Annual Report
2020/2021

PERSPECTIVES

HEIDELBERG

OUR STRATEGY

IMPROVE PROFITABILITY

STRENGTHEN CORE BUSINESS

DEVELOP NEW GROWTH AREAS

OUR OBJECTIVE

INCREASE ENTERPRISE VALUE
FOR OUR SHAREHOLDERS

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TWO-YEAR OVERVIEW

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OUR PERSPECTIVES

FOCUS ON PACKAGING PRINTING:
Market and technology leadership along the entire value chain in the folding box and label segment

LEVERAGE MARKET POTENTIAL IN CHINA:
Above-average participation in market growth and expansion of production

ACCELERATE DIGITALIZATION:
Further expansion of contract business, digital platforms and software range

TRANSFER TECHNOLOGY:
Successful transition from printing presses to additional industries

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TWO-YEAR OVERVIEW – HEIDELBERG GROUP

Figures in € millions	2019/2020	**2020/2021**
Incoming orders	2,362	2,000
Net sales	2,349	1,913
EBITDA [1]	102	146
in percent of sales	4.3	7.6
Result of operating activities excluding restructuring result	6	69
Net result after taxes	– 343	– 43
in percent of sales	– 14.6	– 2.2
Research and development costs	126	87
Investments	110	78
Equity	202	109
Net debt [2]	43	67
Free cash flow	225 [3]	40
Earnings per share in €	– 1.13	– 0.14
Number of employees at financial year-end [4]	11,316	10,212

[1] Result of operating activities before interest and taxes and before depreciation and amortization, excluding restructuring result
[2] Net total of financial liabilities and cash and cash equivalents and short-term securities
[3] Including inflow from trust assets of around € 324 million
[4] Number of employees excluding trainees

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

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TWO-YEAR OVERVIEW

For ease of reading, gender-specific language has not been applied in this report. Where personal terms are only used in the masculine form, they are representative of all genders.

Heidelberg offers perspectives.
Letter from the Management Board

Ladies and gentlemen,

We will undoubtedly all continue to associate the financial year 2020/2021 with the severe impact of the COVID-19 pandemic on public and private life and the world economy for a long time to come. It was also a year of huge challenges for Heidelberg as we faced the biggest recession for many decades. Our primarily focus was on ensuring the health and safety of our more than 10,000 employees. We succeeded in implementing stringent hygiene standards at all of our locations in a short space of time, allowing us to remain operational despite all of the restrictions. All of our Company's employees deserve our considerable gratitude for achieving this, and for the commitment and flexibility they have demonstrated in the face of challenging working situations.

We began the financial year with an extensive restructuring and transformation program that we had already defined prior to the pandemic. The slump in demand resulting from the pandemic required us to intensify this program during the course of the year. And our efforts have paid off. Today, we can say with some pride that Heidelberg stands on stable foundations – financially, structurally, and operationally.

The aim of our program was to sustainably increase Heidelberg's financial stability and profitability in order to create substantial value added for our shareholders. One year on, our message to you is clear: We deliver on our promises. We are well on the way to lowering our EBIT break-even point to below € 2 billion. We have maintained our net debt at a low level despite the dramatic impact of the pandemic. We have significantly reduced our interest burden and further streamlined our portfolio in order to improve our earnings. We have initiated and, in many cases, already implemented sustainable savings in staff and non-staff operating costs that are set to total around € 170 million in the financial year 2022/2023. With this in mind, we would like to express our particular gratitude to our employee representatives for their constructive and cooperative support in shaping the transformation process. We took the correct actions at an early stage in order to remain stable during the crisis – thanks not only to short-term measures, but in particular to our transformation program, which is helping us to manage the volatile environment.

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STABLE FOUNDATIONS LAID, STRATEGIC FOCUS ON GROWTH POTENTIAL

In light of the dramatic crisis affecting the industry and the world economy, the huge efforts this involved were also extremely important as a means of cushioning the slump in sales of almost 20 percent from our own resources.

Today, we have laid strong and sustainable foundations for our traditional company to generate further growth in enterprise value. Alongside financial stabilization, the expansion of our profitable core business is the second important pillar of our transformation. We are a long way from exhausting the opportunities offered by the market in our core business – and we will leverage this potential in a targeted manner as the global market leader. In our strong core target markets, our strategic focus is on the growth areas of packaging, the subscription and lifecycle business that is continuing to see dynamic growth, and the unique strength and competitive edge we enjoy in the areas of Prinect and the accompanying software connectivity as well as in data management. We have introduced a cross-sector, centralized, open industrial platform for automated supplier and customer management based on state-of-the-art cloud technologies under the project name Zaikio.

In regional terms, we consider Asia and, in particular, China to offer the greatest market potential. Accordingly, we will systematically expand our capacities at our site near Shanghai so that we can serve the local market even more effectively, affordably and with a focus on the customer. The production joint venture with our Chinese partner Masterwork, which was given the green light for joint parts production in late 2020, has the same objective. The success of our plant in China is demonstrated by the fact that it already supplies customers in 40 countries. The export rate at our Chinese production site is almost 20 percent.

Meanwhile, we are continuing to focus on our innovative strength in the form of the expansion and transfer of our technology expertise – something we are already putting into practice with our successful activities in the growth market of e-mobility as well as printed electronics. In particular, our Heidelberg Wallboxes – private charging solutions for electric vehicles – are currently enjoying considerable

> “In line with the focus on our growth potential, we believe there are realistic opportunities for us to again generate substantial value for all of our stakeholders in the future.”

RAINER HUNDSDÖRFER

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> “The aim of our program was to sustainably increase Heidelberg’s financial stability and profitability.”
>
> MARCUS A. WASSENBERG

public attention and sales in this area increased fourfold compared with the previous year. With a market share of around 20 percent, Heidelberg is one of the leading providers in Germany and is now also entering other European markets. We have delivered around 45,000 charging stations in the last two years alone. In line with demand, we intend to double our capacity once again in 2021.

The new financial year 2021/2022 will pose significant challenges for us once again. After all, an end to the pandemic is still not in sight. However, the improved order situation and the growing success of our restructuring and transformation measures give us grounds for cautious optimism. Accordingly, we are forecasting slight growth in consolidated sales and a further improved EBITDA margin. Thanks to our improved earnings strength, the non-recurring income generated in the year under review will now be largely replaced by operating income. Our clear objective remains to report solid and sustainably positive earnings and a positive free cash flow in the coming years.

HEIDELBERG OFFERS PERSPECTIVES

We would like to express our deep gratitude to you, dear shareholders, for the confidence you have shown in us in these challenging times. We would also like to thank our customers, suppliers and other business partners for their close and trusting cooperation. We have stabilized Heidelberg in terms of its statement of financial position, cost base and structure; the majority of the hard work is behind us. Accordingly, and in line with the aforementioned focus on our growth potential, we believe there are realistic opportunities for us to again generate substantial value for all of our stakeholders in the future. We are looking forward to sharing the rewards of our work with you. Heidelberg offers perspectives.

Sincerely,

RAINER HUNDSDÖRFER

MARCUS A. WASSENBERG

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RAINER HUNDSDÖRFER
CEO
Heidelberger
Druckmaschinen AG

MARCUS A. WASSENBERG
CFO
Heidelberger
Druckmaschinen AG

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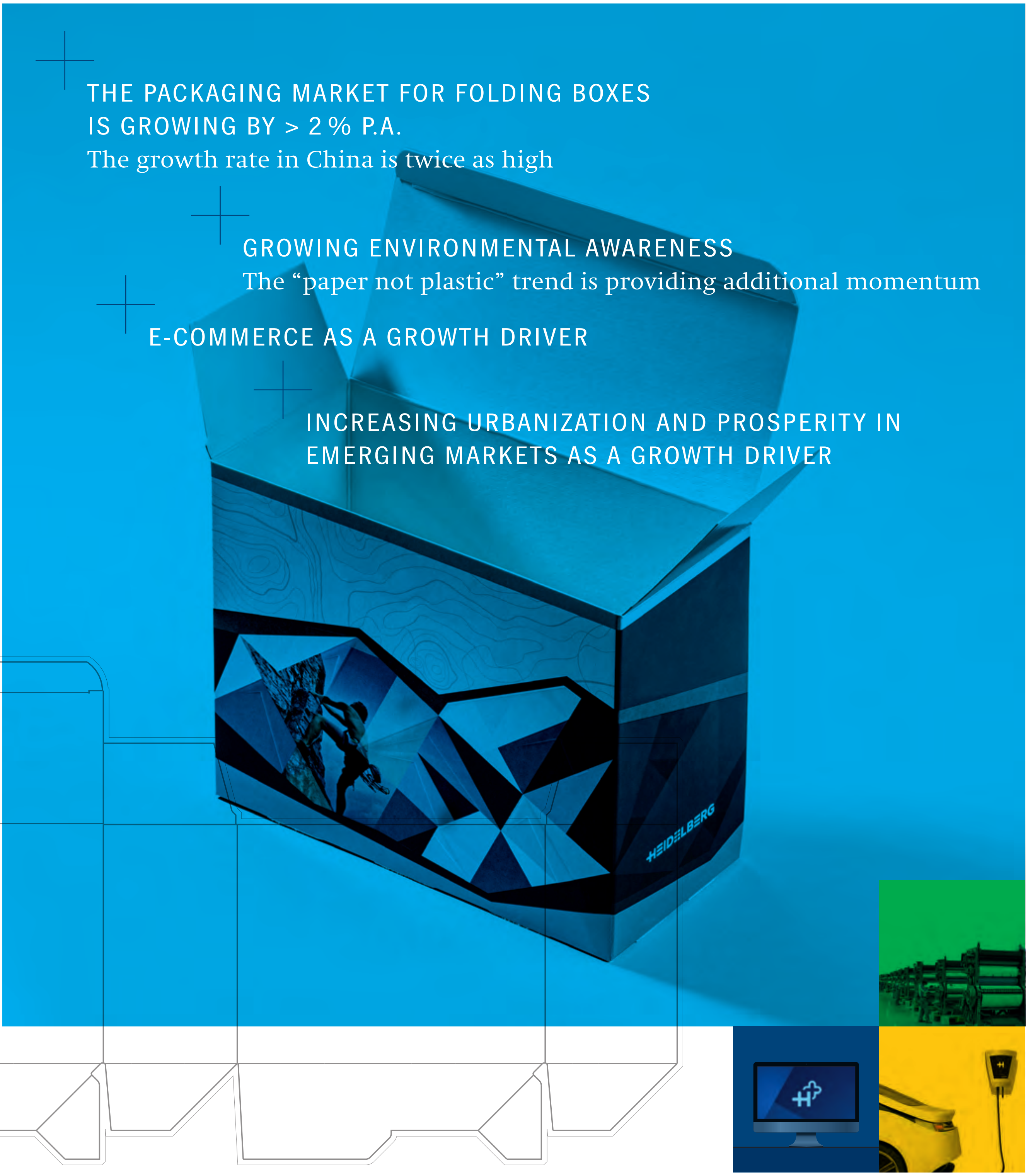
PERSPECTIVES in packaging printing



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Global no. 1 in packaging printing

Heidelberg has a 47 % market share in sheetfed offset printing presses for folding box and label production

AROUND 50 % OF OUR SHEETFED OFFSET BUSINESS
is attributable to packaging printing presses

HEIDELBERG IS THE ONLY PROVIDER
on the market that covers the entire value chain

ON OUR AGENDA FOR PACKAGING PRINTING:

> END-TO-END OPTIMIZATION OF THE ENTIRE WORKFLOW through automation and increased technical availability

> EXPANSION OF DATA-DRIVEN SERVICES

> TAILORED PORTFOLIO specifically for the growing Asian market

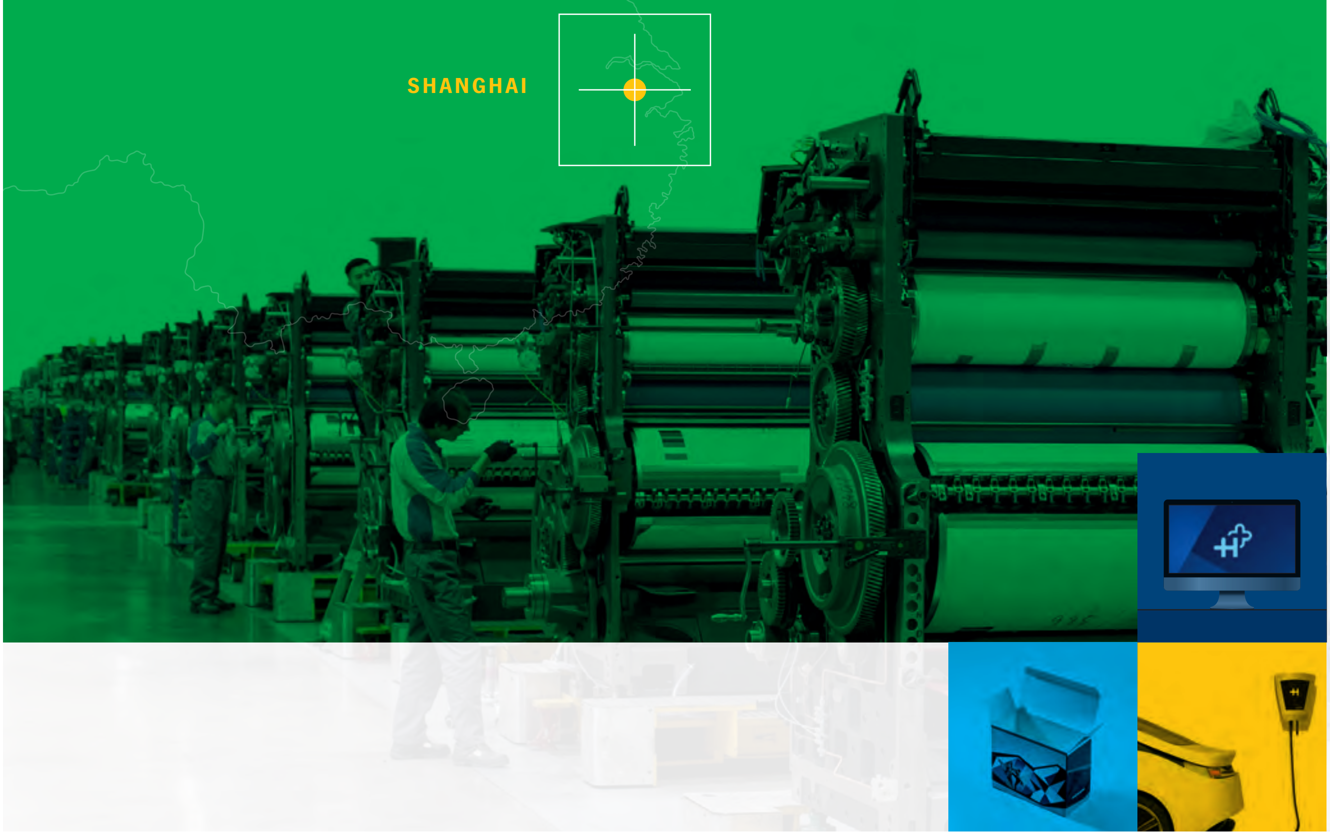
PERSPECTIVES in China

CHINA IS EXPECTED TO SEE GROWTH OF AROUND 8 % IN 2021

The economy is booming

CHINA IS ALSO THE REGION WITH THE HIGHEST GROWTH RATE IN TERMS OF THE PRINTING VOLUME

The market amounted to € 37 billion in 2019 and is growing by over 2 % every year – and by around 4 % for packaging



No. 1 in China

Heidelberg has a market share of over 50 % in the important 70 x 100 sheetfed offset format

POWERFUL IN-HOUSE PRODUCTION FACILITY in Shanghai

CLOSE TO THE CUSTOMER with around 900 employees in production, sales and service

LARGEST INDIVIDUAL MARKET in financial year 2020/2021, accounting for around 15 % of sales

HEIDELBERG NOW EXPORTS ALMOST 20 % of the presses manufactured in Shanghai to other countries

ON OUR AGENDA FOR CHINA:

> WORKFORCE AND PORTFOLIO EXPANSION AT THE PRODUCTION SITE

> INCREASE IN LOCAL PROCUREMENT VOLUME including through partnerships and cooperations

> INCREASE IN LIFECYCLE BUSINESS through digital services

FINANCIAL SECTION

PERSPECTIVES in digital business models

US$ 16 BILLION
is the size of the global market
for cloud-based automation software

€ 1.2 BILLION
is the market volume for software
in the graphics industry

THE PROPORTION OF USAGE-BASED CONTRACT MODELS
in mechanical engineering is continually increasing

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26 % of Heidelberg's lifecycle sales

are already attributable to contract business

AROUND 50 % OF PRINECT SALES already take the form of recurring sales

A BROAD DATA POOL of 25,000 connected Prinect modules and 13,000 printing presses forms the basis for digital business models

HEIDELBERG PLUS is a new digital customer platform that bundles all existing and new applications and services

ZAIKIO has been launched as an industry-wide digital collaboration platform

ON OUR AGENDA FOR DIGITAL BUSINESS MODELS:

> SYSTEMATIC EXPANSION OF USAGE-BASED CONTRACT MODELS to increase the proportion of recurring sales

> SWITCHING THE PRINECT RANGE to cloud-based contract models

> EXPANSION OF THE ZAIKIO INDUSTRY PLATFORM to include additional applications, such as for the automation of cross-company processes

PERSPECTIVES in new markets

AROUND 20 % ANNUAL GROWTH
in private charging stations in Europe (2020 to 2025)

AROUND 30 MILLION ELECTRIC VEHICLES
forecast in Europe by 2030

REGISTRATIONS OF ELECTRIC CARS
in Germany up 125 % year-on-year
in March 2021

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E-mobility sales doubled

Sales of more than € 20 million in FY 2020/2021 thanks to strong demand for charging stations

20 % MARKET SHARE for private charging systems in Germany

THE HEIDELBERG WALLBOX HOME ECO WON
the ADAC Test in 2019 with a score of 1.1 ("very good") and the ÖATMC Test in Austria

PRODUCTION CAPACITIES DOUBLED
in early 2021 with further expansion planned

ON OUR AGENDA FOR NEW MARKETS:

> PORTFOLIO EXPANSION with smart and integrated solutions

> EUROPE-WIDE SALES to be expanded

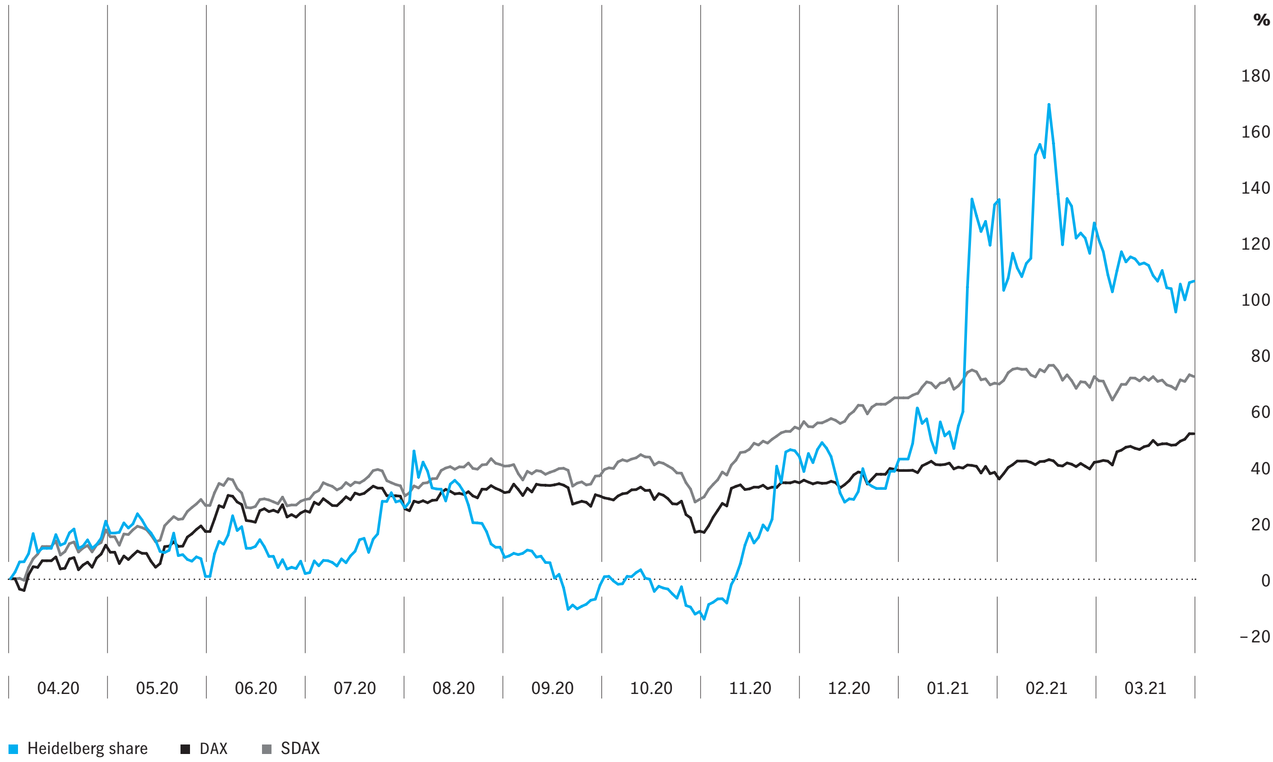
> STRATEGIC PARTNERSHIPS TARGETED in the area of charging systems

> TRANSFER OF CORE COMPETENCIES to other business areas, such as printed electronics

Heidelberg on the Capital Markets

Performance of the Heidelberg share

Compared to the DAX (Index: April 1, 2020 = 0 percent)



The Heidelberg share and the Heidelberg bonds

- Heidelberg share price rises significantly in the year under review
- Heidelberg bond repaid early, convertible bond partially repaid

The reporting year 2020/2021 began under the cloud of the global COVID-19 pandemic, which had been negatively impacting prices on the German stock market since late February. The accompanying economic uncertainty was also reflected in the price performance of the Heidelberg share and the Heidelberg bonds. Following the presentation of the comprehensive package of measures as part of the transformation program and the announcement of the early repayment of the high-yield corporate bond, the share and the bonds recovered slightly in the period from late March to August. The figures for the first quarter of the financial year illustrated the huge impact of the pandemic on the Company's operating business. With a significant downturn in the order volume in almost all regions of the world and no end to the pandemic in sight, the Heidelberg share price reached a low for the year of € 0.48 on October 30, 2020. The announcement of the half-yearly figures in November was accompanied by a clear turnaround in the order situation, with some regions already returning to near pre-crisis levels. The share price benefited from this development, ultimately reaching a high for the year of € 1.50 on February 15, 2021 following the publication of the figures for the first nine months. This positive performance was also driven by dynamic development in the area of e-mobility, where Heidelberg established itself as one of the market leaders in Germany in the financial year 2020/2021. The announcement of a doubling of production capacities in this area gave the share price a significant boost. Following a sustained rally that had lasted since November, profit-taking contributed to pressure on the share price, which ultimately closed the financial year at € 1.15 on March 31, 2021 for year-on-year growth of 105 percent. This meant the Heidelberg share clearly outperformed the DAX and SDAX indexes, which rose by 51 percent and 67 percent respectively during the year under review.

On March 30, 2020, some investors exercised their right to early repayment of the 2015 Heidelberg convertible bond. The outstanding amount declined from around € 59 million to around € 17 million, and now has a final maturity of March 2022. Between April 2020 and the end of the financial year in March 2021, the price of the convertible bond increased continuously in line with the development of the Heidelberg share, albeit with a low trading volume. The convertible bond traded at 75 percent at the start of the year under review and 95 percent at the end of the year.

The Heidelberg bond began the year at around 83 percent before also rising continuously until its early repayment. As announced in March 2020, the bond was ultimately redeemed from cash on September 9, 2020 in line with the bond terms.

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

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

For the first time, the analysts' conference in June 2020 was held as a Web conference rather than in person due to the pandemic. At the analysts' conference, the Management Board presented the progress made in the planned restructuring and transformation of the Group. In addition to the analysts' and investors' conference on the annual financial statements and regular conference calls on the publication of quarterly figures, our investor and creditor relations activities focus on constantly communicating with investors, analysts and other capital market participants at a number of international capital market conferences and roadshows, the majority of which were held as virtual events in the year under review.

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

Annual General Meeting 2020 approves all agenda items by significant majority

For the first time, the Annual General Meeting for the financial year 2019/2020 was held as a virtual event. It was streamed live from the Company's headquarters in Wiesloch-Walldorf on July 23, 2020. At the Annual General Meeting, the Management Board discussed the Company's strategy and the accounts for the past financial year (April 1, 2019 to March 31, 2020). Around 34 percent of Heidelberg's share capital was represented at the votes on the agenda items. The Company's shareholders were asked to vote on five of the six agenda items, including the election of two of the six shareholder representatives on the Supervisory Board. The candidates were Dr. Martin Sonnenschein and Ina Schlie. A large majority of those entitled to vote on resolutions on the election of members of the Supervisory Board approved the candidates proposed by the management. Dr. Martin Sonnenschein was subsequently confirmed as the Chairman of the Supervisory Board. The two candidates will support the Company with their skills and experience as it transitions to a digital future.

Shareholder structure: Free float at around 84 percent

Following the voting right notifications received, the proportion of Heidelberger Druckmaschinen shares in free float on March 31, 2021 – in accordance with the Deutsche Börse definition – was around 84 percent of the share capital of 304,479,253 shares. The voting right notifications received are published in the Investor Relations section of our website.

