products.

Another step into the digital future was the signing of the first deals under the new subscription model. The successful market launch of this new business model is another important component for the achievement of future growth objectives.

In addition, Heidelberg has positioned itself in the power electronics and electric mobility business. The Heidelberg "Wallbox," a charging device for electric vehicles, was successfully introduced at industrial trade shows. It appeals to automotive manufacturers, retail chains and consumers alike. This offering will gradually be expanded.

Moreover, Heidelberg has launched the Heidelberg Digital Unit, a new center of competence for digital marketing and e-commerce, which will significantly increase e-commerce sales over the next few years.

In addition, Heidelberg agreed a new syndicated credit facility with its banking group at better terms in March 2018. With an increased volume of € 320 million and a term until March 2023, this affords Heidelberg financial flexibility and long-term planning security. The new framework also opens up the possibility of early repayment of portions of the corporate bond – thereby further reducing interest expenses – and advancing the digital transformation and growth with further strategic acquisitions.

Close cooperation between Management Board and Supervisory Board

The Supervisory Board continuously monitored the management by the Management Board in financial year 2017/2018 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 reported to the Supervisory Board regularly, promptly and comprehensively in written or verbal form on all matters relevant to the Company. Namely, these include planning, the corporate strategy, major transactions by the Company and the Group and the associated opportunities and risks, and compliance issues. The Management Board kept the Supervisory Board informed continuously and in detail about the Group's sales, earnings, employment and business performance and the Company's financial position. On receipt of the information, the Supervisory Board discussed and dealt with all the above topics in depth. In particular, we discussed and examined all the business transactions of significance to the Company verbally and in writing with the Management Board. In addition, the Supervisory Board and the Audit Committee dealt intensively with other material concerns of the Company in their meetings and separate discussions. The members of the Supervisory Board also discussed current topics with the Management Board outside of meetings. As Supervisory Board Chairman, I was in continuous contact with the Management Board and especially with the Chief Executive Officer and discussed significant current issues and developments at the Company with them. These discussions focused on the FIT efficiency project and the subscription business model. The Chairmen of the Supervisory Board and the committees reported on key findings no later than the next Supervisory Board meeting. Against this backdrop, the Supervisory Board was always involved in good time in all decisions of material importance to the Company and the Group and reviewed these decisions before their implementation.

When necessary, the shareholder and employee representatives discussed the agenda items for the Supervisory Board meetings in separate preliminary talks. The Supervisory Board granted its approval for individual transactions to the extent required by law, the Articles of Association or the Rules of Procedure for the Management Board.

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 nearly 100 percent in financial year 2017/2018.

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 the year under review, the plenum of the Supervisory Board met four times. In particular, I would like to highlight the following key topics:

At its meeting on June 1, 2017, the Supervisory Board discussed the reporting of the Management Board on the business situation, as in every meeting held in the year under review. In addition, the Supervisory Board adopted the consolidated and single-entity financial statements for financial year 2016/2017 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 2017 Annual General Meeting. The Chairman of the Audit Committee reported on the meetings held on May 4 and May 31, 2017, and the Chairman of the Personnel Matters Committee reported on the meeting of June 1, 2017.

The meeting ahead of the Annual General Meeting on July 27, 2017, was used to prepare for the Annual General Meeting. Furthermore, the Supervisory Board resolved to commission PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft as the auditor for financial year 2017/2018. The Chairman of the Audit Committee reported on the meeting held on July 26, 2017. Moreover, the Supervisory Board discussed an amendment to the Articles of Association (cancellation of the Contingent Capital 2012 authorization due to the passage of time).

Following the account of the current business situation at the Supervisory Board meeting on November 24, 2017, the Supervisory Board was then informed in detail about the meetings of the Audit Committee on November 7, 2017, the Strategy Committee on November 23, 2017, and the Personnel Matters Committee on November 24, 2017, and discussed with the Management Board the concept of potential refinancing alternatives, including the aforementioned new credit facility. In addition, the Supervisory Board determined the attainment of the gender ratio target defined in 2015 and set the new target for the Management Board until 2022. It also approved the 2017 declaration of compliance, having previously discussed the criteria for the future composition of the Supervisory Board and adopted a profile of skills and expertise. After thorough discussion and on the basis of a corresponding recommendation, the Supervisory Board also approved the reformulation of the multi-year variable compensation (LTI) for the Management Board. Following discussion of the new arrangement with the Management Board including the necessary contractual amendments, the reformulation took effect as of the year under review (see Remuneration Report on pages 54 et seq). We then approved the new syndicated credit facility by way of circulation in writing on March 20, 2018.