Key performance data of the Heidelberg share

Figures in € ISIN: DE 0007314007	2019/2020	**2020/2021**
Basic earnings per share [1]	–1.13	–0.14
High	1.74	1.50
Low	0.53	0.48
Price at beginning of financial year [2]	1.55	0.56
Price at end of financial year [2]	0.56	1.15
Market capitalization – financial year-end in € millions	171	350
Number of shares outstanding in thousands (reporting date)	304,479	304,479

Key performance data of the Heidelberg 2015 corporate bond

Figures in percent RegS ISIN: DE 000A14J7A9	2019/2020	**2020/2021**
Nominal volume in € millions	150.0	150.0
High	104.13	100.20
Low	38.45	71.91
Price at beginning of financial year [3]	102.55	83.10
Price at end of financial year [3]	83.75	– [4]

Key performance data of the Heidelberg 2015 convertible bond

Figures in percent ISIN: DE 000A14KEZ4	2019/2020	**2020/2021**
Nominal volume in € millions	17.1	17.1
High	100.50	97.98
Low	74.97	74.87
Price at beginning of financial year [3]	99.46	74.97
Price at end of financial year [3]	74.97	94.55

[1] Determined based on the weighted number of outstanding shares
[2] Xetra closing price, source: Bloomberg
[3] Closing price, source: Bloomberg
[4] Repaid on September 9, 2020

Combined Management Report 2020/2021

Combined Management Report

BASIC INFORMATION ON THE GROUP

Business Model of the Group

Company profile

Heidelberger Druckmaschinen Aktiengesellschaft is a reliable and highly innovative partner to the global printing industry. We have been synonymous with quality and future viability for more than 170 years. 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 also seek to open up new business areas on the basis of our technological expertise.

Our core business is oriented toward the needs of our customers in our target markets of packaging and advertising printing. We play a leading technological role with our integrated range of solutions and new digital business models. In doing so, we focus on the systematic end-to-end digitization of customer value creation, with a particular view to integrated and automated system solutions for machines, software, consumables and services. We are also using an open industry platform to connect all of the relevant systems in the printing industry.

With our technology leadership in our core business and a focus on digitization, we are addressing a global market that offers strong foundations for our products and services thanks to an annual print production volume of almost € 400 billion in packaging, advertising and label printing.

We are also addressing new markets thanks to our comprehensive technological know-how. In the e-mobility market, for example, our power electronics expertise has allowed us to establish ourselves as a leading provider of charging systems. Our printing technology has also enabled us to enter the production of printed organic electronics, a future market with great potential.

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 € 1.9 billion in the financial year 2020/2021. Together with our sales partners, around 10,200 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 and consumables network, sites and production

- Expanding our services through the intelligent use of data
- A production partner for industrial customer business; production capacities for Wallboxes doubled
- China: Key production site and center of excellence

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

Expanding our services through the intelligent use of data

One of the aims of Heidelberg's reorientation is to strengthen our customer and market focus and create needs-oriented solutions. Starting from central product management, we work on solutions aimed at making our customers more successful and directly helping them to optimize their workflows and processes. This demands a tight-knit organization and intensive interdisciplinary cooperation with a clear focus on our customers and the benefit to them. To this end, the service team works in close cooperation with product management, development, and sales and marketing.

This approach is complemented by the range of the global Heidelberg service organization, which is highly valued by our customers and is considered to be an engineering leader even beyond the printing industry. Our service logistics network ensures that customers can enjoy a reliable supply of original Heidelberg service parts over the entire product lifecycle. Customers can choose what they need from a range of 270,000 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 range of consumables extends from the preliminary stage including printing plates and plate chemicals, via the pressroom with printing inks, coatings, offset blankets, pressroom chemicals and rollers, through to further processing. With its extensive network of sales branches, Heidelberg has grown to become one of the biggest providers of consumables for print shops.

Reliable results are ensured thanks to the expertise of our application specialists and our coordinated materials, which are tested on the latest presses at our print media centers. We offer our customers various complete packages of consumables so that they can give their core business their undivided attention. These packages can be easily tailored to local laws and regulations. Examples include our Saphira Eco or Low Migration line. Our eShop offers easy and automated order processing for all of the necessary products.

Our customers can also benefit from the Heidelberg Vendor Managed Inventory system (VMI). We take responsibility for controlling and material planning for the customer's warehouse, allowing print shops to focus entirely on their customers and printing tasks. We offer a range of qualified consumables specially intended for optimal use in specific applications or technologies, and we work together to define development projects to achieve this where necessary. These combinations of consumables are designed so as to best interact with each other and the presses.

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 also make an important contribution to this. Print Site Contract customers have access to a large number of additional digital services at all times via the Heidelberg Assistant customer platform. In addition to our Vendor Managed Inventory system (VMI), this includes real-time information on the Company's current performance and recommended improvements. The performance of individual presses can also be compared anonymously with other market participants in order to identify hidden potential. The new Digital Training solution makes Heidelberg's expertise available to customers whenever and wherever they need it. Predictive Monitoring ensures maximum printing press availability by watching over press sensor data and reducing unplanned downtime. All of the resulting preventive measures can be tracked in the Heidelberg Assistant. The new Maintenance Manager makes printing press maintenance even more convenient. This cloud-based application enables the effective planning and controlling of maintenance tasks. The accompanying app also supports the maintenance team in performing the necessary work by providing them with instructions and videos on their smartphones.

The basis for these digital services is the Heidelberg Cloud, which Heidelberg uses to give its customers access to the largest data pool in the industry. For example, every year we analyze 500 million data points per press for Predictive Monitoring. Sixty million anonymized print jobs are available as a reference base for evaluating the performance of individual presses in Performance Benchmarking. In this way, we are helping our customers to improve their efficiency, reduce the frequency and duration of service calls, and optimize their processes.

Heidelberg production network: Focus on greater efficiency and cooperation

The Heidelberg production network covers two countries across two continents. Together, these sites constitute a global network that is organized by families of components and by products. Our sheetfed offset machines are built at two production sites. In Wiesloch-Walldorf, Germany, we assemble highly automated and more specially configured high-tech printing presses in almost all our format classes based on customer requirements. In Shanghai in China, we produce high-quality, mostly preconfigured models and are continuously expanding the product portfolio to include additional variants and configurations.

The Ludwigsburg production site manufactures individual parts, modules and postpress machinery. The Amstetten site is the most important supplier of cast parts and large parts for our production locations and is continuing to expand its industrial customer business. The production specialists in Wiesloch and Brandenburg round off the production network for mechanical components. Langgöns is the primary production site for label printing systems.

In production, we focus on parts for which quality is a key factor and products that provide competitive benefits for us and our customers thanks to our specializations. We continually analyze costs and processes with a view to optimizing vertical integration. Heidelberg is pressing ahead with the development of its production system with a high degree of intensity so that it can continue to realize enduring efficiency enhancements and digital transformation in the future.

Heidelberger Druckmaschinen as a production partner for industrial customer business

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

With its high productivity and quality, our foundry in Amstetten is one of the most powerful in Europe. We use it to produce an extensive portfolio of components for Heidelberg and industrial customers in a wide range of cast materials. We support our customers with attuned production processes for the manufacture and processing of high-end cast parts, thereby enabling production and cost benefits along the entire value chain.

As a result of rapidly increasing demand for individualized solutions for different markets, the scalability of the production process becomes necessary for industrial customers as well. Heidelberg Industry has established itself as a reliable partner across the entire product portfolio. For example, Heidelberg has succeeded in positioning itself as a partner in the assembly of high-precision 3D printers for the flexible production of such new systems. In the area of electronics, we develop and produce customized control and power electronics.

Production capacities for Wallboxes doubled

Building on its long-standing expertise in power electronics, Heidelberg entered the field of charging electronics for electric vehicles in 2014. Having started out as a supplier for the automotive industry, Heidelberg has meanwhile produced some 45,000 Wallboxes, making it one of the biggest suppliers in the area of e-mobility. Since June 2018, we have offered a Wallbox under our own brand, the Home Eco, for private customers. More than 35,000 units have already been delivered and the Wallbox has proven its worth in specialist tests, with the first place it obtained in the August 2019 ADAC Test in Germany attracting particular attention. Fall 2020 saw the start of series production of a second model, Energy Control. With load management and networking features, this Wallbox also meets the KfW subsidy criteria. To serve the rising demand in this field more quickly and hence further expand its market position, Heidelberg commissioned a new production line at its Wiesloch-Walldorf site in spring 2021, thereby roughly doubling its production capacity.

Start of production for printed electronics

In the period under review, Heidelberg's own business unit for the industrial development, production and sales of printed and organic electronics established in 2018 started production at the Wiesloch-Walldorf site. Among other things, the Company invested in the installation of a complete production line for printed sensors. With the industrial production of sensor-equipped functional films, Heidelberg is opening up a new field for digital business models. Every square meter of the film is equipped with up to one million sensors that register the smallest changes in pressure, temperature or humidity, and report them to the computer. Printed and organic electronics is an innovative technology for producing sensors based on conductive inks and functional materials. These sensors deliver data to the cloud and are a relevant cornerstone for the application areas of Industry 4.0 and the Internet of Things.

China: Key production site and center of excellence

In total, Heidelberg has approximately 900 employees in China, some 450 of whom work in sales and service positions. This puts Heidelberg in a strong position to realize future growth opportunities in China and Asia and to further develop and secure its position on these markets. Two branches in Beijing and Hong Kong and three offices in Guangzhou, Shanghai and Shenzhen serve to ensure comprehensive local customer care.

We also have our own production site in China, which is one of our largest individual markets. The product portfolio manufactured in China is adjusted and expanded continuously to reflect the requirements of the Asian market. For example, customer-specific presses are playing an increasingly important role, especially for the important packaging market. The production site in Shanghai 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 with a rising share of certified local suppliers.

Heidelberg quality is now also known beyond China's borders. This is reflected in a growing export volume to other countries (Asia, Europe and the Americas) that accounted for some 19 percent of the total production volume. Some model series are already being produced exclusively for the world market in Shanghai and demonstrated to customers at the plant's print media center, where customers can also train their employees as required. Innovative approaches to customer contact were adopted in response to the sustained COVID-19 pandemic, including two live streaming events and intensified online communication.

Markets and customers

- The market for printed products is changing continuously
- The pandemic had a significant impact on the printing industry in financial year 2020/2021
- Data-driven business and contract models gain further ground

The market for printed products is changing continuously

The worldwide print production volume has been worth more than € 400 billion annually for years. This volume fell by around 7 percent in 2020 due to the impact of the COVID-19 pandemic but is expected to recover in the coming years, not least thanks to trends in the area of packaging printing.

Within this market, there are different trends offering interesting growth opportunities. The first is regional: While print volumes are continuing to grow overall in the emerging economies, particularly in China, print service providers in the industrialized nations are facing highly dynamic and rapidly changing market parameters.

The consolidation process in advertising and publishing printing is not yet complete and is leading to increased demand for particularly powerful, digitally connected production systems covering the entire printing process ("end-to-end") at industrial print shops that focus on standardized printed products. Advertising printing is also benefiting from rising demand for products that offer clear points of differentiation, from environmental considerations such as grass paper through to effect coatings with optical and haptic properties, as well as from the growth in online retail due to the advertising inserts included in packages. The trend toward smaller but more targeted runs, right through to individual printed products, is opening up new business areas for many small and medium-sized print shops. Environmental considerations are leading to changes in packaging printing, with cold foil transfers increasingly being used instead of aluminum-coated materials. The environmental debate around plastic packaging is boosting demand for sustainably manufactured folding boxes and generating additional growth.

The second trend relates to the printing technology used. Around 70 percent of the print volume is created using sheetfed offset, flexographic and digital printing processes, and this figure is rising. Sheetfed offset printing accounts for around 35 percent of the printing volume and is still the most frequently used printing technology. Digital printing has continued to increase its share of the global printing volume to around 19 percent since 2000, and the trend towards customization and the growing demand for quick turnaround times mean that it will continue to gain in importance. 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 15 percent of global print volumes. However, label printing in particular also remains a growth market across all conventional printing technologies, from offset and digital to flexo.

The pandemic had a significant impact on the printing industry in 2020

There is no doubt that the global development of the printing industry has been substantially impacted by the pandemic, albeit with some variation from segment to segment. Thanks to remote and cloud technologies, Heidelberg is able to access data from more than 50 percent of its printing presses installed worldwide, which are connected to the Company via the Internet.

At its peak, the commercial print production volume among Heidelberg customers around the world was measured at over 30 percent lower than in the previous year, although there were signs of recovery toward the end of 2020. By March 2021, the shortfall compared with the pre-COVID-19 year of 2019 had declined to around 8 percent. Traditional commercial printers were clearly hit particularly hard by the lockdowns that were imposed in almost all countries during the course of the year. In countries with government support mechanisms like short-time work, such as in Germany, the crisis affected the industry in equal measure – whereas countries without such mechanisms, like the US, saw small and medium-sized print shops suffering to a greater extent than large print service providers.

The situation in packaging and label printing was more encouraging. Print shops in this segment proved to be system-relevant and were actually able to increase their print production for the most part (as of March 2021: by 6 percent compared with the pre-COVID-19 year of 2019). For example, demand for food packaged for home consumption increased significantly as restaurants closed their doors.

All in all, the economic ramifications for the global printing industry were higher during the first wave of the pandemic than in the subsequent phases, even with infection figures around the world increasing and lockdowns becoming stricter. The Chinese printing industry in particular recovered from the impact of the pandemic far more quickly and sustainably than other markets, and the print production volume across all segments is now higher there than before the crisis.

Data-driven business and contract models gain further ground

Our new business models, such as our subscription services and data-driven print site contracts, are based on our business area strategies for the packaging, commercial and label market segments. The proportion of presses, software, consumables and services sold via these models, which mean customers increasingly paying for what they actually use, is rising continuously – including in the graphics industry.

Figures from 2019 show that the potential market for Heidelberg, particularly for consumables, has a volume of around € 8 billion. New machinery business offers Heidelberg market potential of around € 2.1 billion for sheetfed offset printing presses (2019). We are also strategically well positioned on our new markets outside the traditional printing industry. Information can be found in the “Heidelberger Druckmaschinen as a production partner for industrial customer business” section on page 20 of this report.

Packaging market

In total, packaging accounts for around 30 percent of all printed materials. Along with the label market, the packaging market is also the fastest growing market segment, with average growth of around 2.2 percent. In recent years, we have successfully installed more than 2,000 sheetfed offset printing presses at our packaging customers around the world, and we now realize around 50 percent of our offset press sales in this area. International brand companies, which put a lot of money into advertising and product staging, have the highest standards of quality: If there is even a tiny flaw on a single folding box, all the pallets delivered are returned to the packaging supplier. So there can be no errors in production. Heidelberg has the solution in zero-defect packaging: The greater the degree of automation, the data workflow and the more integrated inspections, the closer the print shop gets to claiming zero defects. The digital tools needed for this are provided by the Prinect software. Using assistance systems such as Intellistart, firms can link up their printing presses and color measurement and inspection systems to form smart systems that share data across all production steps, thereby automatically checking actual values against the defined targets for each process step and monitoring production quality.

Commercial market

The market for products such as flyers, brochures, business cards, postcards, annual reports and calendars is referred to as the commercial market. It has historically also been known as “job printing” or “occasional printing” on account of the fact that it originally constituted an additional, irregular source of income for publishing and newspaper print shops. Nowadays, there is nothing irregular about the commercial market, which is the largest market segment in terms of the worldwide print production volume at around 40 percent. In the general commercial and advertising sub-segments in particular, digital printing already accounts for more than 30 percent of all printing. The Versafire is Heidelberg’s competitive digital printing system for all areas of application here. Traditional commercial printers are facing changes as well: While in the past one variant of a supermarket advertising insert used to be printed per week, today there are several dozens 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 order sequences with the same parameters, even completely autonomous printing is possible. These examples show how zeros and ones have revolutionized the world of marketing. And, contrary to many predictions, physical advertising has not disappeared in a cloud of pixels. The more different media and advertising channels are used (cross-media publishing), the higher the return on investment.

Label market

While the label market is relatively small, making up around 7 percent of the total print volume, it offers excellent growth opportunities in the printing industry on account of the high demand for exceptionally finished labels and just-in-time delivery. Digital printing currently accounts for around 30 percent of label printing, and this share is seeing growth of around 6 percent in inkjet technology, for example. Digital printing is therefore driving the change in this promising market segment. Heidelberg’s answer for demand-driven digital printing is Labelfire. By integrating conventional printing and finishing processes in addition to inline finishing, the Labelfire allows label makers to print the finished label from a single file – using just one 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.

The aspects of waste prevention and energy efficiency – for which Heidelberg offers efficient solutions – are not only cost-effective, but also help to improve the environmental footprint of print shops that are looking to secure an extra competitive edge. Needless to say, this also applies to the same degree for labels made using the sheetfed offset printing method, which typically involve larger runs. One special type of bond is created by labels in the mono family, known as in-mold labels. The name speaks for itself: A printed label is placed in a mold, then the plastic polypropylene is injected in a molten state, where it combines and hardens with the label. This process creates ice cream cartons whose labels can withstand any temperature, for example.

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 two members: Rainer Hundsdörfer (Chief Executive Officer, Management Board member responsible for Heidelberg Digital Technology and Heidelberg Lifecycle Solutions) and Marcus A. Wassenberg (Chief Financial Officer, Management Board member responsible for Heidelberg Financial Services and Chief Human Resources Officer). 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, 2021. Rainer Hundsdörfer is the Chief Executive Officer and Management Board member responsible for the Heidelberg Digital Technology and Heidelberg Lifecycle Solutions segments and is therefore responsible for the Digital Print, Label, Postpress, Sheetfed, Lifecycle Business and Software Solutions business units, as well as the Occupational Health and Safety and Company Security, Manufacturing and Assembly, Information Security, Internal Audit, Communications, Product Development and Product Safety, Product Management, Quality Management, Corporate Development, Environmental and Energy Management, ZAIKIO Platforms, and Lifecycle Operations functions. Rainer Hundsdörfer also has overall responsibility for Sales Operations and Marketing, meaning that he is in charge of the regional sales organization. In his role as Chief Financial Officer, Marcus A. Wassenberg is also the Management Board member responsible for the Heidelberg Financial Services segment and for the Customer Financing business unit and the functions Human Resources (Chief Human Resources Officer), Controlling, Corporate Finance, Procurement, Information Technology, Investor Relations, Mergers and Acquisitions, Accounting, Legal, Patents, Corporate Governance, Compliance and Data Protection, Site Management, and Taxes.

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 Declaration, Corporate Governance Report” section.

Business Allocation Plan as of March 31, 2021

Rainer Hundsdörfer Chief Executive Officer and Management Board Member Heidelberg Digital Technology	**Marcus A. Wassenberg** Chief Financial Officer and Management Board Member Heidelberg Financial Services	**Rainer Hundsdörfer** Chief Executive Officer and Management Board Member Heidelberg Lifecycle Solutions
MARKETS		
		¬ Regional Sales Organization
BUSINESS UNITS		
¬ Digital Print ¬ Label ¬ Postpress ¬ Sheetfed	¬ Financial Services	¬ Lifecycle Business ¬ Software Solutions
FUNCTIONAL RESPONSIBILITIES		
¬ Occupational Health and Safety and Company Security ¬ Manufacturing and Assembly ¬ Information Security ¬ Internal Audit ¬ Communications ¬ Product Development and Product Safety ¬ Quality Management ¬ Corporate Development ¬ Environmental and Energy Management ¬ ZAIKIO Platforms	¬ Chief Human Resources Officer/Human Resources ¬ Controlling ¬ Corporate Finance ¬ Procurement ¬ Information Technology ¬ Investor Relations ¬ Mergers and Acquisitions ¬ Accounting ¬ Legal, Patents, Corporate Governance, Compliance and Data Protection ¬ Site Management ¬ Taxes	¬ Lifecycle Operations ¬ Sales Operations and Marketing

Segments and business units

In line with its operating activities, the internal reporting structure of the Heidelberg Group was divided into the following segments in the financial year 2020/2021: Heidelberg Digital Technology, Heidelberg Lifecycle Solutions and Heidelberg Financial Services. These are also the reportable segments in accordance with IFRS.

Within the segments, Heidelberg is divided into business units (BUs). Each business unit formulates plans for how best to leverage the potential offered by its respective sub-market. The centrally organized development, production, service, sales and administration functions derive and implement targets on the basis of these plans. This organizational approach allows us to define our strategies at the level of the respective sub-markets while generating synergies within the functions and upholding the principle of "one face to the customer". Our sheetfed offset, flexo and digital printing press technologies are the responsibility of the corresponding business units. Finishing technologies for packaging and advertising are the responsibility of the Postpress business unit. The BU Lifecycle Business ensures that our customers around the world are supplied with consumables. Remarketed printing presses, mainly manufactured by Heidelberg, are traded in the Sheetfed business unit. The Software Solutions business unit generates growth potential by expanding software business.

New segment structure as of April 1, 2021

Heidelberg will report in a new segment structure as of April 1, 2021 in order to better reflect its focus on the customer requirements, profitability and potential resulting from the new operating model introduced as part of its reorientation. Reporting in the three segments of Print Solutions, Packaging Solutions and Technology Solutions will allow Heidelberg to manage its business in line with its target markets and the respective customer requirements to an even greater extent than before.

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, 2021 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 162 to 165.

Overview of material subsidiaries included in the consolidated financial statements

Gallus Druckmaschinen GmbH (D)	Heidelberg Japan K.K. (J)
Gallus Ferd. Rüesch AG (CH)	Heidelberg Magyarország Kft. (HU)
Heidelberg Baltic Finland OÜ (EST)	Heidelberg Manufacturing Deutschland GmbH (D)
Heidelberg Benelux BV (NL)	Heidelberg Mexico, S. de R.L. de C.V. (MEX)
Heidelberg Benelux BVBA (BE)	Heidelberg Polska Sp z.o.o. (PL)
Heidelberg Canada Graphic Equipment Ltd. (CDN)	Heidelberg Postpress Deutschland GmbH (D)
Heidelberg China Ltd. (PRC)	Heidelberg Praha spol. s r.o. (CZE)
Heidelberg France S.A.S. (F)	Heidelberg Print Finance International GmbH (D)
Heidelberg Grafik Ticaret Servis Limited Sirketi (TUR)	Heidelberg Schweiz AG (CH)
Heidelberg Graphic Equipment (Shanghai) Co. Ltd. (PRC)	Heidelberg Spain S.L.U. (ES)
Heidelberg Graphic Equipment Ltd. – Heidelberg UK – (GB)	Heidelberg USA, Inc. (USA)
Heidelberg Graphics (Beijing) Co. Ltd. (PRC)	Heidelberger CIS OOO (RUS)
Heidelberg Graphics (Thailand) Ltd. (TH)	Heidelberger Druckmaschinen Austria Vertriebs-GmbH (A)
Heidelberg Italia S.r.L. (IT)	Heidelberger Druckmaschinen Vertrieb Deutschland GmbH (D)

Strategy

Perspectives: Profitability, competitiveness and safeguarding the future

Heidelberg is systematically pressing ahead with the strategic reorientation it initiated in March 2020 with a focus on profitability, competitiveness and safeguarding the future. The measures that were successfully implemented in the year under review and the measures that have been initiated provide strong foundations for maintaining financial stability even during the COVID-19 pandemic and for focusing on future growth drivers. The latter includes the further development of Heidelberg's profitable core business and the expansion of integrated solutions with new digital business models. The operating break-even point as measured by EBIT, which was € 2.1 billion to € 2.2 billion before the pandemic, is to be reduced sustainably to around € 1.9 billion by the financial year 2022/2023. This will allow net profit and a positive free cash flow to be generated from operating business excluding non-recurring effects. The latter will continue to play a role in the financial year 2020/2021 as well as into 2021/2022 due to ongoing projects.

Heidelberg's digital agenda, which has already been established to a large extent, will remain at the heart of its corporate strategy. In the future, Heidelberg intends to continue to focus on its unique position as a market-leading end-to-end system provider of printing presses using different printing technologies, consumables, software and services. As part of this process, we will strive to ensure that our customers consistently reap the rewards of Heidelberg's pioneering technological role when it comes to automating printing processes along the entire value chain in offset printing as well as the growing digitization of processes in packaging, label and advertising printing.

The necessary customer retention will be achieved by providing close, partnership-based support throughout the entire customer lifecycle. The Company's future operating success will be built on its leading global position with an installed base of more than 13,000 printing presses, the digital connection and networking of these printing presses, the customer-oriented use of the data generated as a result, and our technological ability to make growing use of artificial intelligence (AI). The past financial year and the extreme impact of COVID-19 have shown that a focus on the customer's individual needs with the aim of improving their efficiency, profitability and success is essential to the survival of the industry as a whole. Moreover, reliable, customer-oriented service is, and remains, an important factor in the success of print shops and companies.

Stable financing as a solid basis for further strategic development

Heidelberg significantly reduced its net debt as of the end of the financial year 2019/2020 and maintained it at a low level in the year under review. In the wake of this important step to secure financial stability, Heidelberg will now take strategic measures to significantly improve the quality of its statement of financial position and, in particular, its equity ratio for the long term. Having further optimized its financing structure and costs with the repayment of the high-yield bond in the past year, Heidelberg is in a position to finance the forthcoming strategic measures from its own resources.

Focus on strong core business and value appreciation with end-to-end solutions

Having streamlined its portfolio in financial year 2019/2020 to eliminate loss-making products and non-core activities, Heidelberg can boast healthy and profitable core business in sheetfed offset printing, which it intends to expand further over the coming years as part of the digital transformation that is taking place. The forecasts for the total global print volume are still subject to uncertainty as the end of the COVID-19 pandemic is not yet in sight and its impact is ongoing. Data analysis from around 5,000 installed Heidelberg printing presses suggests that the print production volume is gradually returning to normal. However, the effects of the crisis are currently expected to persist until 2024. By contrast, the areas of packaging and label printing have benefited even during the pandemic, thanks to the huge growth in online retail. The packaging sector currently accounts for more than half of the sheetfed offset printing presses sold by Heidelberg, and this share is likely to increase in the future. This development is also being driven by heightened environmental awareness and the growing use of paper and cardboard instead of plastic packaging. At the end of 2019 (i.e. prior to the pandemic), Heidelberg's market share in this segment corresponded to around 47 percent of all sheetfed offset packaging printing presses sold. Thanks to its cross-functional innovations, the Company is the only provider in the world to offer the complete value chain including in-house research and development, product management and an end-to-end product range for the various customer requirements.

In sheetfed offset printing, Heidelberg continues to focus on realizing increasingly complex print jobs quickly and with a consistently high level of productivity and quality. Heidelberg offers the comprehensive expertise and digitally connected platforms that will help the printing process to develop from the Smart Print Shop into a smart print media industry. The established automation functions, like Push-to-Stop and the networking of printing presses, software, consumables and services within the Smart Print Shop, offer the foundation for achieving this.

In digital printing, customers are offered printing presses in conjunction with partners like the Japanese manufacturer Ricoh Company, Ltd. Heidelberg is also addressing digital activities in label printing via the Gallus Group subsidiaries in order to benefit from the growth in the print volume for labels. The share of production attributable to digital printing technology is still below 10 percent, but will see significant growth in the future.

In its core business, Heidelberg's innovative strength and technology leadership constitute its key competitive edge. The Company's ambition is reflected in its extensive research and development activities, with around 870 employees and annual R & D expenditure most recently amounting to € 87 million. Future investment will focus on end-to-end digitization, from order acceptance through to further processing. Further information on Heidelberg's development activities can be found in the "Research and Development" section on pages 31 to 33 of this report.

Planned expansion in software, digital connectivity and data management

Heidelberg is also expanding in the area of software so that it can benefit from the growing importance of data usage and connectivity. We intend to increasingly convert our services to SaaS models (software as a service, i.e. contract-based business instead of the sale of licenses).

The Prinect production workflow, the established management information systems for central operations management and the Heidelberg Assistant are key factors in digital connectivity with our customers.

The print market is continuing to consolidate around increasingly large industrialized print shops. Harnessing data expertise is the only way to achieve the greatest possible efficiency and productivity as units steadily increase in size. As the global market leader, Heidelberg can draw upon data from the more than 13,000 printing presses and around 25,000 Heidelberg Prinect modules for data transfer that have been installed to date. In this way, big data will guarantee the future success of the established Heidelberg Smart Print Shop. This enables the intelligent networking and automation of all components and processes, including using artificial intelligence, with the user only having to intervene in the autonomous process chain as required.

Value added for our customers is based on the highest possible utilization and the optimally coordinated provision of the printing press, services, consumables, consulting and software from a single source. Heidelberg is the only provider in the world to offer the desired services on a modular basis or as an all-in contract covering all of these aspects. For customers, the data-driven interaction of all of the individual components enables improved effectiveness and utilization, and hence improved competitiveness.

Growth with lifecycle and subscription services

At Heidelberg, the corresponding contracts are offered under the name Print Site Contracts, more than 700 of which have already been signed. The services provided ideally cover the entire printing press lifecycle – on a modular basis for consumables and service (Lifecycle Smart) or in an expanded variant including the Prinect software (Lifecycle Plus). In addition, Heidelberg customers have already concluded more than 80 subscription contracts under which they no longer pay for the individual components, but rather for the number of sheets printed on a performance-related basis. This business model guarantees constant, predictable revenue streams for Heidelberg over a longer period irrespective of the volatility of new machinery business, and the sales generated are directly linked to the growing print production volume and a higher share of wallet, i.e. more value created per order. The success of this approach is reflected in the fact that the share of total contract business has increased to 11 percent compared with 5 percent in 2018.

Strategic focus on Asian growth markets with emphasis on China

In light of the sustained growth potential in Asia, and particularly in the Chinese market, Heidelberg is continuing to substantially expand its capacities in the region. At € 37 billion (2019), this is the world's largest individual print market, and Heidelberg is aiming to further increase its leading market share in the important 70 x 100 sheetfed offset format of around 50 percent at present – especially in the area of packaging printing, which is enjoying above-average growth. Around 450 sales and marketing employees demonstrate our proximity to the customer and ensure high availability for print shops. We also intend to increasingly harness cost benefits in procurement and production in the future. Accordingly, we will expand our existing capacities at our production site in Shanghai by around 300 to over 700 employees in total so that we can serve the local and neighboring markets even more effectively. Heidelberg already supplies customers in 40 countries from its Shanghai site with an export rate of almost 20 percent. These ambitions are reinforced by the production joint venture with MK Masterwork that was formed in late 2020, which Heidelberg expects to deliver benefits in the shape of the growing procurement of locally manufactured parts.

Value appreciation through technology transfer for global megatrends like e-mobility

Heidelberg's innovative strength is also reflected in the growth in high-tech applications like its Wallboxes, which are benefiting from megatrends like e-mobility. Heidelberg already generates sales of almost € 20 million from charging stations for private households and is one of the leading providers in Germany, with a market share of around 20 percent. Around 45,000 Heidelberg charging stations have already been delivered to customers in recent years. Production capacities were doubled once again in early 2021 and will continue to be expanded in order to meet rising future demand. By forming a dedicated company for e-mobility, Heidelberg intends to accelerate the development of this business and is also open to partnerships in this area.

In addition, the establishment of a dedicated business unit for the industrial development, production and sales of printed organic electronics at the Wiesloch-Walldorf site is progressing at full speed. For Heidelberg, the introduction of this new technology offers huge potential in areas such as sensor printing in clean rooms, from small batches through to industrial-scale production. Heidelberg's technology and service range are outstanding in their field.

Under the Zaikio name, we have also become the first provider to develop a central, open industrial platform for automated supplier and customer management based on state-of-the-art cloud technologies. The first phase allows print shops and suppliers to digitize and optimize their procurement processes. Zaikio's vision is to eventually connect all the relevant systems in the printing industry in order to enable quick and easy data communication. In the near future, Zaikio intends to fully digitize and connect additional key processes between industry participants using web-to-print solutions and workflow tools and with the involvement of additional partners.

Key Performance Indicators

With the announcement of the package of measures for the Company's reorientation in March 2020, Heidelberg set itself a clear objective: profitability. 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 controlling performance indicators in addition to sales are the result of operating activities before interest, taxes, depreciation and amortization excluding restructuring result (EBITDA excluding restructuring result), the net result after taxes and leverage, i.e. net debt in relation to EBITDA excluding restructuring result. More detailed information on the development of these financial performance indicators can be found in the individual sections of the "Economic Report" on pages 34 to 49 and in the "Future Prospects" section on pages 60 to 63.

Other financial and non-financial performance indicators

Other important key figures applied in operational financial performance measurement are primarily the result of operating activities before interest and taxes excluding restructuring result (EBIT excluding restructuring result), net working capital in relation to sales and free cash flow. In addition to financial key figures, the Management Board also uses non-financial performance indicators, particularly with regard to quality assurance.

Reconciliation of EBITDA excluding restructuring result to net result after taxes

Figures in € millions	2019/2020	**2020/2021**
EBITDA excluding restructuring result	102	146
Depreciation and amortization excluding depreciation and amortization due to restructuring	96	78
EBIT excluding restructuring result	6	69
Restructuring result	– 275	– 51
Result of operating activities	– 269	18
Financial result	– 52	– 41
Net result before taxes	– 322	– 23
Taxes on income	21	20
Net result after taxes	– 343	– 43

Partnerships

- Partnerships and cooperations for new digital business models
- Focus on digitization and industrialization
- Production joint venture agreed with Masterwork

Our position as a market and technology leader has allowed us to establish ourselves as a preferred industry partner for worldwide cooperations at various levels. The resulting cooperations with companies that are also the leaders in their fields are paying off for Heidelberg. 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 additional sales regions. In the projects, the main focus is on digital transformation. 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.

In early 2018, Heidelberg created the Heidelberg Digital Unit as a corporate start-up. It comprises all of Heidelberg's digital activities in the area of customer care, particularly global marketing, digital sales (e-commerce), digital innovation and data science. The increased use of all digital channels in contact with the customer and the continuous expansion of the Heidelberg ecosystem are leading to further growth in market penetration. In the area of innovation in particular, the corporate start-up is working with various partners and start-ups to establish new technologies and business models for the print media industry in the digital age. This includes the use of big data and artificial intelligence to provide customers with information for optimizing their performance. In 2020, the Heidelberg Digital Unit was recognized by Capital magazine as one of Germany's best digilabs for the second year in succession.

The ongoing digitization and industrialization of our industry is mainly about gaining flexibility and simplifying the previously elaborate and often difficult integration of technologies – such as offset and digital printing systems – into continuous workflow processes that transparently connect customers, service providers and suppliers. In digital printing, we are concentrating on the Versafire and the Gallus Labelfire, and hence on the commercial and label market segments, and we are cooperating with innovative partners who are the leaders in their respective segment. We also intend to systematically drive ahead the topic of digitization in order to optimize our customers' efficiency.

Since the start of the partnership between Heidelberg and Ricoh in 2011, more than 1,600 users have opted for a Versafire digital printing system. To ensure our customers' success, the Prinect Digital Frontend is being enhanced by Heidelberg for digital printing in order to enable effective and comprehensive integration into the print shop workflow, so that digital and offset printing systems can be controlled using a common workflow. At the same time, Heidelberg is expanding the Prinect functions in order to harness the performance of the systems for a growing range of print applications with the greatest possible flexibility.

Digital label printing is growing globally, and the Gallus Labelfire has now established itself within this market and occupies a solid position. In the period under review, the hybrid digital printing system, which combines industrial inkjet printing with conventional label printing, met with considerable attention from customers at the Gallus High Performance Days.

In order to further expand our market position in the growth area of packaging printing, we have a sales partnership with China's largest manufacturer of die-cutters and hot-foil embossing machines, Masterwork Group Co., Ltd. (Tianjin). The Diana folder gluers are also purchased from Masterwork – from its European production site at Nove Mesto in Slovakia. The Masterwork Group is also Heidelberg's largest single shareholder.

On the product side, we expanded the portfolio for our folding box customers in the reporting period. We presented die-cutters for industrial packaging customers with the Powermatrix 106 CSB and the Promatrix 145 CSB. In the area of folder gluers, we also focused on the requirements of high-volume folding box production with the Diana

Smart Speed and the Diana Packer 4.0. The Diana Go completes the range of products for smaller runs and entry-level products for folded box production, as well as offering an attractive platform for commercial applications (presentation folders, etc.). All in all, our partnership with MK Masterwork is progressing extremely well.

Production joint venture agreed with Masterwork

In the period under review, the next stage of the cooperation in the value-added chain between the two companies was agreed in the form of a production joint venture. Looking ahead, Heidelberg will benefit from the closer cooperation at its production site in Shanghai in particular. The two companies also expect the expansion of their strategic cooperation through joint parts production by the joint venture at Masterwork's site in Tianjin to open up substantial opportunities for boosting efficiency.

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 and collaboration within associations such as the VDMA, the FGD and Fogra in addition to DIN/ISO committees.

When it comes to developing new business areas, we work in cooperation with InnovationLab GmbH (iL), in which Heidelberg also holds 20 percent of the shares. iL is an expert in printed and organic electronics, providing tailor-made solutions for its customers' R & D challenges and accompanying them from the first idea through to industrial production at Heidelberg.

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 contribute to our customers' success.

Research and Development

- Quantum leap in productivity: Push-to-stop – end-to-end doubles productivity in commercial printing
- Investment in production of printed organic electronics
- Zaikio – industry platform for the printing industry
- Intelligent Wallbox Energy Control expands product range for e-mobility

The innovation center (IVC) at the Wiesloch-Walldorf site, which opened in 2018, is where Heidelberg is working to remain the technology leader in the printing industry in the future and shape the digital transformation process within the industry.

Focus on productivity through digitization: Push-to-Stop – end-to-end

drupa, the traditional event at which the industry showcases the latest innovations to an international public, was canceled in June 2020. In response to this, Heidelberg successfully launched a suitable alternative platform in October 2020 in the shape of a fully virtual Innovation Week. Held under the motto "Unfold your potential", everything at this first-of-its-kind online event was focused on sharing knowledge about the most pressing issues in the industry in the commercial, label and packaging segments. Heidelberg's extensive development expertise was particularly beneficial with regard to the presentations on topics from the optimization of the overall print shop process in offset and digital printing through to end-to-end production. In a world premiere, Heidelberg showcased the fully automated workflow from PDF through printing to stacked folded sheets for the first time.

This is based on the enhanced Push-to-Stop technology in all its facets, including automatic optimization of job sequences and navigated printing, accompanied by user-friendliness for operators thanks to easy-to-understand user interfaces. Combined with "integrated intelligence", all of this enables highly productive operations with fewer staff and skilled personnel. The centerpiece is the most intelligent, most automated Speedmaster generation of all time. Artificial intelligence (AI) simplifies workflows and enables quicker decisions based on a broad data pool with real-time information and predictions that go beyond human capabilities. A smart production environment makes considerably more efficient and effective decisions than a human about the sequence of printing plates, color curves, washing programs, dryer settings or powder quantities. In other words, artificial intelligence is the key to greater competitiveness and adaptability to changes on the market.

Heidelberg's activities in the area of offset and digital printing concentrated on answering its customers' most pressing questions: How to process increasingly complex jobs as quickly as possible? How to achieve consistently high productivity and quality irrespective of the operator? How to safeguard the future while competing globally? How to digitize supplier and customer management? How to respond to the skills shortage and support employees?

In the offset segment, this enhancement makes the Push-to-Stop function and the Prinect cloud interface available for each new Speedmaster printing press. The first applications based on artificial intelligence (AI), such as for the wash-up device, also reached series maturity. Our intelligent assistants make our customers' work easier. Although drupa was canceled, Heidelberg launched all the new products it would have presented at the trade fair.

Investment in production of printed organic electronics

Printed and organic electronics is an innovative technology for producing sensors based on conductive inks and functional materials. In the past financial year, Heidelberg established a dedicated business unit for the industrial development, production and sales of printed and organic electronics and began production at the Wiesloch-Walldorf site. Among other things, the Company invested around € 5 million in the installation of a complete production line for printed sensors. Sensors for use in dental technology will be printed first. Looking ahead, Heidelberg will also use state-of-the-art printing technology at its high-tech campus to produce sensors for other digital applications – particularly in healthcare and logistics as well as in the retail and automotive sectors.

Zaikio – industry platform for the printing industry

In summer 2020, just one year after acquiring the cloud software company Crispy Mountain, Heidelberg presented Zaikio – a new, open and independent cloud-based collaboration platform for the printing industry. Zaikio aims to unite as many industry players as possible on a single platform in the future. The free Zaikio Account enables each and every user to log into all connected software systems with a single login. Zaikio enables straightforward, standardized data exchange between software, hardware, and the partners involved on the basis of end-to-end automated process chains. In addition to making overall processes and collaboration in the printing industry considerably simpler, Zaikio has the potential to secure its users' competitiveness.

Intelligent Wallbox Energy Control expands product range for e-mobility

Following the establishment of a dedicated "E-Mobility" business unit and the outstanding success of the Heidelberg Wallbox Home Eco, Heidelberg expanded its portfolio in fall 2020 to include an intelligent charging solution for private use. The challenge with a B2C product like the Wallbox is to develop a solution that meets the statutory and standardization requirements without exceeding the required budget. By bundling our R & D expertise in the areas of mechanics, electronics and software and integrating it with production, we have created a marketable product that represents a good investment for the end customer thanks to our high quality standards. The "E-Mobility" unit draws upon Heidelberg's extensive expertise in the areas of construction, electronics and software development as well as the particular support of our laboratories and test benches.

Five-year overview: Research and development

	2016/2017	2017/2018	2018/2019	2019/2020	**2020/2021**
R&D costs in € millions	119	121	127	126	87
in percent of sales	4.7	5.0	5.1	5.4	4.5
R&D employees	891	911	988	1,003	870
Patent applications	75	81	89	81	47

Digitization of the industry continues

Our numerous development projects are focused on the expansion of digital business and contract models such as data-driven print site contracts, under which customers increasingly pay for the benefits they obtain from a system. Development work can draw upon an extensive data pool that allows service calls to be prepared significantly more efficiently thanks to data-driven analysis. This ultimately results in predictive monitoring and a reduction in unplanned downtimes for our customers. Data can also be used to perform analyses and derive application tips in order to increase customer productivity.

European development network with unique industry expertise

The IVC is the heart of the European development network operated by Heidelberg with additional locations in Kiel, Ludwigsburg, Weiden and St. Gallen (Switzerland). Our developers work throughout the entire network in the areas of printing technology, including prepress and further processing, control systems, drive systems and software including user interfaces, and consumables. Around two-thirds of them have a university degree or a doctorate. In addition to traditional mechanical engineering, they have key expertise in the areas of digitization and image processing, electronics and software development, as well as process engineering and chemicals. By expanding these areas of expertise, Heidelberg is also actively addressing growth areas outside the print industry, such as the aforementioned areas of e-mobility and organic electronics.

R & D in figures

Around 8.5 percent of our workforce is currently employed in the area of research and development. We invested around 4.5 percent of our sales in research and development in the year under review. Heidelberg submitted a total of 47 new patent applications in the financial year 2020/2021 (previous year: 81). This means that Heidelberg's innovations and unique selling propositions are protected by around 2,870 active patents and patent applications worldwide.

ECONOMIC REPORT

Macroeconomic and Industry-Specific Conditions

The 2020 calendar year was dominated by the COVID-19 pandemic, which had a dramatic impact on economic activity. According to estimates by IHS Markit, global GDP declined by 3.6 percent in 2020, which constituted the biggest slump in the world economy since the Second World War. However, the upturn in global economic activity continued in the fourth quarter of 2020 following substantial growth in the summer months, even in the face of a further rise in the number of new infections.

There are considerable differences from country to country when it comes to the extent of the economic recovery to date. For example, the US economy saw substantial expansion in the second half of the year, although overall economic output fell by 3.5 percent year-on-year – a more pronounced downturn than during the major recession of 2009. The deficit compared with the pre-crisis level was particularly notable in the advanced economies of Europe, as the second wave of the pandemic significantly impacted economic activity once more. Euro zone GDP in the fourth quarter was 4.9 percent lower than in the previous year, while the United Kingdom saw a downturn of 7.8 percent.

In Japan, production declined to a greater extent than in the other industrialized Asian nations. While GDP contracted by just under 1 percent in South Korea and Taiwan actually enjoyed substantial growth, Japan saw a downturn of 4.9 percent in 2020.

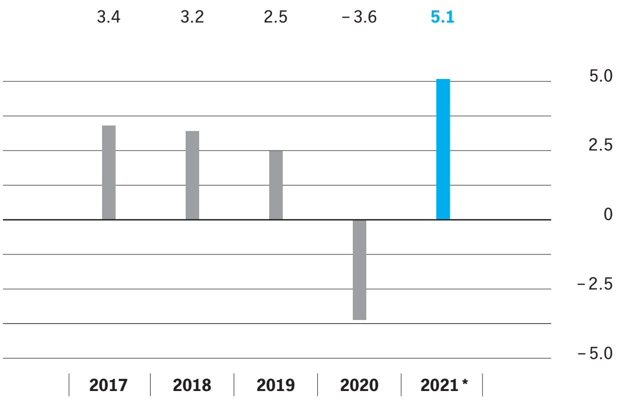
China is the outperformer among the emerging economies, with the domestic economy having already largely recovered from the shock of COVID-19. A pronounced recovery began as early as March 2020, and economic activity was already up just under 6.8 percent year-on-year by the fourth quarter.

According to estimates by the German Engineering Association (VDMA), sales revenue adjusted for inflation in the global engineering sector fell by 5 percent year-on-year in 2020. Only China managed to quickly return to growth. According to the calculations of the German Federal Statistical Office, inflation-adjusted production in the German mechanical engineering industry fell by 12 percent year-on-year in 2020 (as of March 2021). In the printing and paper technology sector, orders for printing presses fell by as much as 22 percent adjusted for inflation, while sales declined by 24 percent.

Sources: IHS Markit 2021; VDMA 2021

Change in global GDP [1)]

Figures in percent

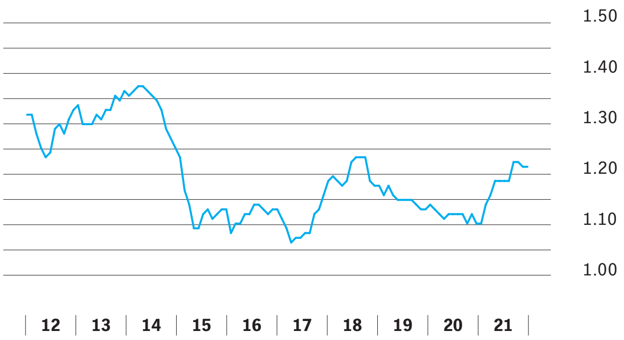


* Forecast
[1)] The straight aggregate method would deliver the following results: 2017: 3.2 %; 2018: 2.9 %; 2019: 2.2 %; 2020: – 4.2 %; 2021*: 4.7 %

Source: IHS Markit Global Insight; calendar year; as of April 2021

Development of EUR / USD

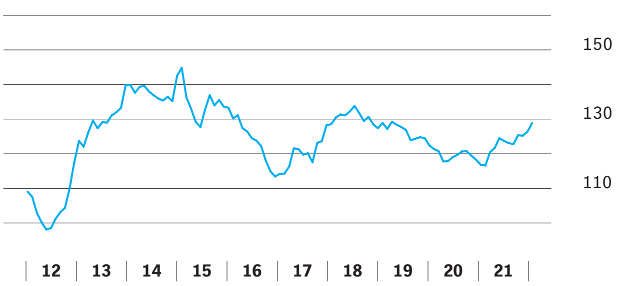
January 2012 to January 2021



Source: IHS Markit Global Insight

Development of EUR / JPY

January 2012 to January 2021



Source: IHS Markit Global Insight

Business Development

- Sales volume down € 436 million on previous year due to pandemic
- EBITDA margin excluding restructuring result improves to 7.6 percent
- Net result before taxes € – 23 million, net result after taxes € – 43 million
- Leverage at 0.5

Overall assessment of business development

For Heidelberger Druckmaschinen Aktiengesellschaft, the financial year 2020/2021 was dominated by the impact of the COVID-19 pandemic. Global lockdowns and temporary travel and access restrictions led to a significant downturn in incoming orders and sales in the early part of the financial year in particular, although the situation gradually improved as the year progressed. The resulting underutilization of production capacity and the service and sales units was countered in the short term by introducing short-time work and other forms of flexible working hours. Additionally, the accelerated implementation of the transformation program resolved in March 2020 served to considerably offset the financial impact. All in all, the operating result expressed as EBITDA excluding restructuring result therefore improved significantly compared with the previous year.

At € 1,913 million, sales in the financial year 2020/2021 were substantially lower than in the previous year (€ 2,349 million) as forecast. The Heidelberg Digital Technology and Heidelberg Lifecycle Solutions segments were equally impacted by the downturn in sales. When it published its figures for the third quarter of 2020/2021, Heidelberg forecast a reduction in sales of between € 450 million and € 500 million. Thanks to a strong final quarter, the sales decline remained below this range at financial year-end.

Despite the lower level of sales, the EBITDA margin excluding restructuring result increased to 7.6 percent and thus was higher than the adjusted forecast of around 7 percent issued in early February 2021. At the start of the financial year, the Company had assumed an EBITDA margin excluding restructuring result at least at the prior-year level (4.3 percent). The improvement was due in particular to income from the reorganization of the Company's pension plans in Germany, savings as a result of the transformation program and disposals of Group companies in Belgium.

As well as the lower level of sales, the net result for the financial year 2020/2021 was impacted by expenses of around € – 51 million in connection with the package of measures and ultimately amounted to € – 23 million before taxes (previous year: € – 322 million). The net result after taxes amounted to € – 43 million after € – 343 million in the previous year, meaning that it improved significantly as forecast but remained clearly negative as expected.

The further reduction in the discount rate for pension obligations and the net loss for the year had a negative effect on the Group's equity. The total impact in the current financial year was around € 100 million. The Group therefore had an equity ratio of around 5 percent at the end of the financial year.

We further optimized our financing structure in the year under review in order to reduce interest expenses. Following the retransfer of around € 380 million to the Company from the trust assets of Heidelberg Pension-Trust e. V. in the financial year 2019/2020, Heidelberg repaid its cor-

Five-year overview: Business development

Figures in € millions	2016/2017	2017/2018	2018/2019	2019/2020	**2020/2021**
Incoming orders	2,593	2,588	2,559	2,362	2,000
Sales	2,524	2,420	2,490	2,349	1,913

porate bond ahead of schedule in early September 2020 (€ 150 million) and reduced other financial liabilities. As forecast, leverage (the ratio of net debt to EBITDA) increased slightly from 0.4 in the previous year to 0.5 at the end of the financial year.