The topics discussed at the Supervisory Board's last meeting of the reporting year, on March 27, 2018, 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 meetings of the Audit Committee on February 6, 2018, and of the Personnel Matters Committee on March 27, 2018, and the new organizational chart.

Another issue that we discussed in depth and resolved upon at the last meeting of the reporting year was the engagement of Schuh & Co. – in which one of our Supervisory Board members is a shareholder – as part of a development project with our subsidiary Heidelberg Web Carton Converting GmbH. Schuh & Co. is to provide methodological and practical support here with its expertise in strategic and operational complexity management. We were convinced of the scope, quality and competitiveness of the offer in a tendering procedure. Furthermore, we ascertained that this very technical complexity consulting did not equate to the customary controlling and consulting activities of a Supervisory Board member; in addition, Prof. Dr. Schuh was not personally involved in this consulting.

Corporate governance

The corporate governance of the Company was a regular topic of the discussions in the Supervisory Board, as were the recommendations of the German Corporate Governance Code (GCGC) as revised in 2017. 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 Supervisory Board's six committees prepare decisions for the plenum and pass resolutions on matters delegated to them for a decision.

The chairs of the respective committees reported 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 three times in reporting year 2017/2018. Besides the regular reappointment of Mr. Kaliebe and the extension of his contract by another three years, its work focused on compensation issues, especially the reformulation of the multi-year variable compensation and other matters relating to former and current Management Board members. 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 newly acquired activities (e.g. docufy GmbH) and the effects of the reorientation and development of business areas, the new standards for revenue recognition, 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 Sheetfed business area, the equity situation and the financial framework. It also discussed the FIT efficiency project and the new subscription business model. The Nomination Committee met once and held an extraordinary meeting on May 18, 2017, at which it discussed the filling of the vacant Supervisory Board post. The Management Committee did not meet. The Mediation Committee in accordance with section 27 (3) of the German Codetermination Act (MitBestG) also did not have to be convened.

Audit of the single-entity and consolidated financial statements

The Annual General Meeting on July 27, 2017, appointed PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft as the auditor. This company audited the single-entity financial statements for financial year 2017/2018, 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 5, 2018. The auditors who signed the audit reports took part in the Supervisory

Board's discussions. During the meeting, they reported on the results and on the fact that there are no significant weaknesses in the internal controlling or risk management system with regard to the (Group) accounting process. They were available to the members of the Supervisory Board to answer questions. The auditor also informed the meeting about the services provided in addition to the audit of the financial statements and confirmed that there were no circumstances giving rise to concerns over its impartiality. The audit report does not include any comments or indications of any inaccuracies in the declaration of compliance with the German Corporate Governance Code. The Audit Committee recommended the adoption of the single-entity financial statements and the approval of the consolidated financial statements at the meeting of the Supervisory Board on June 4, 2018. 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, 2018.

Personnel changes in the Supervisory Board and the Management Board
There was one change among the shareholder representatives on the Supervisory Board of Heidelberger Druckmaschinen AG. Mr. Oliver Jung was appointed as a member of the Supervisory Board by way of a judicial appointment effective May 23, 2017, and elected to the Supervisory Board for the regular term of five years at the Annual General Meeting on July 27, 2017.

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 and the managerial staff who have turned 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, June 2018
FOR THE SUPERVISORY BOARD

Siegfried Jaschinski

DR. SIEGFRIED JASCHINSKI
Chairman of the Supervisory Board

Corporate governance and compliance

- Recommendations of the German Corporate Governance Code complied with, with few exceptions
- Compliance activities in the Heidelberg Group expanded by commitments of service providers and suppliers to the new Heidelberg Code of Conduct, update of the internal regulations and corporate guidelines renewed
- Planned focus in financial year 2017/2018: Enhancement of the existing compliance management system, introduction of online training, increased assurance of ethically sound behavior

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 2017/2018. 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 24, 2017:

Since issuing its last declaration of compliance on November 16, 2016, Heidelberger Druckmaschinen Aktiengesellschaft has complied with all recommendations of the Government Commission of the German Corporate Governance Code as amended February 7, 2017, and as promulgated by the German Federal Ministry of Justice in the official section of the Federal Gazette on April 24, 2017, with the following exceptions, and will continue to comply in the future with the following exceptions:

Heidelberger Druckmaschinen Aktiengesellschaft deviated from the recommendations in items 4.1.5, 5.1.2 sentence 2 and 5.4.1(3) of the Code as amended February 7, 2017, 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 further measures in financial year 2016/2017 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 February 7, 2017, 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 29, 2018, 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 24, 2017, 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.