Lower incoming orders but year-on-year increase in final quarter

Due to the impact of the global COVID-19 pandemic, incoming orders declined by around 15 percent year-on-year to € 2,000 million in the financial year 2020/2021 (previous year: € 2,362 million). However, the substantial downturn of around 44 percent recorded in the first quarter was significantly and steadily reduced over the course of the financial year. Incoming orders in the final quarter were around 25 percent higher than in the same period of the previous year. Increased demand for packaging and labels and the improvement in the employment situation, including in advertising printing, led to an improvement in the order situation as the year progressed despite the second wave of the pandemic. In regional terms, Asia/Pacific saw the earliest and most pronounced signs of recovery, followed by markets in EMEA and, in the final quarter, North America.

At around € 636 million as of March 31, 2021, the order backlog was higher than the prior-year level of € 612 million. This was thanks in particular to increased orders toward the end of the financial year.

Sales volume down on previous year due to pandemic

The impact of the COVID-19 pandemic meant that sales also declined by around 19 percent year-on-year to € 1,913 million (previous year: € 2,349 million). Having fallen by 34 percent in the first quarter, sales recovered gradually as the financial year progressed.

Sales per employee (excluding trainees) amounted to € 187 thousand in the year under review after € 208 thousand in the previous year.

Results of Operations

- EBITDA margin excluding restructuring result considerably higher than original target
- Net result after taxes improves significantly but still negative

At € 146 million, EBITDA excluding restructuring result was significantly higher than in the previous year (€ 102 million). This figure included income from the reorganization of the pension plans for the Company’s employees in Germany in the first quarter (around € 73 million), from the sale of the Belgian subsidiary CERM N.V. in the second quarter (around € 8 million) and from the sale of BluePrint Products NV and Hi-Tech Chemicals BV with the Belgian production site for printing chemicals (around € 11 million) in the third quarter. The gain on disposal of around € 12 million from the sale of an area of around 130,000 m² at the Wiesloch-Walldorf production site to the VGP Group, Antwerp, Belgium, will now be recognized in the first quarter of financial year 2021/2022. The cost savings already generated as a result of the transformation program amounted to € 87 million in the financial year. During the financial year just ended, in some cases, depending on the order situation, which was significantly affected by the pandemic, Heidelberg also made intensive use of short-time work and flexible worktime instruments. The EBITDA margin excluding restructuring result amounted to around 7.6 percent of sales, an increase on the prior-year figure of 4.3 percent. The latter was originally Heidelberg’s minimum target for the financial year 2020/2021. Thanks to the faster implementation of the transformation program, Heidelberg upwardly adjusted its forecast for the EBITDA margin to around 7 percent in February 2021.

Income statement: Net result after taxes improves significantly but still negative

As a result of the lower sales volume, the Group’s total operating performance decreased from € 2,345 million in the previous year to € 1,845 million in the year under review. The ratio of the cost of materials to total operating performance declined slightly to around 46 percent (previous year: 47 percent). Thanks to short-time work and flexible working hours, the savings resulting from the transformation program and the reorganization of the Company’s pension plans in Germany, staff costs were reduced to the extent that the staff cost ratio fell to 36 percent (previous year: 43 percent).

Other operating expenses and income were below the prior-year level at a net amount of € 220 million in the year under review (previous year: € 343 million). For further details, please refer to notes 9 and 13 on pages 101 and 103 of this report. Non-restructuring-related depreciation and amortization decreased compared with the previous year, largely due to the absence of amortization for capitalized development costs for two products that were discontinued as part of the reorientation. In the year under review, the restructuring result amounted to € – 51 million as forecast. This was primarily due to restructuring expenses in connection with the measures communicated in mid-March 2020.

The financial result improved to € – 41 million, largely as a result of the significantly lower level of financial liabilities (previous year: € – 52 million). In particular, Heidelberg repaid the corporate bond in the amount of € 150 million ahead of schedule in September 2020.

All in all, the net result before taxes improved to € – 23 million (previous year: € – 322 million), while the net result after taxes improved to € – 43 million (previous year: € – 343 million).

Income statement

Figures in € millions	2019/2020	**2020/2021**
Net sales	2,349	1,913
Change in inventories/other own work capitalized	– 5	– 68
Total operating performance	2,345	1,845
EBITDA excluding restructuring result	102	146
Depreciation and amortization excluding depreciation and amortization due to restructuring	96	78
Result of operating activities excluding restructuring result	6	69
Restructuring result	– 275	– 51
Result of operating activities	– 269	18
Financial result	– 52	– 41
Net result before taxes	– 322	– 23
Taxes on income	21	20
Net result after taxes	– 343	– 43

Five-year overview: Results of operations

Figures in € millions	2016/2017	2017/2018	2018/2019	2019/2020	**2020/2021**
Sales	2,524	2,420	2,490	2,349	1,913
Per capita sales[1] (in € thousands)	219	209	216	208	187
EBITDA excluding restructuring result[2]	179	172	180	102	146
in percent of sales	7.1	7.1	7.2	4.3	7.6
Result of operating activities excluding restructuring result	108	103	101	6	69
Restructuring result	– 18	– 16	– 20	– 275	– 51
Financial result	– 56	– 48	– 49	– 52	– 41
Net result after taxes	36	14	21	– 343	– 43
in percent of sales	1.4	0.6	0.8	– 14.6	– 2.2

[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

- Total assets decrease significantly
- Substantial reduction in net working capital
- Net debt remains low

Assets

Figures in € millions	31-Mar-2020	**31-Mar-2021**
Non-current assets	952	902
Inventories	660	542
Trade receivables	299	246
Receivables from sales financing	43	44
Cash and cash equivalents	428	204
Other assets	220	231
	2,602	**2,169**

Assets: Total assets reduced due to asset and net working capital management

Total assets as of March 31, 2021 were lower than in the previous year. This was largely attributable to the reduction in inventories, lower non-current assets due to disposals, and the reduction in cash and cash equivalents.

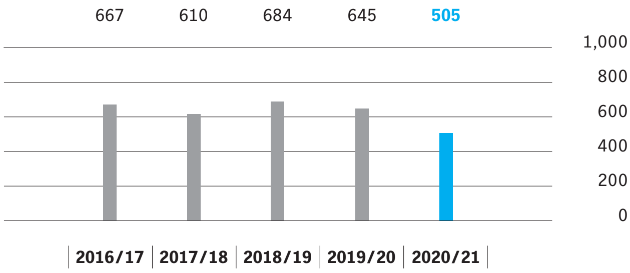
Total inventories declined to € 542 million (previous year: € 660 million). Due to the lower level of sales and systematic receivables management, trade receivables amounted to € 246 million as of March 31 of the year under review (previous year: € 299 million). Consequently, net working capital declined significantly to € 505 million as of March 31, 2021 (March 31, 2020: € 645 million).

Cash and cash equivalents amounted to € 204 million in the past financial year after € 428 million in the previous year, largely as a result of the repayment of the high-yield bond and payments in connection with the transformation program.

We continued to successfully pursue our proven, long-standing strategy of arranging customer financing agreements with financing partners in the Heidelberg Financial Services segment and maintained our receivables from sales financing at the prior-year level as of March 31, 2021.

Development of net working capital

Figures in € millions



Equity and liabilities

Figures in € millions	31-Mar-2020	**31-Mar-2021**
Equity	202	109
Provisions	1,338	1,253
of which pension provisions	986	946
Financial liabilities	471	271
Trade payables	212	146
Other equity and liabilities	379	390
	2,602	**2,169**

Equity and liabilities: Significant reduction in financial liabilities

Under equity and liabilities, the Heidelberg Group's equity declined compared with the previous year (€ 202 million) to € 109 million due to the reduction in the interest rate for German pensions (from 1.8 percent as of March 31, 2020 to 1.4 percent as of March 31, 2021) as well as the net loss for the year. The equity ratio amounted to 5 percent at the reporting date (previous year: 7.8 percent).

Despite the reduction in the interest rate for German provisions, the positive effects of the reorganization of pension plans in Germany (around € 73 million) meant that pension provisions declined in the year under review. As a result, total provisions decreased to € 1,253 million (previous year: € 1,338 million).

Financial liabilities decreased significantly, from € 471 million as of March 31, 2020 to € 271 million at the reporting date, largely due to the repayment of the corporate bond. Net debt increased slightly year-on-year to € 67 million (March 31, 2020: € 43 million) but remained at a low level. As forecast, the ratio of net debt to EBITDA excluding restructuring result (leverage) increased slightly from 0.4 in the previous year to 0.5. Trade payables declined significantly to € 146 million as of March 31, 2021 (previous year: € 212 million).

Five-year overview: Net assets

Figures in € millions	2016/2017	2017/2018	2018/2019	2019/2020	**2020/2021**
Total assets	2,219	2,256	2,329	2,602	2,169
Total operating performance	2,556	2,507	2,556	2,345	1,845
Ratio of total assets to total operating performance (in percent)	86.8	90.0	91.1	111.0	117.6
Net working capital	667	610	684	645	505
in percent of sales [1]	26.4	25.2	27.5	27.5	26.4
Equity	340	341	399	202	109
in percent of total equity and liabilities	15.3	15.1	17.1	7.8	5.0
Net debt [2]	252	236	250	43	67
Leverage [3]	1.4	1.4	1.4	0.4	0.5

[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

- Positive free cash flow
- Net debt at low level
- Financing structure further optimized thanks to repayment of corporate bond

Statement of cash flows: Positive free cash flow

Thanks in particular to the funds released as a result of the reduction in net working capital, cash used in operating activities improved from € – 54 million in the previous year to € 0 million. At € – 126 million, net other operating changes were clearly negative on account of the adjustment for non-cash income from the reorganization of the Company's pension plans in Germany (around € 73 million) and payments for restructuring measures (around € 100 million). In the financial year 2020/2021, net cash generated by investing activities amounted to € 40 million (previous year: € 279 million); this was primarily due to cash investments (around € 55 million from the return of securities returned from the trust assets of Heidelberg Pension Trust e. V. in March 2020) and the sale of CERM (€ 9 million) as well as BluePrint Products NV and Hi-Tech Chemicals BV with the Belgian production site for printing chemicals (€ 17 million) and a property, the Print Media Academy in Heidelberg (around € 22 million). In the previous year, an inflow from trust assets had a positive impact of around € 324 million. In the past financial year, we invested in site optimization, product innovations and IT in particular. All in all, free cash flow was positive at around € 40 million in the year under review.

Financing structure: Corporate bond repaid

Heidelberg's financing portfolio consists of a syndicated credit facility, capital market instruments (convertible bond) and other instruments and development loans. Heidelberg's credit facilities, which currently total around € 425 million, have a maturity structure until 2023 and provide a solid foundation for the Company's continued strategic development.

The Company repaid the corporate bond (€ 150 million) early from cash in September 2020.

We supplement our financing with operating leases where economically appropriate. There are no other financing instruments not reported on the face of the statement of financial position with a significant influence on the economic position of the Group. Heidelberg had a stable liquidity framework at the reporting date.

Five-year overview: Financial position

Figures in € millions	2016/2017	2017/2018	2018/2019	2019/2020	**2020/2021**
Net result after taxes	36	14	21	– 343	– 43
Cash used in / generated by operating activities	139	87	– 11	– 54	0
of which: net working capital	33	24	– 62	27	125
of which: receivables from sales financing	9	– 10	6	14	0
of which: other operating changes	97	73	45	– 95	– 126
Cash used in / generated by investing activities	– 115	– 95	– 82	279	40
Free cash flow	24	– 8	– 93	225 [1]	40
in percent of sales	1.0	– 0.3	– 3.7	9.6	2.1

[1] Including inflow of around € 324 million from trust assets

Segment Report

- Heidelberg Digital Technology: Year-on-year increase in incoming orders in final quarter
- Heidelberg Lifecycle Solutions: Service business recovers despite sustained COVID-19 pandemic
- Heidelberg Financial Services: Earnings contribution increases

Heidelberg Digital Technology segment: Clear upward trend in sales and incoming orders

At € 1,143 million (previous year: € 1,414 million), sales in the Heidelberg Digital Technology segment in the financial year 2020/2021 were down significantly year-on-year. This was due in particular to the COVID-19 pandemic. While the downturn in the first quarter amounted to around 41 percent, sales in the final quarter had already returned to almost the prior-year level. At € 1,220 million, incoming orders in the segment in the financial year 2020/2021 also decreased compared with the previous year (€ 1,374 million) but were up significantly year-on-year by the fourth quarter of the year under review. All in all, the order backlog actually increased slightly to € 441 million at year-end (previous year: € 421 million).

Despite the lower level of sales, EBITDA excluding restructuring result increased to around € 9 million (previous year: € – 11 million). This was due in particular to the reorganization of the Company's pension plans in Germany, which was recognized in the segment on a pro rata basis, as well as the savings that have already been made as a result of the transformation program. In the year under review, the segment reported a further restructuring result of € – 39 million in connection with the transformation program (previous year: € –202 million). The number of people employed in the Heidelberg Digital Technology segment declined significantly to 6,538 as of March 31, 2021 (previous year: 7,291), largely as a result of the reorientation. Investments in the segment amounted to € 57 million and primarily related to site optimization, product innovations and IT.

Heidelberg Digital Technology

Figures in € millions	2019/2020	**2020/2021**
Incoming orders	1,374	1,220
Sales	1,414	1,143
Order backlog	421	441
EBITDA excluding restructuring result	– 11	9
Result of operating activities excluding restructuring result	– 82	– 40
Restructuring result	– 202	– 39
Investments	80	57
Employees [1]	7,291	6,538

[1] Number of employees excluding trainees

Heidelberg Lifecycle Solutions segment: Service business recovers

In the Heidelberg Lifecycle Solutions segment, sales declined to € 765 million in the year under review (previous year: € 931 million). Access and travel restrictions as a result of the COVID-19 pandemic impacted service business in the first half of the financial year in particular. Consumables business was also negatively affected by the reduction in the print volume as a result of the pandemic. Despite this, the Heidelberg Lifecycle Solutions segment also saw a recovery in sales during the course of the year. Incoming orders fell to € 777 million (previous year: € 983 million) but increased significantly year-on-year in the final quarter.

Including non-recurring income of around € 19 million from the sale of Group companies in Belgium, EBITDA excluding restructuring result amounted to € 134 million in the period under review (previous year: € 112 million). The increase compared with the previous year despite the lower level of sales was also due to the reorganization of the Company's pension plans in Germany, which was recognized in the segment on a pro rata basis, as well as the savings that have already been made as a result of the transformation program. The restructuring result in the segment amounted to € –12 million in the past financial year (previous year: € –74 million). As a result of the reorientation, the number of people employed in the Heidelberg Lifecycle Solutions segment declined to 3,641 as of March 31, 2021 (previous year: 3,990). We invested € 21 million in the segment in the year under review, including in our software offering and printed electronics.

Heidelberg Lifecycle Solutions

Figures in € millions	2019/2020	**2020/2021**
Incoming orders	983	777
Sales	931	765
Order backlog	191	196
EBITDA excluding restructuring result	112	134
Result of operating activities excluding restructuring result	87	106
Restructuring result	–74	–12
Investments	28	21
Employees [1]	3,990	3,641

[1] Number of employees excluding trainees

Heidelberg Financial Services segment: Customer financing delivers positive earnings contribution

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.

The receivables volume from sales financing was offset by slightly lower interest income of € 4 million (previous year: € 5 million). This slight reduction was due to industrialized nations with low interest rates accounting for a growing share of the financing volume. Our receivables from sales financing, which result from the granting of direct financing, therefore increased only slightly from € 43 million in the previous year to € 44 million in the financial year 2020/2021. The volume of counter-liabilities assumed remained constant at € 13 million (previous year: € 13 million). The aim remains to continuously reduce the receivables volume with financing partners.

Thanks to the systematic implementation of our strategy in receivables and risk management, the segment was able to deliver a positive earnings contribution of € 3 million (EBITDA excluding restructuring result), an increase compared with the previous year (€ 1 million). This was primarily due to the reduction in risk provisions in connection with the gradual recovery in business performance.

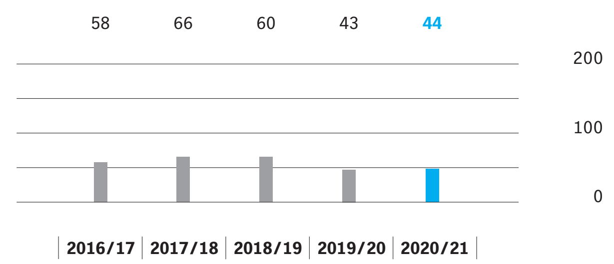
Heidelberg Financial Services

Figures in € millions	2019/2020	**2020/2021**
Sales	5	4
EBITDA	1	3
Result of operating activities excluding restructuring result	1	3
Employees [1]	35	33

[1] Number of employees excluding trainees

Receivables from sales financing

Figures in € millions



Report on the Regions

- Clear upward trend thanks to strong final quarter in almost all markets
- Asia/Pacific region: China and Japan with year-on-year growth in sales and incoming orders in final quarter
- Eastern Europe region exceeds prior-year level of incoming orders

Europe, Middle East and Africa (EMEA)

The order volume in the EMEA region declined from € 928 million in the previous year to € 736 million in the year under review. In the first quarter in particular, investment propensity in all markets was down significantly on the previous year. The upward trend recorded in the third quarter intensified in the final quarter of the financial year, with Germany in particular seeing considerably higher incoming orders in the fourth quarter than in the same period of the previous year. Sales in the region as a whole amounted to € 741 million and saw similar development during the course of the financial year 2020/2021, but ultimately decreased compared with the previous year (€ 912 million).

Asia/Pacific

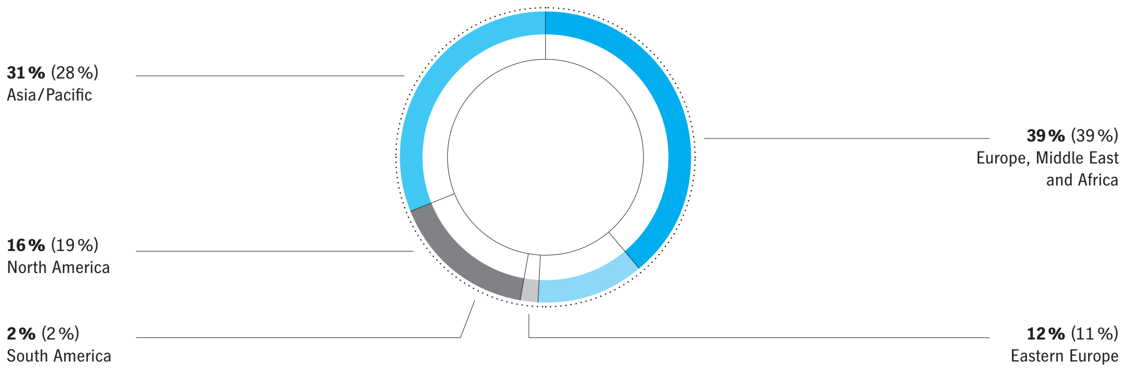
Incoming orders in the Asia/Pacific region also declined to € 594 million as a result of the pandemic (previous year: € 683 million). Following a downturn in the first quarter, the upward trend that began at the midway point of the year was reinforced in the final quarter. In particular, China and Japan realized significantly higher incoming orders in the fourth quarter than in the same period of the previous year. Sales in the region also declined, from € 665 million in the previous year to € 595 million in the year under review, but a similar upward trend was recorded during the course of the year in the key markets. China was by far the largest individual market for Heidelberg in the past financial year.

Eastern Europe

Thanks to a robust and rapid recovery, incoming orders in the Eastern Europe region increased to € 277 million compared with € 261 million in the previous year. In terms of individual markets, Poland in particular exceeded the prior-year level by some extent. By contrast, sales in the region declined year-on-year to € 228 million (previous year: € 268 million).

Sales by region

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



North America

Driven by the US market, the North America region recorded noticeable growth in terms of incoming orders towards the end of the financial year following three weak quarters. At € 350 million, however, total incoming orders were down significantly on the previous year (€ 427 million). Sales also declined year-on-year to € 307 million (previous year: € 447 million); this was due in particular to the weak development of incoming orders in the first three quarters.

South America

Having already been characterized by economic instability in recent years, the South America region saw a further year-on-year reduction in incoming orders to € 44 million (previous year: € 63 million) and sales of € 42 million (previous year: € 58 million) as a result of the pandemic. The pandemic situation led to substantial downturns in the largest individual market of Brazil in particular.

Incoming orders by region

Figures in € millions	2019/2020	**2020/2021**
EMEA	928	736
Asia/Pacific	683	594
Eastern Europe	261	277
North America	427	350
South America	63	44
Heidelberg Group	**2,362**	**2,000**

Sales by region

Figures in € millions	2019/2020	**2020/2021**
EMEA	912	741
Asia/Pacific	665	595
Eastern Europe	268	228
North America	447	307
South America	58	42
Heidelberg Group	**2,349**	**1,913**

Information on Heidelberger Druckmaschinen Aktiengesellschaft

Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg, is the parent company of the Heidelberg Group. Due to the size of Heidelberger Druckmaschinen Aktiengesellschaft relative to the Group, the above disclosures on the Heidelberg Group also apply to Heidelberger Druckmaschinen Aktiengesellschaft unless stated otherwise below.

The annual financial statements of Heidelberger Druckmaschinen Aktiengesellschaft are prepared in accordance with the German Commercial Code (HGB) and the German Stock Corporation Act (AktG). The consolidated financial statements are prepared in line with the International Financial Reporting Standards (IFRS) as applicable in the European Union (EU). This results in some differences in terms of the recognition and measurement methods, particularly with regard to the recognition of intangible assets, the recognition and measurement of financial instruments and provisions, and the recognition of deferred taxes. This results in differences in the reporting of assets and liabilities as well as income statement items.

In addition to its function as the largest operating company, the activities of Heidelberger Druckmaschinen Aktiengesellschaft include its function as the holding company and parent of the Heidelberg Group. The business activity of Heidelberger Druckmaschinen Aktiengesellschaft constitutes an excerpt of the overall business activity of the Heidelberg Group and is managed on the basis of the performance indicators for the Heidelberg Group. The performance indicators are discussed in the "Key Performance Indicators" section.

Research and development

The research and development activities within the Heidelberg Group largely correspond to those of Heidelberger Druckmaschinen Aktiengesellschaft, whose Innovation Center (IVC) at the Wiesloch-Walldorf site is the headquarters of a European development network. A total of 697 employees or around 15 percent of our workforce are active in the area of research and development. We invested € 72 million – approximately 8 percent of our sales – in research and development in the year under review.

Results of operations

Income statement

Figures in € millions	2019/2020	**2020/2021**
Net sales	1,108	876
Total operating performance	1,096	854
EBITDA [1]	– 115	109
in percent of sales	– 10.4	12.4
EBIT [2]	– 246	69
in percent of sales	– 22.2	7.9
Financial result	– 16	55
Taxes on income	2	5
Net result after taxes	– 263	119
in percent of sales	– 23.8	13.6

[1] Result of operating activities before depreciation and amortization
[2] Result of operating activities

In line with forecasts, sales amounted to € 876 million in the year under review (previous year: € 1,108 million), thus declining significantly by around 21 percent year-on-year. This decrease in sales was due to the impact of the COVID-19 pandemic. This development was seen in the Heidelberg Digital Technology segment, where sales fell by € 200 million to € 674 million (previous year: € 874 million), as well as the Heidelberg Lifecycle Solutions segment, where sales amounted to € 202 million in the year under review (previous year: € 234 million).
As discussed in the "Report on the Regions", sales in the individual regions saw varying development.

Other operating income increased by € 71 million year-on-year to € 237 million (previous year: € 166 million), largely as a result of the reversal of provisions due to the reorganization of the calculation parameters for pension provisions following the conclusion of the Company collective bargaining agreement as well as income from affiliated companies due to a non-cash contribution to an affiliated company.

Staff costs declined significantly year-on-year to € 342 million (previous year: € 450 million). Reimbursement claims against the German Federal Employment Agency for social security expenses in connection with the use of flexible worktime instruments and short-time work (€ 23 million) to cushion the impact of the COVID-19 pandemic had a positive impact on staff costs.

Other operating expenses fell by € 138 million to € 229 million (previous year: € 367 million). This development was mainly due to the provisions recognized in the previous year for the extensive package of measures we announced on March 17 with the aim of improving our profitability and liquidity, and primarily relates to expenses in connection with the adjustment of personnel capacity. This was offset by the higher level of expenses for consulting services.

The operating result (EBITDA before restructuring) amounted to € 138 million in the year under review (previous year: € 77 million). Thanks to other operating income resulting from a non-cash contribution to an affiliated company, income from the reversal of provisions and reduced staff costs due to reimbursement claims against the German Federal Employment Agency for social security expenses incurred in connection with short-time work, we exceeded our forecast of a positive but significantly lower operating result compared with the previous year.

The financial result improved by € 71 million year-on-year to € 55 million (previous year: € –16 million), thus considerably outperforming the prior-year forecast of a deterioration in the financial result. This was primarily due to the higher level of income from profit and loss transfer agreements in the amount of € 141 million, which included indirect dividend income of € 37 million. Direct and indirect dividend income totaled around € 62 million, thus improving the financial result to a lesser extent than in the previous year (€ 127 million); direct dividend income amounted to € 25 million (previous year: € 73 million). The reduction in the pension discount rate from 2.60 percent to 2.19 percent again had a negative impact on the financial result.

The net result after taxes increased from € –263 million in the previous year to € 119 million. In addition to the aforementioned reasons for the improvement in the operating result, this was due in particular to the improved financial result thanks to the higher level of income from profit and loss transfer agreements. Another reason were the high expenses included in the previous year for our package of measures announced in March 2020 to increase profitability and improve liquidity. Contrary to our forecast of a substantially negative net result after taxes, we actually recorded a substantially positive net result after taxes in the reporting year.

Net assets and financial position

In the year under review, total assets decreased by around 7 percent or € 167 million to € 2,184 million. Non-current assets declined slightly year-on-year to € 1,508 million.

At € 676 million, current assets including deferred income were € 161 million lower than in the previous year. Under equity and liabilities, equity increased by € 119 million. Provisions declined slightly by € 18 million to € 964 million (previous year: € 982 million). Liabilities including deferred income fell by € 268 million year-on-year to € 602 million, largely as a result of the repayment of the corporate bond in September 2020 and the reduction in amounts due to banks.

Within non-current assets, intangible assets increased by € 3 million to € 46 million (previous year: € 43 million) while financial assets rose by € 28 million to € 1,000 million (previous year: € 972 million), mainly as a result of the non-cash contribution to an affiliated company. The almost complete sale of the securities (fund units) received in the previous year from the retransfer of the trust assets of

Balance sheet structure

Figures in € millions	31-Mar-2020	in % of balance sheet total	**31-Mar-2021**	in % of balance sheet total
Non-current assets	1,513	64.4	1,508	69.0
Current assets [1]	837	35.6	676	31.0
Balance sheet total	**2,351**	**100.0**	**2,184**	**100.0**
Equity	492	20.9	611	28.0
Special items	7	0.3	7	0.3
Provisions	982	41.8	964	44.1
Liabilities [1]	870	37.0	602	27.6
Balance sheet total	**2,351**	**100.0**	**2,184**	**100.0**

[1] Including deferred income/prepaid expenses

Heidelberg Pension-Trust e. V., Heidelberg, had a counteracting effect. On the other hand, property, plant and equipment declined by € 36 million to € 462 million (previous year: € 498 million).

Within current assets, inventories fell by around € 61 million year-on-year, largely as a result of work and services in progress. Cash and cash equivalents amounted to € 77 million at the reporting date (previous year: € 271 million). The year-on-year decrease is primarily due to the repayment of the corporate bond in September 2020 and the reduction in amounts due to banks. All in all, current assets including prepaid expenses were lower than in the previous year.

The € 119 million increase in equity to € 611 million (previous year: € 492 million) is due entirely to the net profit for the year (€ 119 million). The equity ratio amounted to 28 percent at the reporting date (previous year: 21 percent).

Mainly due to the reduction in provisions for staff obligations, provisions declined by € 18 million to € 964 million in the year under review. On the other hand, pension provisions increased due to the reduction in the discount rate.

Liabilities including deferred income decreased by € 268 million to € 602 million in the year under review. In September 2020, Heidelberger Druckmaschinen Aktiengesellschaft repaid its existing corporate bond (€ 150 million) in full from cash. The lower level of amounts due to banks and trade payables led to a further reduction (€ – 92 million).

Employees

At the reporting date, a total of 4,803 people (excluding trainees) were employed at Heidelberger Druckmaschinen Aktiengesellschaft's four locations, 607 fewer than at the end of the previous year.

Number of employees per site

	31-Mar-2020	**31-Mar-2021**
Wiesloch-Walldorf	4,733	4,195
Brandenburg	434	392
Kiel	218	196
Heidelberg	4	0
Neuss	22	20
	5,411	**4,803**
Trainees	232	233
	5,643	**5,036**

Risks and opportunities

The risks and opportunities of Heidelberger Druckmaschinen Aktiengesellschaft are largely the same as for the Heidelberg Group. Reference is therefore made to the information in the "Risks and Opportunities" section.

Heidelberger Druckmaschinen Aktiengesellschaft is integrated into the Group-wide risk management system and the internal control system of the Heidelberg Group. Further information can be found in the "Internal control and risk management system for the Group accounting process in accordance with Section 289 (4) and Section 315 (4) HGB" section of the combined management report.

Forecast

In light of the developments described in the "Future Prospects" section, Heidelberger Druckmaschinen Aktiengesellschaft is entering the new financial year 2021/2022 with caution and expects to record slightly higher sales than in the year under review.

Earnings in the coming financial year will not benefit from the same non-recurring effects as in the past financial year due to the reversal of provisions and the income in connection with a non-cash contribution at an affiliated company. All in all, we expect the operating result for the financial year 2021/2022 to be slightly negative.

As the operating result is expected to be slightly negative and the financial result will be lower than in the previous year, the net result after taxes is forecast to be negative despite the slightly higher level of sales. All in all, Heidelberger Druckmaschinen Aktiengesellschaft is forecasting a substantially negative net result after taxes in the financial year 2021/2022.

Employees

The number of people employed by the Heidelberg Group around the world decreased by 1,104 to 10,212 as of March 31, 2021 (previous year: 11,316 employees excluding trainees), particularly as a result of the measures initiated in March 2020 as part of the transformation process. This was equivalent to 9,997 full-time positions. There were 6,506 employees in Germany and 3,706 outside Germany at the reporting date.

In order to counteract the demographic situation at Heidelberg, we are focusing more than ever on ensuring that our Company has a high proportion of apprentices, and we are planning to provide even more young people with opportunities for education and employment in the future.

With a view to the pandemic, our primary focus in the year under review was on protecting our employees' health. Implementing, securing and communicating the necessary health measures enjoyed top priority. In addition to specific protective measures at our sites, we introduced flexible working time models (staggered working times), physical separation (partitions to prevent face-to-face contact) and the provision of corresponding hardware (laptops for working from home).

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

Employees by region

Number of employees [1]	31-Mar-2020	**31-Mar-2021**
EMEA	8,351	7,470
Asia/Pacific	1,661	1,579
Eastern Europe	520	454
North America	682	621
South America	102	88
Heidelberg Group	**11,316**	**10,212**

[1] Excluding trainees

Sustainability

For Heidelberg, sustainability means combining long-term business success with ecological and social responsibility. Attention to sustainability aspects is part of the Group's environmental standards and our standards of conduct as they apply to our products, our production processes and our supply chain and as regards our interactions with each other and our partners. Compliance with standards of conduct and environmental standards is mandatory throughout the Group, and is set out in the Heidelberg Group's environmental policy and in our Code of Conduct, both of which can be found on the Heidelberg website. Sustainability is a firm fixture of the Heidelberg Group's organization. Group-wide ecological goals and issues are defined by the Eco Council, which is headed by the Management Board member responsible for environmental issues, and whose members include the environmental management officer and representatives from the areas of Production, Digital Technologies, Product Development and Product Safety, Lifecycle Solutions (Service, Consumables), Quality, Investor Relations/Communications, Legal, and Site Management. The interdisciplinary Eco Steering Committee advises the Eco Council, bundles networking activities, 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 increasing resource efficiency, and reducing emissions. The Heidelberg Group's environmental policy can be found on the Company's website: www.heidelberg.com/eco. For more information on our sustainability activities, please refer to our separate combined non-financial report. This report can be found on our website www.heidelberg.com under "Investor Relations", "Reports and Presentations".

Ecological key figures

	2017/2018	2018/2019	2019/2020	**2020/2021**
Energy in GWh/a[1]	290	290	274	244
Energy in GWh/a (weather-adjusted)[1, 2]	288	303	283	260
Water in m^3/a	207,903	227,710	193,760	149,169
CO_2 emissions in metric tons[3]	105,153	105,418	94,299	79,533
Waste in metric tons	35,980	41,545	34,247	24,650
Recycling rate in percent	96.36	97.53	96.08	95.75

[1] Total energy supplied to the WIE, HEI, AMS, BRA and QIN sites, including vehicle fleet and the company fueling station at Wiesloch-Walldorf
[2] In accordance with VDI 2067, heating energy consumption was adjusted based on the degree days figure of the Heidelberg site
[3] CO_2 emissions resulting from energy consumption have been based on information from the respective electric utility at the particular production site; other emissions data are based on GEMIS

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

RISKS AND OPPORTUNITIES

As an internationally operating company, Heidelberg is exposed to macroeconomic, financial, industry and Company-specific uncertainties and changes. The associated risks and opportunities are defined as possible future developments or events that can lead to a negative or positive deviation from forecasts. Risks must be entered in a conscious manner in order to sustainably realize Heidelberg's market position and profitability in a changing industry. The structured identification of risks and opportunities forms the basis for the conscious handling of risks and the targeted exploitation of potential opportunities.

Identified risks and opportunities are discussed in the "Future Prospects" section if their occurrence is considered to be likely. Opportunities and risks are assessed over a one-year period.

Risk and Opportunity Management System

Objectives and strategy

Heidelberg's risk and opportunity management system is aimed at identifying external and internal risks and opportunities that could lead to a deviation from the Company's goals and enabling it to act in a risk-conscious, opportunity-oriented manner. In particular, it focuses on risks within the Group that are significant or that could even constitute a threat to its existence as a going concern, either individually or in conjunction with other risks.

A further 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.

Structure and process

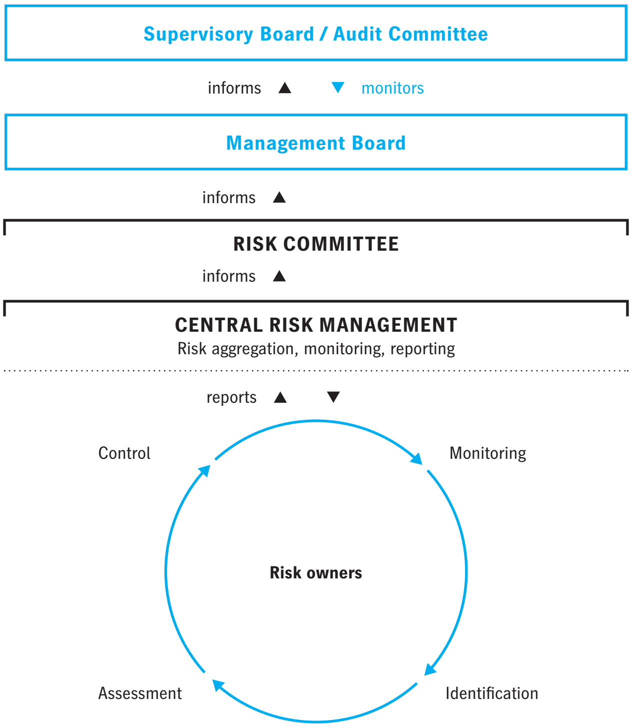
Both Heidelberg's opportunity and risk management system and its internal control system (ICS), which, among others, serves as a basis for the Group accounting process, are based on the framework and guidelines provided by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Risk and opportunity management is integrated into corporate management at Heidelberg and is the responsibility of the Management Board. 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 and assessed. The operating units and central functions are incorporated in this process. The companies included in the opportunity and risk management system are the same as those included in the consolidated financial statements. The risk-significant areas of observation and the risk documentation methodology are set out in the guidelines. The classification into risk categories is based on the potential impact on net results and liquidity. Reporting thresholds are set on a uniform basis. For key areas, such as Procurement, Development, Production, Sales, Human Resources, IT, Legal and Finance, there is a risk officer who reports risks to central Group Risk Management (GRM) in a standardized manner.

Opportunities and risks reported to GRM are recorded in an inventory and validated at Group level and discussed periodically by the Risk Committee.

The Risk Committee is a central, interdisciplinary body whose members work closely with GRM on the continuous improvement of the risk and opportunity management process. It consists of Management Board members and selected senior executives from various fields. It is responsible for reviewing the inventory of risks and opportunities to ensure that it is complete and relevant and for providing specific indications concerning new risks and opportunities or those that no longer apply. Based on the inventory of risks and opportunities, 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 its 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. The Audit Committee also deals with the effectiveness of the ICS, the risk and opportunity management system and the internal audit system, examines their functionality and arranges for regular reporting (in some cases from the directly responsible executives) on audit planning and findings. The auditor also assesses the functionality of the risk early warning system in accordance with Section 317 (4) of the German Commercial Code (HGB). Heidelberg's risk and opportunity management process comprises the elements of risk identification, assessment, control and monitoring (see diagram below).



Identification of risks and opportunities

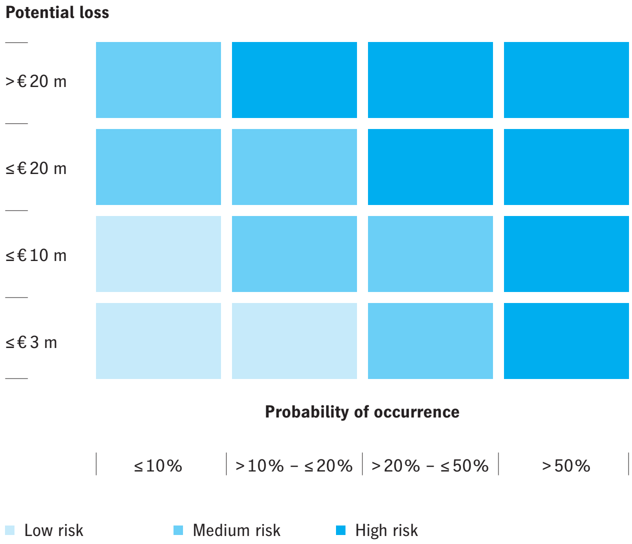
The risk officers monitor the general economic environment, which contributes to the effective identification of risks and opportunities. Furthermore, GRM assists in the identification and categorization of opportunities and risks by preparing the corresponding inventory. The inventory is reviewed and, 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 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" and "extent of damage" 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 underlying the forecast.

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



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 (not going ahead with an originally planned activity), risk mitigation (taking measures to minimize the probability of occurrence), risk transfer (reducing the consequences of the risk occurring) and risk acceptance (actively taking the respective risk). It is the task of every risk officer to devise and implement suitable risk-mitigating measures and take opportunities in his or her area. 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 officer is responsible for reporting all known risks to risk management periodically, or also to the Group Management Board on an ad hoc basis as necessary, and checking their completeness. In addition to complying with and implementing suitable countermeasures, risk officers are responsible for their own monitoring of risks and opportunities. This way, the developments in constantly changing risks and opportunities, and the adequacy and effectiveness of the current risk strategy, are continually reviewed by risk officers.

Risk and Opportunity Report

Corporate risks are divided into the categories "National economy", “Strategy and Industry”, “Operational”, “Financial markets”, and “Legal and Compliance”. The following table provides an overview of the risk categories and their overall risk assessment in addition to changes against the previous year:

Categories of risks and opportunities	Assessment	**Change as against previous year**
National economy	High	Constant
Strategy and industry	High	Constant
Operational		
Information security	High	Constant
Sales financing	High	Constant
Procurement	Medium	Constant
Production	Low	Constant
Sales partnerships	Low	Constant
HR	Medium	Constant
Financial markets		
Pension obligations	High	Constant
Taxation	Medium	Constant
Currency and interest	Medium	Constant
Liquidity	Medium	Constant
Refinancing	Medium	Constant
Legal and compliance	Medium	Constant

The above table allocates the quantifiable risks within a category based on the absolute net risk (from high to low). The rating of risks and opportunities was suspended with the buyback of the corporate bond in September 2020, with Moody’s and Standard & Poor’s discontinuing their public rating as a result.

National economic risks and opportunities

Economic conditions have a direct impact on Heidelberg’s business activities and its financial position and performance. Unexpected disruptions to the global fabric of economic relations can have consequences that are difficult to predict. Moreover, the tensions currently being observed on the commodity markets (availability, price pressure) may have a negative impact on Heidelberg’s economic situation. The COVID-19 pandemic remains the greatest risk to the world economy at present, even though incidences are currently decreasing in regions such as Europe, North America and parts of Asia. However, a renewed increase in infection rates with corresponding effects, such as in India in May 2021, cannot be ruled out. The development of infection incidences and the progress and success of the vaccination campaigns are hard to predict and may lead to continued uncertainty and a resulting reluctance to make purchases/investments.

Although the COVID-19 pandemic is currently dominating the information situation, there are other political and national economic risks. The trade conflict between the US and China involves the risk of potential trade barriers (increased tariffs, restrictions on imports/exports), while political instability in some countries in South America, Eastern Europe or Asia could also have a negative impact on economic conditions. The uncertainty concerning inflationary trends and debt sustainability in some countries – including with a view to the higher level of sovereign debt in the wake of the COVID-19 pandemic – represents a risk factor. Although the much discussed skills shortage is less of a priority for many companies in the current economic environment, it is likely to return to the agenda as the economy recovers.

IHS Markit expects global economic growth of 5.1 percent in the 2021 calendar year. Following extremely low growth in the 2020 calendar year, Heidelberg’s important sales market of China is also expected to return to year-on-year growth of up to 8 percent. Germany is also set to see an economic recovery in the 2021 calendar year. This expectation of a global economic recovery is backed up by extensive support measures, the expansive monetary policy of the central banks in the US and Europe, and potential catch-up effects if the support measures have the desired effect.

In its forecast and the planning on which the risk and opportunity report is based, Heidelberg continues to assume that the general conditions for free world trade will remain unchanged. It also assumes that the COVID-19 pandemic will continue to have an impact in the first half of the financial year in particular, with normal economic development resuming thereafter at the latest.

National economic risks are currently regarded as high.

Strategic and industry-specific risks and opportunities

The printing industry continues to be characterized by consolidation pressure and price competition. Innovation cycles and the accompanying investment costs/risks mean that size and rationalization are the only way for many print companies to ensure their survival in a changing market environment. Against this backdrop, the increased automation and digital connectivity of Heidelberg's printing presses ("end-to-end") can lead to a significant increase in net productivity and efficiency for customers. This typically makes Heidelberg's product portfolio more attractive and improves customer retention.

Heidelberg expects the print volume in the emerging economies to continue to grow on the whole, whereas the number of print shops in the industrialized nations is expected to decline further as a result of the ongoing industrialization of the industry, sustained excess capacity and the resulting cost pressure. In the industrialized nations, the 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 the corresponding printing sales. On the other hand, the finishing of printed products is becoming increasingly popular (especially in the cosmetics sector), while sales in packaging printing are rising as a result of environmental considerations (e.g. replacement of aluminum-coated materials with cold foil transfers). Print shops can also be expected to increasingly adapt to the "Amazon effect", with the same-day or next-day delivery of goods and services becoming standard. This means the trend of transformation from analog to digital print is not only continuing but accelerating as a result of the COVID-19 pandemic, as time-to-market and quick turnaround times become increasingly important. Many print shops are expanding their product and service range to include activities that go beyond traditional printing in the print media industry (e.g. industrial printing, printed electronics). COVID-19 will result in changes to supply chains for many products as print production for those products returns to Western Europe and North America.

In view of the changes in the printing industry (i.e. the development in terms of customers and areas of application), the risk that planned sales and margin targets will not be met is taken into account in our assessment of sector risk.

As previously, the key sales markets for Heidelberg are North America, Central Europe and China. Following weak economic development in 2020, Heidelberg expects these markets in particular, as well as other markets, to see a recovery in terms of the economy and investment activity as 2021 progresses. China is already showing clear signs of an upturn in economic output and print shop capacity utilization following the COVID-19 lockdown.

Following a downturn of 12 percent in the 2020 calendar year, the German Mechanical Engineering Industry Association (VDMA) expects production to increase by 7 percent in real terms in 2021. This is based on the assumption that the situation resulting from the COVID-19 pandemic will ease appreciably.

If the global economy were to fail to develop in line with expectations, or if key markets were to suffer a more pronounced economic downturn than anticipated, there is a risk that the planned sales and earnings performance would not be achieved, particularly in new machinery business. Service and consumables business, which benefits to a considerable extent from the large number of installed printing presses and their print volume, is less economically cyclical but would be unable to fully compensate for the downturn in new machinery business.

Heidelberg's transformation program with the aim of adjusting its product portfolio and production and structural costs is expected to be complete and fully effective by the end of the financial year 2022/2023. Its success is a key factor in Heidelberg achieving its business goals and has been included in planning in line with its impact over time. Due to its economic importance for Heidelberg, the transformation program is closely monitored and controlled by the Management Board with the involvement of its management team. However, the possibility that it will not be possible to implement the planned measures within the planned time frame, with the planned savings or with the planned non-recurring expenses cannot be ruled out. This would have a negative impact on the results of operations. At the same time, there is also an opportunity insofar as quicker or more comprehensive implementation could have a positive impact for Heidelberg.

Strategic and industry-specific risks are considered to be high.

Operational risks and opportunities

Information security

Growing digitization in all areas of the Company is leading to heightened requirements in terms of the availability, integrity and confidentiality of electronically processed information and the information technology (IT) used. This is accompanied by increasingly stringent regulatory requirements with regard to protecting personal data and business secrets. As a result, system unavailability or violations of the integrity or confidentiality of sensitive information could have a negative effect on earnings, as this could involve adverse consequences for business operations (unavailability of products and services or claims for damages) or lead to a business interruption. Reputational damage could be another indirect consequence. The security of information and systems is also threatened by professional cybercrime, a lack of employee awareness and employee misconduct.

Preventive measures have been taken to ensure the availability, integrity and confidentiality of electronically processed information and the information technology used. 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. Employee training programs have also been expanded and are continuously enhanced. Furthermore, high demands are made on IT security management when selecting IT service providers.

As the threat situation is becoming continuously denser, the information security risk is considered to be high overall in spite of the protective measures taken.

Sales financing

Sales financing (financial services business) involves risks including credit and counterparty default risk, residual value risk, currency risk and operational risk. The majority of the financing portfolio consists of receivables from customers located in emerging economies, including a high proportion of overdue receivables in Brazil. The difficult economic environment resulting from the COVID-19 pandemic has seen a growing number of requests for payment deferrals and restructured financing agreements. The liquidity situation among our financing customers could deteriorate, leading to overdue and deferred payments. Like all other overdue receivables, however, these are closely monitored and controlled by way of intensive receivables management. A comprehensive database of contracts and printing presses helps to minimize residual value and counter-liability risks. The processes and methods used have proven their worth in the past years.

Sales financing may also give rise to liquidity risks. This would be the case if the need for the Company's own financing commitments were to increase in the event of limited availability of third-party financing partners. In this case, it could be necessary to increase financing commitments in order to provide sales support, particularly in light of the current global economic uncertainty. In this context, the externalization strategy of subscription contracts could also lead to an increase in the Company's own financing commitments. The increased funding requirements as a result would tie up additional funds and hence raise the risk profile of sales financing.

In recent years, the Company's own financing commitments have been successfully reduced and stabilized thanks to the intensive and long-standing cooperation with financing partners. The Company only issues financing commitments in its own right following a comprehensive review of the customer and its business model and credit rating. Existing financing agreements are regularly reviewed using internal rating processes. These (like the Basel standards) comprise both debtor-specific and transaction-specific components. Measures are taken at an early stage and appropriate risk provisions are recognized for discernible risks.

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

Procurement

Procurement risks primarily involve ensuring that Heidelberg's 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 in the required 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. Nonetheless, the global supply bottlenecks for certain components that have been emerging since the beginning of 2021, particularly in the area of information and electrotechnology, could lead to delivery delays for individual products in the course of financial year 2021/2022.

Procurement risks are considered to be medium.

Production

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 due to material damage (e.g. fire, machinery/tool failure or natural disasters) cannot be entirely ruled out. However, the (safety) precautions taken (e.g. production structure and process planning, preventive maintenance, technical fire protection, works fire department) serve to reduce the amount of any damage incurred and the probability of these risks occurring. Furthermore, specific risks are covered by insurance policies with typical sums insured.

Production risks are considered to be low.

Sales partnerships

Heidelberg relies on global strategic partnerships to offer its customers a broad range of solutions that are tailored to the performance of their own products. It works continuously to intensify its cooperation with sales partners. There is a fundamental risk that sales partnerships could be terminated, thereby adversely affecting Heidelberg's business performance.

This risk is considered to be low.

HR

Heidelberg's success is substantially influenced by qualified and motivated employees and management. It therefore invests both in maintaining the capabilities of its own employees and management and in improving its attractiveness to new employees in order to meet the challenges of forthcoming digitization and demographic change. Heidelberg has responded to the changes entailed by an aging workforce by improving its preventive healthcare. As a result of past restructuring programs as well as the current restructuring program, 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 if it is unable to appoint successors with the required qualifications or at all.

This risk is considered to be medium.

Financial risks and opportunities

Pension obligations

Pension obligations 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 inflation and life expectancy, also influence the amount of pension and/or payment obligations. Risks or opportunities can arise from this depending on the change in these parameters.

Heidelberg's pension obligations are, in part completely or pro rata, covered by plan assets managed in trust, and are reported net in the statement of financial position. 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 reduce risk.

Remeasurement effects from pension obligations and plan assets are recognized directly in 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 high.

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.

Taxation

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

Tax risk is considered to be medium.

Foreign currency and interest rate business

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. These measures may include derivative financial instruments (forward exchange transactions and currency options). 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 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. Where appropriate, interest rate risks are limited by suitable interest rate swaps.

Currency risks are currently considered to be medium, while interest rate risks are considered to be low.