By resolution passed at the meeting of November 24, 2017, taking the sector, the size of the Company and the proportion of international business into account, the Supervisory Board is guided in particular by the following targets and profile of skills and expertise for the current and future composition of the Board as a whole:

a) All Supervisory Board members must have sufficient corporate or operating experience as well as knowledge of their field and ensure that they have enough time to perform their Supervisory Board tasks, so that the Supervisory Board as a whole has the knowledge, skills and specific experience necessary to perform its tasks properly.
b) All Supervisory Board members must have the reliability and personal integrity necessary for the fulfillment of the Supervisory Board's monitoring duties.
c) At least two members of the Supervisory Board must be "independent" as defined by item 5.4.2 of the German Corporate Governance Code. This stipulation is met by the appointment of Dr. Siegfried Jaschinski and Dr. Herbert Meyer as members of the Supervisory Board.
d) No more than two former members of the Management Board may sit on the Supervisory Board.
e) At least two Supervisory Board members must have international experience in a non-German market with relevance for the Company or particular expertise in the printing and media industry.
f) The Supervisory Board must have at least one member with experience in mechanical engineering and the associated industry expertise.
g) At least one member of the Supervisory Board must have expertise in accounting or auditing (financial expert).
h) The Supervisory Board must have at least one member with experience in financing and the capital market.

In accordance with Section 96 (2) sentence 1 of the German Stock Corporation Act (AktG), the Supervisory Board is made up of at least 30 percent women (i.e. at least four) and at least 30 percent men (i.e. at least four). This gender ratio must be complied with by the Supervisory Board as a whole unless the shareholder or employee representatives raise an objection against overall compliance according to Section 96 (2) sentence 3 AktG. The shareholder representatives raised an objection against overall compliance with the statutory gender ratio according to Section 96 (2) sentence 3 AktG. The Supervisory Board must therefore comprise at least two women and at least two men on both the shareholder representative and employee representative sides.

Supervisory Board members must not remain in their post beyond the end of the Annual General Meeting following their 72nd birthday. There is no defined limit for length of membership of the Supervisory Board. This enables continuity and the preservation of long-standing expertise on the Supervisory Board in the interests of the Company.

The above targets for the composition and the profile of skills and expertise for the Board as a whole supplant all previous Supervisory Board targets.

The current composition of the Supervisory Board complies with these targets and fulfills the profile of skills and expertise.

Compliance management

The activities of the Heidelberg Group are subject to various national and international legal provisions and guidelines in addition to the Group's own Code of Conduct, which was introduced on June 1, 2005, and revised on March 20, 2017. The Code of Conduct forms the foundation of the compliance culture at Heidelberg and, among other things, has been adapted in line with the ten principles of the UN Global Compact. This is supplemented by a comprehensive system of values, principles, general and other internal guidelines hierarchically structured as a pyramid. The aim of these regulations is to provide the executive bodies and employees of the Heidelberg Group with guidance on how to use and practice these rules for fair, constructive and productive dealings in day-to-day operations with respect to the general public, customers and suppliers, competitors, other business partners and shareholders, 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 2018/2019, there will be a continued focus on the review, revision and/or adjustment of the existing compliance management system in order to improve it also in light of current developments.

In order to evaluate the compliance areas specific to the Group, the Compliance Committee meets regularly under the Chief Compliance Officer. In this context, current global developments are evaluated in order to take centrally directed, appropriate preventative compliance measures. The expansion of the top-down approach through management and employee compliance training and the information and any delegation of compliance duties necessary in this context, including associated training, continue to be implemented. The whistleblower system introduced in 2016 has become established at the level of Heidelberger Druckmaschinen Aktiengesellschaft; global establishment of the whistleblower system is being evaluated by the Compliance Committee with support from the significant local Group companies. Another priority in this financial year is again to advise and train employees, especially in the areas of the Code of Conduct, corruption prevention, antitrust law and non-disclosure. For the latter subject, Heidelberg has revised the existing non-disclosure concept and is currently providing extensive training to employees in particularly sensitive areas. Compliance training is also under way at the new Group companies added via acquisitions. 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 there at least once a year on behalf of the Management Board.