Liquidity

To ensure the Group's solvency in order to settle its liabilities in the correct amount as they mature, liquidity is monitored constantly and recorded and controlled through the planning of financial requirements and the procurement of funds. Any liquidity risks that could arise from the funding requirements of Group companies may be pinpointed at an early stage with the help of rolling liquidity planning. The necessary minimum liquidity based on experience from past crises is kept available. The diversification of financing sources, the planning of financing requirements and the procurement of funds are also intended to ensure financing in the longer term.

The liquidity risk is considered to be medium on account of the uncertainty concerning the development of the economic environment as a result of the COVID-19 pandemic.

Refinancing

Heidelberg is dependent on being able to extinguish financial liabilities from free cash flow or refinance them when they 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, its ability to pay would be at risk or it might be forced to postpone investments in the expansion of its business activity. Accordingly, Heidelberg seeks to ensure a diversified financing structure (banks, capital markets and other financing commitments). Heidelberg has a stable financing base with a maturity profile up to 2023 and has significantly reduced its financial liabilities in the last 12 months. However, there are mutual dependencies between the individual financing components in some cases. 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 the financial covenants and if, at the same time, it were not possible to modify them, this would have a significant adverse impact on the Group.

The refinancing risk is considered to be medium on account of the uncertainty concerning the development of the economic environment as a result of the COVID-19 pandemic.

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.

The Heidelberg Group's compliance management system (CMS) aims to identify compliance misconduct and violations at an early stage and prevent them in order to minimize and prevent liability and reputational damage to the Heidelberg Group and its employees, managers and executive bodies. A compliance risk analysis is conducted to ensure that this objective is met. In particular, this allows compliance risks arising from misconduct and violations of corruption, anti-trust and money laundering law to be identified, evaluated and controlled. Existing compliance principles, guidelines, regulations and work instructions are also reviewed and updated as required in this connection. The Business Partner Code of Conduct was revised in the financial year 2020/2021. The Business Partner Code of Conduct aims to minimize and prevent potential compliance risks resulting from supply and production chains. The Heidelberg Group reserves the right to review its business partners' compliance with the Business Partner Code of Conduct. In order to identify compliance risks at an early stage, the Heidelberg Group has also implemented a whistleblower system in the form of an external ombudsman who is available to the employees, managers and executive bodies of the Heidelberg Group and all customers, suppliers and other business partners as a reporting channel, including anonymously if desired.

To meet the more stringent requirements of the European General Data Protection Regulation (GDPR) that came into force on May 25, 2018, Heidelberger Druckmaschinen Aktiengesellschaft is strengthening its data protection organization and continuously enhancing its data protection management system. This includes the ongoing review and development of GDPR-compliant processes.

Legal and compliance risks are considered to be medium.

General statement on risks and opportunities

There are currently no discernible individual 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. Opportunities are not netted.

Even if several significant risks were to occur simultaneously, such as a significant deviation from the expected economic and market recovery from the consequences of the COVID-19 pandemic resulting in increased liquidity requirements and hence a greater risk of failing to achieve the agreed financial covenants, Heidelberg's management considers the Company to be in a good starting position for this current unexpected situation due to its low level of net financial debt at the reporting date and the initiated program to optimize production and structural costs.

As in the previous year, the overall risk situation of the Heidelberg Group remains high.

The Management Board and the Supervisory Board deal with risks that could arise from organization, management or planned changes. For further information, please see the detailed "Corporate Governance Declaration" on pages 177 to 185 in this report or at www.heidelberg.com > About Us > Company > Corporate Governance.

Opportunities for Heidelberg lie in particular in the strategic measures as described in the "Strategy" section on pages 26 to 28.

Growth potential is offered by innovative services that supplement Heidelberg's core business and new products outside its core business that complement Heidelberg's core technical competencies, as is the case for the Wallbox charging stations.

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. A shift in exchange rates in Heidelberg's favor would also have a positive effect on sales and earnings planning. There are opportunities – and risks – in several countries that social and political changes, government intervention, customs regulations and changes in legislation could influence our business development.

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

Accounting errors could 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 with its own internal control system (ICS). The principles, procedures and measures applied are based on the framework model developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The ICS allows Heidelberg to ensure that management decisions are implemented effectively, 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 corporate 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 is entitled to view 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.

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

All companies 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. Internal Audit is responsible for regularly examining the effectiveness of the internal accounting control system.

OUTLOOK

Expected Conditions

According to IHS Markit, the recovery in the world economy is expected to pick up pace during 2021 as the vaccination campaign continues, resulting in growth of 5.1 percent.

GDP in the advanced economies is set to enjoy extremely strong growth in the planning period. Overall economic output is forecast to rise by 4.5 percent in 2021 and 3.8 percent in 2022. Among the key economic areas, the United States is expected to see particularly pronounced growth of 5.7 percent this year and 4.2 percent next year, but economic activity in the EU and Japan is also likely to return to normal. All in all, GDP growth in the current calendar year is forecast at 3.9 percent for the euro zone and 2.6 percent for Japan.

The emerging economies are also seeing a rapid economic recovery, with GDP growth of around 6.1 percent forecast for 2021. Overall economic output in China has already recovered to pre-crisis levels, although waning economic policy impetus means the macroeconomic expansion is likely to slow again from 2022 onwards. Economists from IHS Markit expect the economy to grow by 7.8 percent this year and 5.7 percent next year. Overall economic output in the emerging economies of Southeast Asia is forecast to increase by 4.6 percent and 5.3 percent in the next two years, while the Latin American nations are set to see growth of 4.2 percent in 2021 followed by 3.1 percent next year.

The German mechanical engineering industry will benefit from the recovery in the world economy in 2021. Economists from the VDMA are forecasting an upturn in production of 7 percent in real terms. However, this will not be enough for mechanical engineering in Germany to return to its 2019 production level as early as 2021. In the future, the German mechanical engineering industry is likely to benefit from the EU's most recent international trade policy agreements. In addition to a trade and partnership agreement between the EU and the UK, an investment agreement has been reached between the EU and China that will facilitate market access and lead to fairer competitive conditions for EU companies in China.

If the infection situation takes longer than expected to improve due to a slowdown in the immunization of the population or because vaccines prove to be less effective against mutations of the virus, however, this is likely to delay the opening up of large sections of economic life and postpone the anticipated upturn in macroeconomic activity to a later date.

Future Prospects

The economic and political conditions presented on the markets relevant to Heidelberg, and the expected development of the printing industry as the pandemic progresses, serve as premises for the forecast planning for the 2021/2022 financial year (April 1, 2021 to March 31, 2022) and beyond.

Since the outbreak of the COVID-19 pandemic at the start of the 2020 calendar year, Heidelberg's efforts have been focused on guaranteeing the safety and health of its employees and the functionality of its operating networks so that it can fulfill the needs of its customers as well as possible under the difficult circumstances. Thanks to the Company's global positioning, ample flexibility and the high degree of digitization in its portfolio and its services, we assume that operational capability is still largely guaranteed worldwide despite local restrictions.

The ramifications of the pandemic will continue to be felt in the new financial year, albeit with a differing impact as far as Heidelberg's primary sales regions are concerned.

China saw normalization in terms of the economy and the print volume as early as the first half of the financial year 2020/2021. The forecast substantial economic growth is likely to continue to positively influence the print volume in the financial year 2021/2022. North America is also expected to see an upturn in the print industry thanks to the rapid progress of the vaccination campaign, but the picture in Europe is divided. While the markets in Eastern Europe in particular are showing signs of recovery even as the pandemic continues to develop dynamically, the shortage of vaccines in parts of Western Europe remains a barrier to growth. However, this could change starting in the summer as sufficient vaccines become available to curb the pandemic.

In the year under review, Heidelberg responded by taking steps to accelerate the comprehensive package of measures to secure its financial stability, improve its profitability, increase its competitiveness and generate new growth potential ahead of schedule. This already led to tangible improvements at all levels in the year under review. In particular, Heidelberg will systematically press ahead with the measures to further improve cost efficiency and lower the EBIT break-even point in the new financial year. The vast majority of the corresponding costs were recognized in the financial years 2019/2020 and 2020/2021. As there is now unlikely to be significant follow-up expenditure, the restructuring result will not be reported separately in the future.

Outlook for 2021/2022 characterized by growing confidence in spite of uncertainty

After the order situation picked up considerably toward the end of the past financial year, especially in China but also increasingly in Europe and North America, Heidelberg is cautiously confident about the financial year 2021/2022 even in the face of the sustained uncertainty surrounding the negative impact of the COVID-19 pandemic. This positive outlook is shared by the industry association VDMA, not least since there are hopes that the business situation in North America will also see a sustained upturn.

While packaging printing quickly returned to pre-crisis levels and is set to see further growth, advertising printing is likely to take longer to recover from the impact of the pandemic. All in all, Heidelberg does not expect the global print volume to fully return to pre-pandemic levels just yet. Due to the systematic implementation of strategic measures in the area of packaging (see the “Strategy” section on pages 26 to 28), the expansion of digital business models and the planned business growth in China in particular, Heidelberg will benefit from the recovery in these sub-markets and further strengthen its market position. This positive outlook is supported by the positive effects of the efficiency and transformation measures that have been initiated since spring 2020, which are already visible and set to increase. New business areas like e-mobility will also continue to grow significantly and drive the increase in enterprise value, even if they are unable to contribute substantially to consolidated sales for the time being. Given this, we currently expect sales to rise to at least € 2 billion in the financial year 2021/2022 (previous year: € 1,913 million).

In terms of EBITDA, the expected sales growth, the reduced cost base and the elimination of significant restructuring expenses will be offset by higher staff costs and the non-recurrence of income from the package of measures in connection with the transformation program. However, a considerable portion of the income that was generated in this respect in the financial year 2020/2021, including from the reorganization of the Company’s pension plans and gains on company disposals, will already be replaced by sustainable operating income. As part of its focus on profitable core business, Heidelberg expects to record further income from asset management in the financial year 2021/2022 on the basis of ongoing projects. As the amount and timing of the gains on the planned transactions cannot yet be estimated with reasonable assurance, the EBITDA margin is currently forecast at between

6 and 7 percent, which would be higher than the prior-year level (around 5.0 percent including restructuring result). Due to the dynamic market situation as described and the market initiatives that have been initiated, the new Print Solutions and Packaging Solutions segments are expected to see moderate growth in margins. There will still be a slightly negative earnings contribution from the new Technology Solutions segment on account of the investments in growth in the respective business areas.

Heidelberg expects to see a sustained improvement in its financial result (previous year: € –41 million) as a result of the considerable reduction in financial liabilities in the year under review. Following on from the substantial losses in previous years, Heidelberg expects its net result after taxes to be slightly positive in 2021/2022 even as sales remain clearly below the pre-crisis level. Leverage is expected to remain at the low level recorded in the financial year 2020/2021.

Break-even to be lowered significantly to sales of around € 1.9 billion

The EBIT break-even, which amounted to sales of € 2.1 to 2.2 billion prior to the pandemic, will be sustainably lowered to around € 1.9 billion by the financial year 2022/2023. This will allow the Company to generate a profit on the back of considerably lower sales, thus significantly improving its future profitability. Of the savings that are expected to result from the ongoing workforce reduction in particular – which will amount to € 170 million in the financial year 2022/2023 – around € 85 million were already realized in the year under review. This figure will rise to € 140 million in the financial year 2021/2022, around 90 percent of which will be attributable to sustainable measures.

In the medium to long term, Heidelberg assumes that the measures as part of its reorganization, its focus on profitable core business and the expansion of new growth areas will help to sustainably improve the Company's future profitability and its financial resources for further growth. In turn, this will allow it to report substantially positive free cash flows.

LEGAL DISCLOSURES

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

The Supervisory Board discussed the appropriateness of Management Board compensation as scheduled in the year under review. In some cases this was done in connection with the agreement and review of agreements on objectives with Management Board members. The procedure and benchmarks for measuring the variable compensation elements were defined with the introduction of the compensation system in place since the financial year 2012/2013. Multi-year variable compensation was reviewed and redesigned in the financial year 2017/2018. The aim was to increase variability by redesigning expected values while reinforcing the idea of shareholder value. These changes also influence the compensation system as a whole. Following the entry into force of the German Act Implementing the Second Shareholders' Rights Directive (ARUG II) and the new German Corporate Governance Code as amended dated December 16, 2019, the Supervisory Board intends to revise the compensation system for the Management Board in the first half of financial year 2021/2022 and present the results of its work to the 2021 Annual General Meeting for its approval in accordance with ARUG II ("say on pay").

The following applies in the reporting year:

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

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

The **ONE-YEAR VARIABLE COMPENSATION** is dependent on the Group's success in the respective financial year, the benchmarks for which are currently defined as EBIT and free cash flow 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 the 2012/2013 financial year – 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 financial year 2017/2018. Since the financial year 2017/2018, the multi-year variable compensation has been determined according to two benchmarks: earnings before taxes according to the IFRS consolidated income statement (EBT) and total shareholder return (TSR). The targets for these two benchmarks, the respective thresholds and the maximum overfulfillment are all defined at the beginning of the relevant three-year period (performance period). Half the multi-year variable compensation is attributable to each benchmark, i.e. 45 percent of the fixed annual compensation in the event of 100 percent fulfillment of the targets for each of the relevant benchmarks. Overfulfillment of a benchmark is recognized and can at most result in a doubling of the attributable multi-year variable target compensation. Accordingly, multi-year variable compensation can amount to 90 percent of the fixed annual compensation for each benchmark and to 180 percent of the fixed annual compensation in total. Both benchmarks are associated with an

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

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

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

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

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

Figures in € thousands	Rainer Hundsdörfer Chief Executive Officer, Management Board member Digital Technology and Lifecycle Solutions				Marcus A. Wassenberg [2] Chief Financial Officer, Management Board member Financial Services			
	2019/2020 Objective	**2020/2021 Objective**	2020/2021 (Min)	2020/2021 (Max)	2019/2020 Objective	**2020/2021 Objective**	2020/2021 (Min)	2020/2021 (Max)
Fixed compensation	670	670	670	670	233	400	400	400
Fringe benefits	27	23	23	23	12	21	21	21
Total	697	693	693	693	245	421	421	421
One-year variable compensation	603	603	0	603	210	360	0	360
Multi-year variable compensation	432	372	0	1,205	222	222	0	720
2019/2020 tranche [3]	432 [4]	–	–	–	222 [4]	–	–	–
2020/2021 tranche [3]	–	372 [5]	0	1,205	–	222 [5]	0	720
Total fixed and variable compensation components	1,732	1,668	693	2,501	677	1,003	421	1,501
Service cost	234	234	234	234	97	140	140	140
Total compensation	1,966	1,902	927	2,735	774	1,143	561	1,641

1) In accordance with section 4.2.5 (3) of the German Corporate Governance Code in the version published on April 24, 2017
2) Member of the Management Board since September 1, 2019. The information for the previous year relates to the period from September 1, 2019 until March 31, 2020.
3) Term: 3 years
4) In the 2019/2020 financial year, this includes the fair value as of the grant date of the multi-year share-based cash compensation as follows: Rainer Hundsdörfer: € 131 thousand; Marcus A. Wassenberg: € 67 thousand.
5) In the 2020/2021 financial year, this includes the fair value as of the grant date of the multi-year share-based cash compensation as follows: Rainer Hundsdörfer: € 71 thousand; Marcus A. Wassenberg: € 42 thousand.

Allocation [1]

Figures in € thousands	Rainer Hundsdörfer Chief Executive Officer, Management Board member Digital Technology and Lifecycle Solutions		Marcus A. Wassenberg [2] Chief Financial Officer , Management Board member Financial Services	
	2019/2020	**2020/2021**	2019/2020	**2020/2021**
Fixed compensation [3]	662	670	229	400
Fringe benefits	27	23	12	21
Total	689	693	241	421
One-year variable compensation	0	402	0	240
Multi-year variable compensation	195	0	0	0
2017/2018 tranche [4]	195	–	0	–
2018/2019 tranche [4]	–	0	–	0
Total fixed and variable compensation components	884	1,095	241	661
Service cost [5]	234	234	97	140
Total compensation	1,118	1,329	338	801
of which: agreed personal investment	20	40	0	24

1) Compensation paid or yet to be paid to the members of the Management Board for the respective financial year.
2) Member of the Management Board since September 1, 2019. The information for the previous year relates to the period from September 1, 2019 until March 31, 2020.
3) The remuneration waived by members of the Management Board in the 2020/2021 financial year amounted to € 0 thousand (2019/2020 financial year: € 17 thousand) in total.
4) Term: 3 years
5) Not yet allocated in the financial year

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

Figures in € thousands		Non-performance-related elements		Performance-related elements	Long-term incentive components	Total compensation
		Fixed compensation [1]	Fringe benefits	One-year variable compensation	Multi-year [2] variable compensation	
Rainer Hundsdörfer	2019/2020	662	27	0	131	820
	2020/2021	670	23	402	71	1,166
Marcus A. Wassenberg [3]	2019/2020	229	12	0	67	308
	2020/2021	400	21	240	42	703
Total	2019/2020	891	39	0	198	1,128
	2020/2021	1,070	44	642	113	1,869
Members of the Management Board who left in the previous year	2019/2020	839	57	474	797	2,167
	2020/2021	–	–	–	–	–
Total	2019/2020	1,730	96	474	995	3,295
	2020/2021	1,070	44	642	113	1,869

[1] The remuneration waived by members of the Management Board in the 2020/2021 financial year amounted to € 0 thousand (2019/2020 financial year: € 17 thousand) in total.
[2] In the 2019/2020 financial year, this includes the fair value as of the grant date of the multi-year share-based cash compensation as follows: Rainer Hundsdörfer: € 131 thousand; Marcus A. Wassenberg: € 67 thousand.
In the 2020/2021 financial year, this includes the fair value as of the grant date of the multi-year share-based cash compensation as follows: Rainer Hundsdörfer: € 71 thousand; Marcus A. Wassenberg: € 42 thousand.
The total expenditure in financial year 2020/2021 for the multi-year share-based compensation of € 307 thousand is allocated as follows: Rainer Hundsdörfer: € 195 thousand (previous year: income € 24 thousand); Marcus A. Wassenberg: € 112 thousand (previous year: € 2 thousand).
[3] Member of the Management Board since September 1, 2019. The information for the previous year relates to the period from September 1, 2019 until March 31, 2020.

There was 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 for the 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, in the event of the agreed achievement of objectives, was counted towards this new rule and paid out after the end of the three-year period in the financial year 2019/2020.

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.

On August 14, 2020, Rainer Hundsdörfer invested the portions of the multi-year variable compensation paid for the financial year 2019/2020 in shares of Heidelberger Druckmaschinen Aktiengesellschaft in line with Art. 19 of the Market Abuse Regulation (EU) No. 596/2014; as the transaction did not exceed the corresponding reporting threshold, it was not necessary for the investment to be subsequently reported to the German Federal Financial Supervisory Authority by Rainer Hundsdörfer or for it to be published on the Heidelberger Druckmaschinen Aktiengesellschaft website.

In the reporting period, FRINGE BENEFITS primarily consist of the value of the private use of a company car.

BENEFITS TO FORMER MEMBERS OF THE MANAGEMENT BOARD are composed as follows:

The term of office of Dirk Kaliebe as a member of the Management Board ended in the financial year 2019/2020 and his service agreement with Heidelberger Druckmaschinen Aktiengesellschaft ended on September 30, 2019 (end of service agreement). The appointment of Stephan Plenz as a member of the Management Board was ended early by mutual arrangement on November 30, 2019; due to the fixed term, his service agreement with Heidelberger Druckmaschinen Aktiengesellschaft ended on June 30, 2020 (end of service agreement). The appointment of

Prof. Dr. Ulrich Hermann as a member of the Management Board was ended early by mutual arrangement on February 16, 2020; his service agreement with Heidelberger Druckmaschinen Aktiengesellschaft ended on March 31, 2020 (end of service agreement). More information on the Management Board members who stepped down in the previous year can be found in note 41 of the notes to the consolidated financial statements.

POST-EMPLOYMENT BENEFITS are composed as follows:

In the financial year 2018/2019, the contract with Rainer Hundsdörfer (Chief Executive Officer) was extended by around three years; Marcus A. Wassenberg was appointed as an ordinary member of the Management Board for a period of three years in the previous year.

The pension agreement provides for a defined contribution commitment. For each contribution year, a pension contribution will be credited consisting of a fixed pension contribution and any additional contribution. This performance-based additional contribution is paid depending on the amount of the annual EBIT of the Heidelberg Group in the past contribution year. This pension capital bears interest. The fixed pension contribution is 35 percent of the corresponding fixed compensation. 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 Marcus A. Wassenberg are vested immediately.

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	2019/2020	796	234	800	234
	2020/2021	1,046	234	1,046	234
Marcus A. Wassenberg [3)]	2019/2020	82	82	97	97
	2020/2021	223	140	261	140

[1)] The pension entitlement that can be achieved by the age of 65 (Rainer Hundsdörfer and Marcus A. Wassenberg) 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 capital is expected to be as follows: Rainer Hundsdörfer: approx. 7 percent and Marcus A. Wassenberg: approx. 17 percent of the respective last fixed compensation.

[2)] For Rainer Hundsdörfer and Marcus A. Wassenberg, the pension contribution for the reporting year is calculated on the basis of the pensionable income on March 31, without taking into account the earnings-based contribution not yet determined. The waiver of remuneration in the 2019/2020 financial year had no effect on pensionable fixed annual compensation.

[3)] Member of the Management Board since September 1, 2019. The information for the previous year relates to the period from September 1, 2019 until March 31, 2020. As the service cost amounted to € 0 thousand in the 2019/2020 financial year, the addition to the defined benefit obligation for the period from September 1, 2019 to March 31, 2020 was reported under "Service cost".

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 the 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, with the corresponding changes, during the originally agreed residual term. If a member of the Management Board becomes unable to work due to disability, the benefits stipulated in the respective pension agreement will be paid. If no decision on reappointment is made by at least nine months before the end of the term in office and the Management Board member is not reappointed thereafter, the Management Board member receives a severance payment in the amount of the fixed annual compensation (transitional payment). The entitlement to this fixed annual compensation arises at the time of termination of the service agreement. It does not arise if, when the decision on reappointment is made or by the time of termination of the service agreement, there is good cause for which the Management Board member is responsible that would give the Company a right to termination in accordance with section 626 BGB. The above rule applies with the corresponding changes 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. The Chair of the Supervisory Board receives three times this amount, the Deputy Chair 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 per meeting for participation in a meeting of these committees. The Chair of the Audit Committee receives compensation of € 4,500 per meeting; the Chair of the Management Committee and the Chair of the Committee on Arranging Personnel Matters of the Management Board receive compensation of € 2,500 per meeting. The members of the Supervisory Board also receive an attendance fee of € 500 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 VAT payable on them 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 of 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 €	2019/2020				2020/2021			
	Fixed annual compen-sation	Attendance fees	Committee compen-sation	Total	Fixed annual compen-sation	Attendance fees	Committee compen-sation	Total
Dr. Martin Sonnenschein [1]	40,000	2,500	4,000	46,500	120,000	10,000	35,000	165,000
Dr. Siegfried Jaschinski [2]	80,000	5,500	28,000	113,500	0	0	0	0
Ralph Arns [3]	80,000	7,500	15,000	102,500	80,000	10,500	24,000	114,500
Joachim Dencker	40,000	6,000	0	46,000	40,000	3,500	0	43,500
Gerald Dörr	40,000	6,500	7,500	54,000	40,000	8,500	16,500	65,000
Mirko Geiger	40,000	7,000	7,500	54,500	40,000	8,500	15,000	63,500
Karen Heumann	40,000	5,500	7,500	53,000	40,000	5,500	9,000	54,500
Oliver Jung	40,000	7,500	10,500	58,000	40,000	8,500	24,000	72,500
Kirsten Lange [4]	40,000	7,000	7,500	54,500	13,333	3,000	4,500	20,833
Li Li [5]	30,000	3,500	0	33,500	40,000	3,500	0	43,500
Petra Otte	40,000	5,500	0	45,500	40,000	3,500	0	43,500
Ferdinand Rüesch	40,000	6,500	7,500	54,000	40,000	8,500	16,500	65,000
Ina Schlie [6]	0	0	0	0	30,000	4,000	9,000	43,000
Beate Schmitt	40,000	7,500	15,000	62,500	40,000	8,000	16,500	64,500
Prof. Dr.-Ing. Günther Schuh [7]	13,333	1,000	0	14,333	0	0	0	0
Total	603,333	79,000	110,000	792,333	603,333	85,500	170,000	858,833

[1] Member and Chair of the Supervisory Board since December 1, 2019
[2] Member and Chair of the Supervisory Board until November 30, 2019
[3] Deputy Chair of the Supervisory Board
[4] Member of the Supervisory Board until July 23, 2020
[5] Member of the Supervisory Board since July 25, 2019
[6] Member of the Supervisory Board since July 23, 2020
[7] Member of the Supervisory Board until July 25, 2019

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

In accordance with Section 289a (1) sentence 1 nos. 1 to 9 and Section 315a (1) sentence 1 nos. 1 to 9 of the German Commercial Code (HGB), we address all points that could be relevant in the event of a public takeover bid for Heidelberg in the Group management report:

As of March 31, 2021, the **ISSUED CAPITAL** (share capital) of Heidelberger Druckmaschinen Aktiengesellschaft amounted to € 779,466,887.68 and was divided into 304,479,253 no-par value bearer shares that are not subject to any restriction on transferability. As of the end of the reporting period, the Company held 142,919 treasury shares, from which no rights arise for the Company in accordance with Section 71b of the German Stock Corporation Act (AktG).

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

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

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

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

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

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

On July 24, 2014, the Annual General Meeting authorized the Management Board, with the approval of the Supervisory Board, to issue bearer or registered warrants 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' preemption 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.

The Annual General Meeting on July 25, 2019 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 the above instruments (collectively 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 24, 2024, and to grant the bearers or creditors of the bonds options or conversion rights to up to 30,447,925 bearer shares of the Company with a pro rata amount of share capital of up to € 77,946,688.00 in total, in accordance with the further conditions of the bonds. Shareholders’ preemption 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 by up to € 77,946,688.00 (**CONTINGENT CAPITAL 2019**). Details on Contingent Capital 2019 can be found in Article 3 (4) of the Articles of Association.

In accordance with the resolution of the Annual General Meeting on July 25, 2019, the Management Board was authorized, with the approval of the Supervisory Board, to increase the share capital of the Company by up to € 185,609,612.80 on one or more occasions by issuing up to 72,503,755 new shares against cash or non-cash contributions by July 24, 2024 (**AUTHORIZED CAPITAL 2019**). Shareholders’ preemption rights can be disapplied in accordance with the further conditions of this authorization. The Management Board was authorized, with the approval of the Supervisory Board, to determine the further content of share rights and the conditions for issuing shares. Details on Authorized Capital 2019 can be found in Article 3 (5) of the Articles of Association.

The credit facility signed on March 25, 2011 and extended until March 2023 by way of an agreement with several banks on March 22, 2018, a bilateral loan agreement with the European Investment Bank dated March 31, 2016, a development loan agreed with a syndicate of banks with refinancing by the KfW dated October 20, 2016, a bilateral loan agreement with a German Landesbank dated May 23, 2017, and a credit obligation in respect of a German commercial bank assumed on May 18/30, 2018, 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 early repayment of the bilateral loan agreement due to a change of control could give rise to potential follow-up rights of termination among the other loans.

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.

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

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

Non-Financial Report

The separate combined non-financial report in accordance with Sections 315b and 315c in conjunction with Sections 289b to 289e HGB for the financial year 2020/2021 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 can be found on pages 177 to 185 of this Annual Report. It has also been made permanently available at www.heidelberg.com under Company > About Us > Corporate Governance.

Financial section 2020/2021

Consolidated income statement 2020/2021

Figures in € thousands	Note	1-Apr-2019 to 31-Mar-2020	**1-Apr-2020 to 31-Mar-2021**
Net sales	8	2,349,450	1,913,169
Change in inventories		– 33,087	– 91,463
Other own work capitalized		28,281	23,476
Total operating performance		**2,344,644**	**1,845,182**
Other operating income	9	99,349	130,223
Cost of materials	10	1,107,954	856,933
Staff costs	11	997,078	672,340
Depreciation and amortization	12	166,424	77,833
Other operating expenses	13	441,957	350,659
Result of operating activities[1]		**– 269,420**	**17,640**
Financial income	15	4,004	5,277
Financial expenses	16	56,389	46,284
Financial result	14	**– 52,385**	**– 41,007**
Net result before taxes		**– 321,805**	**– 23,367**
Taxes on income	17	21,197	19,523
Net result after taxes		**– 343,002**	**– 42,890**
Basic earnings per share according to IAS 33 (in € per share)	36	**– 1.13**	**– 0.14**
Diluted earnings per share according to IAS 33 (in € per share)	36	**– 1.13**	**– 0.14**

[1] Result of operating activities excluding restructuring result: € 68,577 thousand (April 1, 2019 to March 31, 2020: € 6,068 thousand)

Restructuring result (€ – 50,937 thousand; April 1, 2019 to March 31, 2020: € – 275,488 thousand) = restructuring income (€ 19,395 thousand; April 1, 2019 to March 31, 2020: € 12,175 thousand) less restructuring expenses (€ – 70,332 thousand; April 1, 2019 to March 31, 2020: € – 287,663 thousand)

Consolidated statement of comprehensive income 2020/2021

Figures in € thousands	Note	1-Apr-2019 to 31-Mar-2020	**1-Apr-2020 to 31-Mar-2021**
Net result after taxes		**– 343,002**	**– 42,890**
Other comprehensive income not reclassified to the income statement			
Remeasurement of defined benefit pension plans and similar obligations		– 9,354	– 43,893
Revaluation of land		169,823	–
Deferred income taxes	22	– 7,864	– 1,450
		152,605	**– 45,343**
Other comprehensive income which may subsequently be reclassified to the income statement			
Currency translation			
Change outside of profit or loss		– 5,234	– 1
Change in profit or loss		–	–
		– 5,234	**– 1**
Fair value of other financial assets			
Change outside of profit or loss		– 450	215
Change in profit or loss		–	–
		– 450	215
Cash flow hedges			
Change outside of profit or loss		232	– 52
Change in profit or loss		1,860	– 3,782
		2,092	– 3,834
Deferred income taxes	22	– 2	79
		– 3,594	**– 3,541**
Total other comprehensive income		149,011	– 48,884
Total comprehensive income		**– 193,991**	**– 91,774**

Consolidated statement of financial position as of March 31, 2021

Assets

Figures in € thousands	Note	31-Mar-2020	31-Mar-2021
Non-current assets			
Intangible assets	18	201,128	204,460
Property, plant and equipment	19	732,295	683,488
Investment property	19	7,493	7,390
Financial assets	20	11,727	6,721
Receivables from sales financing	21	24,417	19,210
Other receivables and other assets [1]	21	25,040	25,395
Income tax assets		92	86
Deferred tax assets	22	68,643	60,843
		1,070,835	1,007,593
Current assets			
Inventories	23	660,147	541,969
Receivables from sales financing	21	18,999	24,465
Trade receivables	21	298,873	245,728
Other receivables and other assets [2]	21	76,458	88,839
Income tax assets		15,744	14,889
Securities	24	55,760	0
Cash and cash equivalents	24	372,719	204,371
		1,498,700	1,120,261
Assets held for sale	20	33,126	41,098
Total assets		**2,602,661**	**2,168,952**

[1] Of which financial assets € 19,920 thousand (previous year: € 18,358 thousand) and non-financial assets € 5,475 thousand (previous year: € 6,682 thousand)
[2] Of which financial assets € 38,803 thousand (previous year: € 31,918 thousand) and non-financial assets € 50,036 thousand (previous year: € 44,540 thousand)

Consolidated statement of financial position as of March 31, 2021

Equity and liabilities

Figures in € thousands	Note	31-Mar-2020	**31-Mar-2021**
Equity	25		
Issued capital		779,102	779,102
Capital reserves, retained earnings and other reserves		– 233,677	– 627,169
Net result after taxes		– 343,002	– 42,890
		202,423	109,043
Non-current liabilities			
Provisions for pensions and similar obligations	26	985,620	945,537
Other provisions	27	94,331	90,270
Financial liabilities	28	357,396	103,893
Contract liabilities	29	23,043	20,160
Income tax liabilities	32	56,244	54,957
Other liabilities [3]	31	12,848	8,223
Deferred tax liabilities	22	4,478	4,490
		1,533,960	1,227,530
Current liabilities			
Other provisions	27	258,086	216,832
Financial liabilities	28	114,021	167,348
Contract liabilities	29	149,476	182,234
Trade payables	30	212,195	146,190
Income tax liabilities	32	10,863	9,440
Other liabilities [4]	31	121,637	110,335
		866,278	832,379
Total equity and liabilities		**2,602,661**	**2,168,952**

[3] Of which financial liabilities € 43 thousand (previous year: € 2,704 thousand) and non-financial liabilities € 8,180 thousand (previous year: € 10,144 thousand)
[4] Of which financial liabilities € 18,642 thousand (previous year: € 17,937 thousand) and non-financial liabilities € 91,693 thousand (previous year: € 103,700 thousand)

Statement of changes in consolidated equity as of March 31, 2021 [1)]

Figures in € thousands	Issued capital	Capital reserves	Retained earnings
April 1, 2019	779,102	33,225	– 301,706
Change in accounting policies [2)]	–	–	– 2,722
April 1, 2019 – adjusted [2)]	779,102	33,225	– 304,428
Profit carryforward	–	–	20,875
Total comprehensive income [3)]	–	–	– 15,910
Consolidation adjustments/other changes	–	–	– 261
March 31, 2020	**779,102**	**33,225**	**– 299,724**
April 1, 2020	779,102	33,225	– 299,724
Profit carryforward	–	–	– 343,002
Total comprehensive income	–	–	– 45,340
Consolidation adjustments/other changes	–	–	– 1,606
March 31, 2021	**779,102**	**33,225**	**– 689,672**

1) For further details, please refer to note 25
2) First-time adoption of IFRS 16
3) Of which: € 168,515 thousand from the adoption of the revaluation method for land recognized in accordance with IAS 16

Other retained earnings				Total other retained earnings	Total capital reserves, retained earnings and other retained earnings	Net result after taxes	Total
Revaluation of land	Currency translation	Fair value of other financial assets	Fair value of cash flow hedges				
–	– 131,046	– 118	– 936	– 132,099	– 400,580	20,875	399,397
–	–	–	–	–	– 2,722	–	– 2,722
–	– 131,046	– 118	– 936	– 132,099	– 403,302	20,875	396,675
–	–	–	–	–	20,875	– 20,875	–
168,515	– 5,234	– 312	1,952	164,921	149,011	– 343,002	– 193,991
–	–	–	–	–	– 261	–	– 261
168,515	**– 136,280**	**– 430**	**1,016**	**32,822**	**– 233,677**	**– 343,002**	**202,423**
168,515	– 136,280	– 430	1,016	32,822	– 233,677	– 343,002	202,423
–	–	–	–	–	– 343,002	343,002	–
– 3	– 1	150	– 3,690	– 3,544	– 48,884	– 42,890	– 91,774
–	–	–	–	–	– 1,606	–	– 1,606
168,512	**– 136,281**	**– 280**	**– 2,674**	**29,278**	**– 627,169**	**– 42,890**	**109,043**

Consolidated statement of cash flows 2020/2021 [1)]

Figures in € thousands	1-Apr-2019 to 31-Mar-2020	**1-Apr-2020 to 31-Mar-2021**
Net result after taxes	– 343,002	– 42,890
Depreciation, amortization, write-downs and reversals [2)]	166,549	78,835
Change in pension provisions	179	– 84,657
Change in deferred tax assets/deferred tax liabilities [3)]	337	4,428
Result from disposals [2)]	63	811
Change in inventories	18,891	114,029
Change in sales financing	14,324	404
Change in trade receivables/payables	25,233	– 23,829
Change in other provisions	116,726	– 39,450
Change in other items of the statement of financial position	– 53,251	– 7,626
Cash used in/generated by operating activities [3)]	**– 53,951**	**55**
Intangible assets/property, plant and equipment/investment property		
Investments	– 95,526	– 59,802
Income from disposals	21,812	33,999
Business acquisitions/corporate sales		
Investments	– 3,740	–
Income from disposals	33,751	29,690
Financial assets		
Investments	– 1,422	– 85
Income from disposals	54	210
Retransfer of trust assets of Heidelberg Pension-Trust e. V.	324,403	–
Cash generated by investing activities before cash investment	**279,332**	**4,012**
Cash investment	– 387	35,760
Cash generated by investing activities	**278,945**	**39,772**
Borrowing of financial liabilities	216,421	146,600
Repayment of financial liabilities	– 281,932	– 354,619
Cash used in financing activities	**– 65,511**	**– 208,019**
Net change in cash and cash equivalents	**159,483**	**– 168,192**
Cash and cash equivalents at the beginning of the year	**215,015**	**372,719**
Changes in the scope of consolidation	–	235
Currency adjustments	– 1,779	– 391
Net change in cash and cash equivalents	159,483	– 168,192
Cash and cash equivalents at the end of the year	**372,719**	**204,371**
Cash used in/generated by operating activities	– 53,951	55
Cash generated by investing activities	278,945	39,772
Free cash flow	**224,994**	**39,827**

[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 € 18,622 thousand (previous year: € 24,589 thousand) and € 2,779 thousand (previous year: € 604 thousand) respectively. The interest expenses and interest income amount to € 24,565 thousand (previous year: € 31,692 thousand) and € 5,625 thousand (previous year € 5,797 thousand) respectively

Financial section 2020/2021

Notes to the consolidated financial statements for the financial year April 1, 2020 to March 31, 2021

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 consolida-tion	Additions	Remea-surement	Reclas-sifications [1]	Currency adjustments	Disposals	**As of end of financial year**
2019/2020								
Intangible assets								
Goodwill	131,189	–739	0	–	0	–149	1,039	129,262
Development costs	375,546	0	16,745	–	0	169	0	392,460
Software/other rights	123,826	–18,504	7,719	–	–6,752	–169	1,468	104,652
Advance payments	0	0	28	–	–28	0	0	0
	630,561	**–19,243**	**24,492**	–	**–6,780**	**–149**	**2,507**	**626,374**
Property, plant and equipment								
Land and buildings	757,917	–4,343	14,029	169,823	–59,227	–1,894	7,795	868,510
Technical equipment and machinery	565,287	–2,862	22,820	–	543	–291	8,966	576,531
Other equipment, operating and office equipment	666,207	–772	33,570	–	2,977	–1,182	37,330	663,470
Advance payments and assets under construction	13,163	0	14,752	–	–7,563	–14	54	20,284
	2,002,574	**–7,977**	**85,171**	169,823	**–63,270**	**–3,381**	**54,145**	**2,128,795**
Investment property	**11,476**	**0**	**0**	–	**–275**	**–1**	**0**	**11,200**
2020/2021								
Intangible assets								
Goodwill	129,262	2,170	0	–	0	189	0	131,621
Development costs	392,460	0	8,429	–	0	–168	1,712	399,009
Software/other rights	104,652	–3,334	4,514	–	284	–177	1,246	104,693
Advance payments	0	0	0	–	0	0	0	0
	626,374	**–1,164**	**12,943**	–	**284**	**–156**	**2,958**	**635,323**
Property, plant and equipment								
Land and buildings	868,510	–3,199	12,507	–	–51,152	–190	5,664	820,812
Technical equipment and machinery	576,531	–460	22,004	–	7,396	390	29,185	576,676
Other equipment, operating and office equipment	663,470	–1,188	26,004	–	7,605	–1,448	39,969	654,474
Advance payments and assets under construction	20,284	–37	4,541	–	–15,356	92	34	9,490
	2,128,795	**–4,884**	**65,056**	–	**–51,507**	**–1,156**	**74,852**	**2,061,452**
Investment property	**11,200**	**0**	**0**	–	**0**	**0**	**0**	**11,200**

[1] Includes reclassifications to “Assets held for sale” of € 30,441 thousand (previous year: € 33,126 thousand)
[2] Including write-downs of € 166 thousand (previous year: € 72,695 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]	Reclassifications [1]	Currency adjustments	Disposals	Reversals	As of end of financial year	As of end of financial year
1,601	0	0	0	0	0	–	1,601	127,661
270,102	0	75,579	0	83	0	–	345,764	46,696
87,587	– 15,860	7,062	246	– 154	1,000	–	77,881	26,771
0	0	0	0	0	0	–	0	0
359,290	**– 15,860**	**82,641**	**246**	**– 71**	**1,000**	–	**425,246**	**201,128**
456,561	– 1,428	24,829	– 37,496	– 355	2,781	–	439,330	429,180
427,923	– 2,069	19,832	7	337	5,818	–	440,212	136,319
502,702	– 603	39,011	– 117	– 805	23,239	–	516,949	146,521
0	0	9	0	0	0	–	9	20,275
1,387,186	**– 4,100**	**83,681**	**– 37,606**	**– 823**	**31,838**	–	**1,396,500**	**732,295**
3,771	**0**	**102**	**– 165**	**– 1**	**0**	–	**3,707**	**7,493**

1,601	0	0	0	0	0	–	1,601	130,020
345,764	0	5,739	0	– 66	1,712	–	349,725	49,284
77,881	– 2,220	5,155	– 61	– 158	1,060	–	79,537	25,156
0	0	0	0	0	0	–	0	0
425,246	**– 2,220**	**10,894**	**– 61**	**– 224**	**2,772**	–	**430,863**	**204,460**
439,330	– 285	19,670	– 20,371	– 249	3,238	–	434,857	385,955
440,212	– 263	17,248	– 1	– 274	24,614	–	432,308	144,368
516,949	– 564	29,918	62	– 1,049	34,526	–	510,790	143,684
9	0	0	0	0	0	–	9	9,481
1,396,500	**– 1,112**	**66,836**	**– 20,310**	**– 1,572**	**62,378**	–	**1,377,964**	**683,488**
3,707	**0**	**103**	**0**	**0**	**0**	–	**3,810**	**7,390**

General notes

1 Basis for the preparation of the consolidated financial statements

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

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

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

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

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

These consolidated financial statements relate to financial year 2020/2021 (April 1, 2020, to March 31, 2021). They were approved for publication by the Management Board of Heidelberger Druckmaschinen Aktiengesellschaft on May 20, 2021.

The year under review remained dominated by the impact of the COVID-19 pandemic. As the pandemic had not been overcome as of the end of the 2020/2021 financial year, an impact on the assets, liabilities and financial position is to be anticipated for the 2021/2022 financial year. For further details of the impact in the year under review, please refer to the combined management report. When preparing the consolidated financial statements as of March 31, 2021, effects were identified particularly in the following areas:

- Estimates and judgments (see note 7)
- Write-downs on non-financial assets (see note 18)
- Measurement of receivables from sales financing and trade receivables (see note 21)

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 2020/2021.

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 1 and IAS 8: Definition of Material	31-Oct-2018	1-Jan-2020	10-Dec-2019	No material effects
Amendments to IFRS 3: Definition of a Business	22-Oct-2018	1-Jan-2020	22-Apr-2020	No material effects
Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform	26-Sep-2019	1-Jan-2020	16-Jan-2020	No material effects
Amendments to IFRS 16: COVID-19-related Rent Concessions	28-May-2020	1-Jun-2020 [2]	12-Oct-2020	None
Amendments to References to the Conceptual Framework in IFRS Standards	29-Mar-2018	1-Jan-2020	6-Dec-2019	None

[1] For financial years beginning on or after this date
[2] From June 1, 2020, for financial years beginning on or after January 1, 2020

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 2020/2021 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 1: Classification of Liabilities as Current or Non-Current	23-Jan-2020 and 15-Jul-2020	1-Jan-2023	Pending	The amendments contain clarifications on the classification of liabilities as current or noncurrent. Classification should be based on rights that are in existence at the end of the reporting period regardless of management intentions or expectations.	Currently being examined
Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies	12-Feb-2021	1-Jan-2023	Pending	The changes aim to improve disclosures of accounting policies.	Currently being examined
Amendments to IAS 8: Definition of Accounting Estimates	12-Feb-2021	1-Jan-2023	Pending	The amendments contain clarifications on how changes in accounting estimates are to be delimited from changes in accounting policies.	Currently being examined
Amendments to IAS 12: Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction	7-May-2021	1-Jan-2023	Pending	The amendments clarify that the prohibition on recognizing deferred taxes from the initial recognition of assets or liabilities does not apply if deductible and taxable temporary differences of the same amount arise from a single transaction.	Currently being examined

Standards	Publication by the IASB / IFRS IC	Effective date[1]	Published in Official Journal of the EU	Content	Expected effects
Amendments to IAS 16: Property, Plant and Equipment – Proceeds before Intended Use	14-May-2020	1-Jan-2022	Pending	The amendments specify that proceeds generated during the acquisition or production of an item of property, plant and equipment, e.g. proceeds from the sale of such items, may no longer be deducted from cost but instead must be recognized directly in profit or loss.	Currently being examined
Amendments to IAS 37: Onerous Contracts – Cost of Fulfilling a Contract	14-May-2020	1-Jan-2022	Pending	The amendments specify that, in assessing whether a contract is onerous, the cost of fulfilling a contract comprises all costs relating directly to the contract.	No material effects
Amendments to IFRS 3: Business Combinations – Reference to the Conceptual Framework	14-May-2020	1-Jan-2022	Pending	The amendments update and define in greater detail the references to the conceptual framework in IFRS 3. The amendments also require IAS 37 or IFRIC 21 to be applied in identifying the liabilities and contingent liabilities assumed by the acquirer and set out an explicit prohibition on the recognition of contingent assets acquired.	No material effects
Amendment to IFRS 4: Extension of the Temporary Exemption from Applying IFRS 9	25-Jun-2020	1-Jan-2021	16-Dec-2020	With the amendment, the option for extending the initial application of IFRS 9 has been extended to the new date when IFRS 17 becomes effective (1 January 2023).	None
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2	27-Aug-2020	1-Jan-2021	14-Jan-2021	The amendments cover clarifications and expediences to simplify accounting for the relevant financial instruments during the IBOR reform.	No material effects
Amendments to IFRS 16: COVID-19-related Rent Concessions after June 30, 2021	31-Mar-2021	1-Apr-2021	Pending	With the amendments, the relevant period for the optional expediences to account for COVID-19-related rent concessions has been extended by one year.	None
Annual Improvements to IFRS® Standards 2018 – 2020 Cycle	14-May-2020	1-Jan-2022	Pending	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 9, IFRS 16 and IAS 41.	Currently being examined
New standards					
IFRS 17: Insurance Contracts	18-May-2017 and 25-Jun-2020	1-Jan-2023	Pending	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.	No material effects

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

3 Scope of consolidation

The consolidated financial statements of Heidelberger Druckmaschinen Aktiengesellschaft include a total of 68 (previous year: 69) domestic and foreign companies controlled by Heidelberger Druckmaschinen Aktiengesellschaft within the meaning of IFRS 10. Of these companies, 54 (previous year: 59) are located outside Germany.

	2019/2020	**2020/2021**
April 1	74	69
Additions	–	5
Disposals (including mergers)	5	6
March 31	69	68

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, net 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 162 to 165).

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

- With effect from November 18, 2020, Heidelberg Graphic Equipment Ireland Ltd., Dublin, Ireland, was founded and included in consolidation.
- In addition, effective March 31, 2021, Heidelberg Printed Electronics GmbH, Wiesloch, Deutschland (formerly Heidelberg Postpress Beteiligungen GmbH, Wiesloch, Germany), Heidelberg Digital Platforms GmbH, Wiesloch, Germany, Zaikio GmbH, Mainz, Germany, and the newly founded Heidelberger Druckmaschinen Intellectual Property AG & Co. KG, Wiesloch, Germany, were included in consolidation.
- With effect from July 31, 2020, CERM N.V., Oostkamp, Belgium, was removed from the scope of consolidation as part of a management buyout; the purchase price amounted to € 11.0 million and was paid in cash in the reporting year. With effect from December 11, 2020, BluePrint Products N.V. and Hi-Tech Chemicals BVBA, both Kruibeke, Belgium, were removed from the scope of consolidation in the wake of the sale of the Belgian production site for printing chemicals; the purchase price amounted to € 20.2 million and was paid in cash in the reporting year. The deconsolidation gains on the disposal of CERM N.V. as well as BluePrint Products N.V. and Hi-Tech Chemicals BVBA of € 8,191 thousand and € 10,704 thousand are reported in the consolidated income statement under other operating income. The sale of the three companies resulted in the disposal of cash and cash equivalents in the amount of € 5,106 thousand.

The sale of the CERM N.V., BluePrint Products N.V. and Hi-Tech Chemicals BVBA which were allocated to the Heidelberg Lifecycle Solutions segment involved the following assets and liabilities:

Non-current assets	6,721
Current assets	11,234
Assets	**17,955**
Equity	0
Liabilities	5,670
Equity and liabilities	**5,670**

- Modern Printing Equipment Ltd., Hong Kong, People's Republic of China, was liquidated effective November 11, 2020 and Heidelberg International Finance B.V., Boxmeer, the Netherlands, liquidated effective December 31, 2020.
- As of December 31, 2020, Heidelberg Print Finance Osteuropa Finanzierungsvermittlung GmbH, Vienna, Austria, was merged with Heidelberger Druckmaschinen Osteuropa Vertriebs-GmbH, Vienna, Austria.

As of the reporting date, the presentation of the prior-year figures of the balance sheet items “Other receivables and other assets”, “Other provisions” and “Other liabilities”, was partially adjusted to the figures of the reporting year.

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 those individual financial statements of 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	
	2019/2020 €1 =	**2020/2021 €1 =**	31-Mar-2020 €1 =	**31-Mar-2021 €1 =**
AUD	1.6390	1.6202	1.7967	1.5412
CAD	1.4812	1.5439	1.5617	1.4782
CHF	1.0944	1.0794	1.0585	1.1070
CNY	7.7434	7.9145	7.7784	7.6812
GBP	0.8750	0.8918	0.8864	0.8521
HKD	8.6697	9.0881	8.4945	9.1153
JPY	120.5558	124.1558	118.9000	129.9100
KRW	1,315.7167	1,355.1117	1,341.0300	1,324.1900
USD	1.1095	1.1721	1.0956	1.1725

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 is shown from note 8 onwards.

General principles

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

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

Uniform accounting policies

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

Consistency of accounting policies

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

Revenue recognition

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

When SELLING CONSUMABLES AND SPARE PARTS, control is typically transferred, and sales recognized, on delivery to the customer.

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

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

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

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

Income from OPERATING AND FINANCE LEASES is recognized based on the provisions of IFRS 16.