Wiesloch, June 5, 2018

Siegfried Jaschinski

For the
Supervisory Board
Dr. Siegfried Jaschinski

For the
Management Board
Rainer Hundsdörfer

Financial calendar 2018/2019

June 12, 2018	Press Conference, Annual Analysts' and Investors' Conference
July 25, 2018	Annual General Meeting
August 7, 2018	Publication of First Quarter Figures 2018/2019
November 8, 2018	Publication of Half-Year Figures 2018/2019
February 7, 2019	Publication of Third Quarter Figures 2018/2019
June 6, 2019	Press Conference, Annual Analysts' and Investors' Conference
July 25, 2019	Annual General Meeting

Subject to change

Publishing information

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

Investor Relations
Tel.: +49-62 22-82 67121
Fax: +49-62 22-82 67129
investorrelations@heidelberg.com

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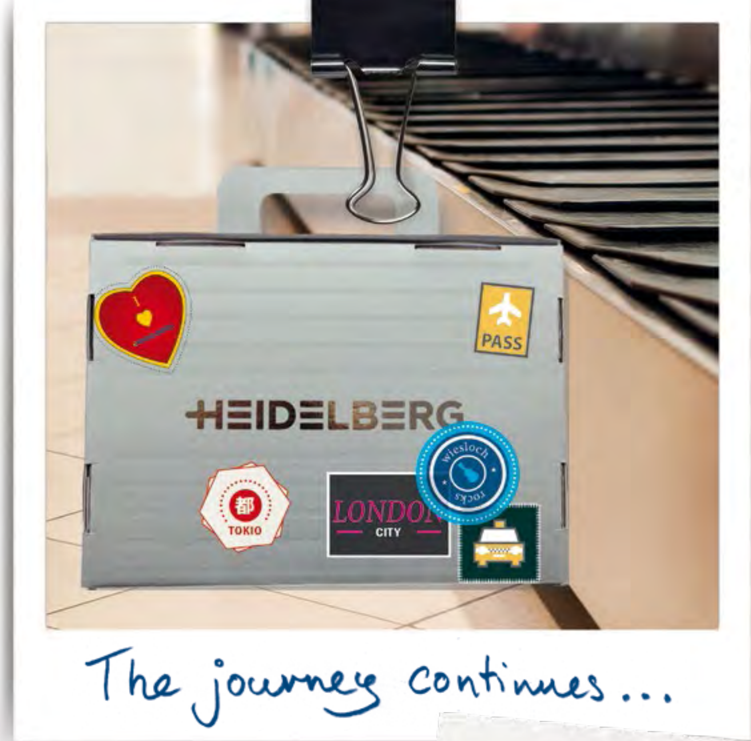
Five-year overview – Heidelberg Group

Figures in € millions	2013/2014	2014/2015	2015/2016	2016/2017	**2017/2018**
Incoming orders	2,436	2,434	2,492	2,593	2,588
Net sales	2,434	2,334	2,512	2,524	2,420
Foreign sales share in percent	86.2	84.7	86.5	84.8	84.9
EBITDA [1]	143	188	189	179	172
in percent of sales	5.9	8.1	7.5	7.1	7.1
Result of operating activities excluding restructuring result [2]	72	119	116	108	103
Net result before taxes	2	– 76	31	34	39
Net result after taxes	4	– 72	28	36	14
in percent of sales	0.1	– 3.1	1.1	1.4	0.6
Research and development costs	117	121	122	119	121
Investments	52	59	65	105	142
Total assets	2,244	2,293	2,202	2,219	2,256
Net working capital [3]	727	714	691	667	610
Receivables from sales financing	91	82	65	58	66
Equity	359	183	287	340	341
in percent of total equity and liabilities	16.0	8.0	13.0	15.3	15.1
Financial liabilities	481	542	496	470	438
Net debt [4]	238	256	281	252	236
Cash flow	70	– 120	99	107	104
in percent of sales	2.9	– 5.1	3.9	4.2	4.3
Free cash flow	22	– 17	– 32	24	– 8
in percent of sales	0.9	– 0.7	– 1.3	1.0	– 0.3
ROCE in percent	6.8	11.3	10.8	10.2	9.8
Return on equity in percent [5]	1.0	– 39.3	9.8	10.6	4.1
Earnings per share in €	0.02	– 0.29	0.11	0.14	0.05
Dividend in €	–	–	–	–	–
Share price at financial year-end in € [6]	2.23	2.49	1.99	2.34	3.04
Market capitalization at financial year-end	523	641	512	602	847
Number of employees at financial year-end [7]	12,539	11,951	11,565	11,511	11,563

[1] Result of operating activities before interest and taxes and before depreciation and amortization, excluding restructuring result (previously: special items)
[2] Previously: Result of operating activities 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 taxes
[6] Xetra closing price, source prices: Bloomberg
[7] Number of employees excluding trainees



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HEIDELBERG

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