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 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

Exercising the option allowed, developed and undeveloped land recognized in accordance with IAS 16 is measured at revalued amount, which is the respective fair value on the date of revaluation less subsequent accumulated write-downs; revaluation must be repeated at sufficiently regular intervals. Corresponding increases in the value of this land, after taking deferred taxes into account, are added to a revaluation surplus through other comprehensive income in the consolidated statement of comprehensive income or, if they reverse impairment losses previously recognized in profit or loss, they are recognized in profit or loss. Impairment losses are recognized in other comprehensive income provided that they do not exceed the amount of a revaluation surplus allocable to a plot of land, and otherwise in profit or loss.

All other property, plant and equipment, including right-of-use assets under leases recognized in accordance with IFRS 16, are measured at cost less cumulative straight-line depreciation and cumulative write-downs 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 write-downs 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

A lease is an agreement in which the lessor transfers the right to use a specified asset to the lessee for a period of time in return for a fee. If a lease also contains non-lease components, these are not recognized in accordance with IFRS 16.

The leases in which we are the lessee are essentially for buildings, the fleet of vehicles and IT equipment. Heidelberg exercises the practical expedient of recognizing expenses for short-term or low-value assets on a straight-line basis over the term of the lease. For all other leases, a right of use and a lease liability are recognized at the asset's commencement date.

Right-of-use assets are measured at cost on the commencement date, whereby the cost is equal to the lease liability as of the commencement date, plus initial direct costs, lease payments made before the commencement date and the present value of estimated costs at the end of the term less lease incentives received. Right-of-use assets are depreciated over the term of the respective lease or over the expected useful life if a purchase option is likely to be exercised. They are subject to impairment testing in accordance with IAS 36.

Lease liabilities are measured at the present value of the remaining lease payments, discounted using the corresponding currency- and maturity-dependent incremental borrowing rate at the date of initial recognition. Lease payments primarily comprise fixed payments less any lease incentives receivable and variable lease payments that depend on an index or a (interest) rate.

Variable lease payments not included in lease liabilities are recognized in profit or loss when the condition triggering those payments occurs. These are immaterial in terms of value.

Lease liabilities are subsequently measured using the effective interest method. If future lease payments change due to an amendment to the lease or a change in the assessment of existing residual value guarantees, purchase or extension options, the carrying amount of the lease liability is adjusted accordingly.

Some of the leases contain termination, prolongation and/or purchase options. The assessment of whether these options are reasonably certain to be exercised is based on judgments as to whether there are economic incentives to exercise the option.

For rented buildings, there is typically an obligation to maintain them in accordance with their use and to return them in their original condition at the end of the rental period. In some cases, the subletting of rented buildings is only permitted with the owner's consent.

The leases in which the Heidelberg Group is the lessor are essentially for printing presses leased to customers. If such leases are operating leases, the underlying asset is capitalized in non-current assets. If customers finance printing presses by way of a finance lease, the corresponding lease receivable from the customer is reported under receivables from sales financing.

The risks of leases in which we are the lessor are limited as far as the law allows by corresponding contractual arrangements. In particular, leases contain regulations on risks in connection with the leased assets that are still Heidelberg's legal property, for example regarding the use of the leased asset, relocation and insurance. In finance leases Heidelberg typically has a contractual put option to sell the leased asset to the customer at its calculated residual value. The residual value risk is thus transferred to the customer in such cases. Moreover, finance leases are subject to the Heidelberg Financial Services segment's risk management for sales financing (see also "Operational risks and opportunities" in the risk and opportunity report in the Group management report).

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):

	2019/2020	**2020/2021**
Development costs	3 to 12	5 to 10
Software/other rights	3 to 31	3 to 20
Buildings	25 to 50	25 to 50
Technical equipment and machinery	12 to 31	12 to 31
Other equipment, operating and office equipment	5 to 26	5 to 26
Investment property	25 to 50	25 to 50

Write-downs on 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 typically the case for property, plant and equipment; the cash-generating units are the same as the segments (see note 38).

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

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

Inventories

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

Costs include production-related full costs determined on the basis of normal capacity utilization. In particular, the cost of products includes directly attributable direct costs (such as production materials and wages used in construction) and fixed and variable production overheads (such as materials and 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 IFRS 9: Financial Instruments. Under IFRS 9, on first-time recognition financial assets and liabilities can be designated as financial instruments in the fair value through profit and loss category. Heidelberg did not exercise this option.

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

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

An impaired credit rating and therefore a significant increase in credit risk are assumed when payments are more than 30 days past due. Receivables past due by more than 180 days are written down in full as it must be assumed that they will be defaulted on. Default always occurs when the debtor is no longer able to settle its liabilities in full. For receivables from sales financing, default is also assumed if Heidelberg cancels customer financing prematurely due to non-payment, when collateral is repossessed or if the customer becomes insolvent. Credit security measures are also continued for fully impaired receivables. The amounts received are recognized in profit or loss.

For outstanding receivables, it is checked on an ongoing basis whether enforcement measures still have a chance of being successful. In the reporting year, as in the previous year, there were no write-downs on significant receivables from sales financing for which enforcement measures are still ongoing.

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

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

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

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

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

Expected credit losses for receivables from sales financing are calculated on the basis of the credit risk assessment for each individual receivable. This calculation takes into account all receivables not already impaired. The key inputs are the internally calculated individual probability of default for the receivable and the expected loss given default. In order to draw conclusions about the customer's future sales and earnings performance, pieces of forward-looking information, including estimates of the expected development of the macroeconomic environment and demand on the relevant market derived from the internal customer risk assessment, are taken into consideration. Impairment is recognized on the receivable if its credit risk has increased significantly since initial recognition. Receivables from sales financing are not impaired if the value of the collateral held exceeds the amount of the receivable given default.

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

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

The net gains and losses essentially include changes in the fair value and exchange rate effects recognized in net operating income and the financial result and interest income and expense from financial instruments recognized in the financial result. Changes in fair value also include the effects of financial assets measured at fair value recognized directly in equity.

For information on risk management please refer to note 33 and to the Risk and Opportunity Report in the Group management report.

Financial assets

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

Securities reported under financial assets are predominantly classified as financial assets at fair value through other comprehensive income by exercising the option provided by IFRS 9 for financial investments in equity instruments as they are not primarily for short-term profit maximization. On the basis of IFRS 9, these financial instruments are measured at fair value through other comprehensive income taking deferred taxes into account and are not subsequently reclassified to profit or loss.

These securities are measured at their stock market prices. If this value cannot be reliably determined, securities are measured at cost.

The appropriate classification of these 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; write-downs are recognized in profit or loss.

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

Loans

Loans are credit that we extend and are classified as financial assets at amortized cost under IFRS 9. Non-current non-interest-bearing and low-interest-bearing loans are carried at net present value. Measurement in subsequent periods is at amortized cost using the effective interest rate method. After initial recognition, financial assets at fair value through profit or loss are measured at fair value; unrealized gains and losses are recognized through profit or loss.

Receivables from sales financing

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

Finance leases include leased installations considered as sales under non-current financing. In line with IFRS 16, these receivables are carried at the net investment value, i.e. discounted future minimum lease payments plus any unguaranteed residual values. Lease payments are broken down into repayments and interest income, and interest income is recognized in the consolidated income statement over the term of the leases reflecting a constant periodic rate of return.

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

Trade receivables

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

Receivables and other assets

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

Cash and cash equivalents

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

Financial liabilities

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

In accordance with IFRS 9, primary liabilities are stated at fair value. Directly attributable transaction costs are included for financial liabilities not carried at fair value through profit or loss. Measurement in subsequent periods is at amortized cost using the effective interest rate method. For information on the recognition of lease liabilities, please refer to the section "Leases" in this note. Financial guarantees are recognized at the higher of the amount calculated in line with IAS 37 and the initial amount carried as a liability less any amortization. They are reported under other provisions.

Derivative financial instruments

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

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

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

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

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

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

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

Hybrid financial instruments

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

Assets and liabilities held for sale

Non-current assets and liabilities are classified as held for sale when disposal is highly likely and the asset is available for immediate sale in its present condition. In addition, the owner must have resolved to sell the individual asset or disposal group within one year. Assets held for sale are carried at the lower of the carrying amount and fair value less costs to sell. Assets held for sale are no longer subject to scheduled depreciation or amortization.

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 27.97 percent (previous year: 28.07 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.

For 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 2018 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. The cash and cash equivalents of Heidelberg Pension-Trust e.V. are held in trust by the latter and serve to secure pension obligations as well as pension payments in case of delay. They do not qualify as plan assets in accordance with IAS 19.8. 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.

For 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 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 or IAS 19 respectively 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.

Income tax liabilities

Income tax liabilities are recognized in the amount which is expected to be paid to the tax authorities.

If income tax liabilities include uncertain income tax items because they are probable, these are typically measured at the most probable amount. In some cases the determination of income tax liabilities requires discretionary decisions.

Cash-settled share-based payment

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

Contract liabilities

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

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 can change the fair value or the value in use, and could result in the recognition of write-downs. In the reporting year, this applies to an especial degree because of uncertainties in connection with the COVID-19 pandemic.

Goodwill impairment testing is based on the parameters listed in note 18.

As in the previous year, a reduction in the growth factor used to calculate the perpetual annuity by 1 percentage point and a reduction in the result of operating activities of 5 percent would not result in any impairment requirement for the Heidelberg Digital Technology cash-generating unit or the Heidelberg Lifecycle Solutions cash-generating unit. Planning assumed an end to the COVID-19 pandemic and a corresponding return to pre-crisis levels (in financial year 2019/2020) during the 2022/2023 financial year. Increasing the discount rate before taxes for the Heidelberg Digital Technology cash-generating unit by one percentage point to 10.1 percent (previous year: 9.6 percent) would not have resulted in any impairment requirement in the year under review (previous year: € 19,341 thousand); as in the previous year, increasing the discount rate before taxes for the Heidelberg Lifecycle Solutions cash-generating unit by one percentage point to 10.0 percent (previous year: 9.7 percent) would not have resulted in any impairment requirement.

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 can change the fair value or the value in use and could result in the recognition or reversal of write-downs.

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. For receivables from sales financing, account was taken of an increased rating and default risk due to the ongoing COVID-19 pandemic. The necessary write-downs (see also note 6, “Financial instruments”) are calculated on a forward-looking basis taking into account the credit rating of the respective customer, any collateral and experience of historical default rates. In particular, forward-looking factors include information on the expected development of credit ratings by country (trade receivables) and estimates of the expected development of the macroeconomic environment and demand on the relevant market derived from the internal customer risk assessment (receivables from sales financing). The customer’s actual default may differ from the expected default on account of the underlying factors.

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

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

Notes to the consolidated income statement

8 Net sales

In addition to income from the sale of machinery of € 1,108,835 thousand (previous year: € 1,373,503 thousand), income from the sale of consumables and spare parts of € 511,947 thousand (previous year: € 640,050 thousand) and income from services of € 276,020 thousand (previous year: € 318,453 thousand), net sales also include income from commissions, finance and operating leases of € 13,985 thousand (previous year: € 13,872 thousand) and interest income from sales financing and finance leases calculated using the effective interest method of € 2,383 thousand (previous year: € 3,572 thousand). Income of € 66 thousand from finance leases relates to gains on disposal (previous year: € 793 thousand loss on disposal) and € 15 thousand (previous year: € 151 thousand) to financial income from the net investment in the lease. Income from operating leases amounted to € 11,430 thousand (previous year: € 8,627 thousand). Heidelberg's business activities are divided into the Heidelberg Digital Technology segment, comprising sheetfed offset, label printing, postpress and digital printing business, and the Heidelberg Lifecycle Solutions segment, which bundles Service and Consumables and Software Solutions business. Sales of machinery essentially comprise the sheetfed offset, label printing, postpress and digital printing business. The Heidelberg Financial Services segment comprises sales financing business.

Net sales of € 1,913,169 thousand (previous year: € 2,349,450 thousand) comprise revenue from contracts with customers in accordance with IFRS 15 of € 1,896,802 thousand (previous year: € 2,332,006 thousand) and other net sales of € 16,367 thousand (previous year: € 17,444 thousand).

For information on the order backlog as at March 31, 2021, please refer to the section "Business Development" in the Group management report.

Of the performance obligations not yet fulfilled as of the end of the reporting period (see note 29), € 136,683 thousand (previous year: € 102,319 thousand) relates to machinery not yet delivered and € 65,711 thousand (previous year: € 70,200 thousand) to maintenance and services not yet performed. Fulfillment of the former performance obligations is essentially expected within the next 12 months while fulfillment of the latter performance obligations is essentially expected within a short to medium-term period.

Further information on net sales can be found in the segment report and the report on the regions in the Group management report. The breakdown of net sales by segment and by region is shown in note 38.

9 Other operating income

	2019/2020	**2020/2021**
Reversal of other provisions/deferred liabilities	34,062	46,903
Income from deconsolidation of Hi-Tech Coatings	24,872	–
Recoveries on loans and other assets previously written down	4,290	14,643
Income from deconsolidation of BluePrint Products N.V. and Hi-Tech Chemicals BVBA	–	10,704
Hedging/exchange rate gains	6,191	10,279
Income from deconsolidation of CERM N.V.	–	8,191
Income from operating facilities	5,206	5,383
Income from disposals of intangible assets, property, plant and equipment and investment property	961	1,240
Other income	23,767	32,880
	99,349	**130,223**

The items "Reversal of other provisions/deferred liabilities" and "Other income" also include restructuring income totaling € 17,874 thousand (previous year: € 10,049 thousand) and € 1,521 thousand (previous year: € 2,126 thousand) respectively. In the reporting period, this resulted in part from the reversal of provisions for HR measures essentially recognized in connection with portfolio and capacity adjustments in the previous year of € 11,359 thousand (previous year: € 9,778 thousand).

10 Cost of materials

	2019/2020	2020/2021
Cost of raw materials, consumables and supplies, and of goods purchased and held for resale	985,666	767,344
Cost of purchased services	121,545	89,068
Interest expense of Heidelberg Financial Services	743	521
	1,107,954	**856,933**

The ratio of the cost of materials to total operating performance is 46.4 percent (previous year: 47.3 percent).

In the 2020/2021 financial year, under "Cost of raw materials, consumables and supplies, and of goods purchased and held for resale", € 7,422 thousand was recognized under work and services and finished goods due to the COVID-19 related decline in employment. In addition, the item also includes restructuring expenses of € 5,090 thousand in connection with the discontinuation of production of Primefire and large-format printing presses in conjunction with the comprehensive package of measures announced on March 2020 (previous year: € 56,983 thousand).

11 Staff costs and number of employees

	2019/2020	2020/2021
Wages and salaries	850,946	622,683
Cost of/income from pension scheme	15,969	– 55,647
Other social security contributions and expenses	130,163	105,304
	997,078	**672,340**

The item "Wages and salaries" also includes restructuring expenses totaling € 41,784 thousand (previous year: € 119,961 thousand). In the reporting period, they relate primarily to expenses of € 29,962 thousand (previous year: € 117,589 thousand) for the adjustment of personnel capacity at German production sites in connection with the package of measures announced in March 2020.

The item "Expenses/income from pension plans" also includes income of € 72,831 thousand from the reorganization of pension plans for Company employees in Germany which was implemented at the end of the first quarter of financial year 2020/2021.

Reimbursement claims against the Bundesagentur für Arbeit (Federal Employment Agency) for social insurance expenses in the context of short-term work reduced staff costs by € 26,727 thousand (previous year: € 0 thousand).

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

	Average		As of	
	2019/2020	2020/2021	31-Mar-2020	31-Mar-2021
Europe, Middle East and Africa	8,450	7,910	8,351	7,470
Asia/Pacific	1,650	1,611	1,661	1,579
Eastern Europe	510	486	520	454
North America	692	630	682	621
South America	102	89	102	88
	11,404	10,726	11,316	10,212
Trainees	358	352	326	326
	11,762	**11,078**	**11,642**	**10,538**

[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 write-downs of € 77,833 thousand (previous year: € 166,424 thousand) relate to intangible assets of € 10,894 thousand (previous year: € 82,641 thousand), property, plant and equipment of € 66,836 thousand (previous year: € 83,681 thousand) and investment property of € 103 thousand (previous year: € 102 thousand). Depreciation and write-downs of € 17,987 thousand (previous year: € 19,628 thousand) relate to right-of-use assets from leases reported under property, plant and equipment. These relate to land and buildings of € 9,221 thousand (previous year: € 11,140 thousand, technical equipment and machinery of € 177 thousand (previous year: € 47 thousand) and other equipment, operating and office equipment of € 8,589 thousand (previous year: € 8,441 thousand).

Write-downs of € 166 thousand (previous year: € 72,695 thousand) primarily relate to capitalized development costs, predominantly attributable to the Heidelberg Digital Technology segment, and to other equipment, operating and office equipment, predominantly attributable to the Heidelberg Digital Technology segment.

13 Other operating expenses

	2019/2020	**2020/2021**
Other deliveries and services not included in the cost of materials	146,808	142,166
Special direct sales expenses including freight charges	91,326	77,362
Travel expenses	38,462	18,571
Additions to provisions and accruals relating to several types of expense	37,751	17,327
Rent and leases	15,721	11,711
Insurance expense	10,464	11,702
Hedging/exchange rate losses	6,397	9,616
Bad debt allowances and impairment on other assets	23,244	8,756
Costs of car fleet (excluding leases)	4,670	3,144
Other overheads	67,114	50,304
	441,957	**350,659**

The items "Other deliveries and services not included in the cost of materials", "Additions to provisions and accruals relating to several types of expense" and "Bad debt allowances and impairment on other assets" also include restructuring expenses of € 20,853 thousand (previous year: € 10,148 thousand), € 2,520 thousand (previous year: € 26,000 thousand) and € 0 thousand (previous year: € 4,234 thousand). In the year under review, they relate primarily to consultancy costs in connection with our package of measures announced in March 2020.

The "Rents and leases" item recognizes the following amounts for leases in which the Heidelberg Group is the lessee:

	2019/2020	**2020/2021**
Expenses for short-term leases	2,853	887
Expenses for leases for low-value assets (not including short-term leases)	865	1,002
Expenses for variable lease payments	567	588
Total	**4,285**	**2,477**

14 Financial result

	2019/2020	**2020/2021**
Financial income	4,004	5,277
Financial expenses	56,389	46,284
Financial result	**– 52,385**	**– 41,007**

15 Financial income

	2019/2020	**2020/2021**
Interest and similar income	3,095	4,398
Income from financial assets/loans/securities	909	879
Financial income	**4,004**	**5,277**

"Income from financial assets/loans/securities" includes dividends of € 66 thousand (previous year: € 69 thousand) from securities at fair value through other comprehensive income in the reporting period.

16 Financial expenses

	2019/2020	2020/2021
Interest and similar expenses	51,042	41,255
of which: net interest cost of pensions	(10,965)	(15,146)
Expenses for financial assets/ loans/securities	5,347	5,029
Financial expenses	**56,389**	**46,284**

Interest and similar expenses essentially include expenses in connection with the convertible bond, the corporate bond repaid in full in September 2020, the credit facility, the development loans and the loan assumed in connection with the sale of the research and development center in Heidelberg (see note 28). The net interest expense for pensions is the net total of interest expenses on defined benefit obligations (DBO) and (interest) income on plan assets.

Interest and similar expenses include interest expenses from leases of € 1,820 thousand (previous year: € 2,223 thousand).

The cost of financial assets/loans/securities includes write-downs of € 1,002 thousand (previous year: € 219 thousand).

17 Taxes on income

Taxes on income are broken down as follows:

	2019/2020	2020/2021
Current taxes	20,860	15,095
of which Germany	(1,944)	(5,386)
of which abroad	(18,916)	(9,709)
Deferred taxes	337	4,428
of which Germany	(1,170)	(– 390)
of which abroad	(– 833)	(4,818)
	21,197	**19,523**

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 (12.14 percent; previous year: 12.24 percent) and comparable taxes of the foreign subsidiaries. The nominal total German tax rate is 27.97 percent for the financial year (previous year: 28.07 percent).

No deferred tax liabilities were recognized for temporary differences on shares in subsidiaries of € 150,431 thousand (previous year: € 157,894 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 planned dividends.

Deferred tax income from the reversal of a previous write-down of deferred tax assets on temporary differences and deferred tax expenses resulting from the write-down in the reporting year amounted to € 23 thousand (previous year: € 2,088 thousand) and € 98 thousand (previous year: € 0 thousand) respectively.

Total tax loss carryforwards for which no deferred tax assets were recognized amount to € 1,952,287 thousand (previous year: € 1,771,770 thousand). Of these, € 2 thousand can be used by 2022 (previous year: € 2 thousand by 2021), € 6 thousand by 2023 (previous year: € 3 thousand by 2022) € 1,806 thousand by 2024 (previous year: € 6 thousand by 2023), € 3,443 thousand by 2025 (previous year: € 0 thousand by 2024), € 159 thousand by 2026 (previous year: € 635 thousand by 2025) and € 1,946,871 by 2027 and later (previous year: € 1,771,123 by 2026 and later).

For interest carryforwards amounting to € 115,472 thousand (previous year: € 109,651 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 € 1,140 thousand in the year under review (previous year: € 2,629 thousand). Deferred tax assets totaling € 898 thousand (previous year: € 2,402 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 € 726 thousand (previous year: € 1,620 thousand) were recognized in profit or loss.

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

Deferred tax assets of € 42,404 thousand (previous year: € 44,525 thousand) were capitalized at companies that generated a tax loss in the reporting year or in the prior financial year, as on the basis of tax planning it is assumed that positive taxable income will be available in the foreseeable future.

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

Current taxes were reduced in the reporting year by € 502 thousand (previous year: € 875 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 prior-period income of € 1,642 thousand (previous year: € 1,638 thousand expenses).

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

	2019/2020	**2020/2021**
Net result before taxes	– 321,805	– 23,367
Theoretical tax rate in percent	28.07	27.97
Theoretical tax income/expense	**– 90,331**	**– 6,536**
Change in theoretical tax income/expense due to:		
Differing tax rate	3,047	– 1,285
Tax loss carryforwards [1]	138,451	53,325
Reduction due to tax-free income	– 11,854	– 5,815
Tax increase due to non-deductible expenses	10,397	11,048
Change in income tax liabilities for reassessment risks	1,033	– 1,558
Impairment/reversal of deferred tax assets on temporary differences	– 31,414	– 29,969
Other (incl. taxes on previous years)	1,868	313
Taxes on income	**21,197**	**19,523**
Tax rate in percent	**– 6.59**	**– 83.55**

[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 38). The carrying amounts of the goodwill associated with the cash-generating units Heidelberg Digital Technology and Heidelberg Lifecycle Solutions total € 63,211 thousand (previous year: € 63,125 thousand) and € 66,810 thousand (previous year: € 64,536 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, the corporate strategy, 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 sales, the costs taking into account the effects of Company-wide earnings improvement measures (EBIT), the costs of capital and the growth rate.

The average sales growth in the detailed planning period is around 5.8 percent p.a. (previous year: around 2.5 percent p.a.) for the Heidelberg Digital Technology cash-generating unit and around 8.4 percent p.a. (previous year: around 4.3 percent p.a.) for the Heidelberg Lifecycle Solutions cash-generating unit. On the one hand, this sales growth is based on forecast increases in sale prices, which also reflect price inflation. On the other, it results from sales growth in individual product areas already established in the market for which market growth is forecast on the basis of external information sources and internal expectations, as well as the expected ramp-up of sales for products and business models that were newly launched up until the year under review. Adjusted for anticipated cost developments, this results in EBIT growth up until the end of the planning period to a mid-single-digit percentage of sales for the cash-generating unit Heidelberg Digital Technology and to a low double-digit percentage of sales for the cash-generating unit Heidelberg Lifecycle Solutions. Cash outflows for the Company’s investment activities relate to investments on the basis of measures already commenced in the year under review and planned maintenance investments in respect of current and forecast wear and tear. The value in use model does not take into account any additional income from expansion investments. With regard to EBIT, the transition to the perpetual annuity is effected by taking into account a growth rate of 1 percent (previous year: 1 percent) for EBITDA on the basis of the last planning year as well as sustained depreciation.

As a result, and as in the previous year, despite the ongoing COVID-19 pandemic, there were no impairment requirements for the Heidelberg Digital Technology, Heidelberg Lifecycle Solutions 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 9.1 percent (previous year: 8.6 percent) for the Heidelberg Digital Technology cash-generating unit and of 9.0 percent (previous year: 8.7 percent) for the Heidelberg Lifecycle Solutions cash-generating unit. For the determination of the weighted average cost of capital, the selection of the reference market for deriving the beta factor was refined in the reporting year as part of the calculation of the cost of equity.

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 developments with regard to sheetfed offset printing presses in the Heidelberg Digital Technology segment and to developments with regard to workflow software in the Heidelberg Lifecycle Solutions segment. Non-capitalized development costs from all segments – including research expenses – amount to € 81,427 thousand in the reporting year (previous year: € 109,334 thousand).

19 Property, plant and equipment and investment property

In conjunction with the last revaluation of land reported under property, plant and equipment in the 2019/2020 financial year, in the previous year increases in value of € 169,823 thousand less deferred taxes of € 1,308 thousand were recognized in "Other comprehensive income" and write-downs of € 1,882 thousand were recognized in profit or loss. If this land had still been measured in accordance with the cost model after the partial reclassification to assets held for sale in the reporting year, its carrying amount as of March 31, 2021 would have been € 22,068 thousand (previous year: € 22,895 thousand).

Most recently as of the measurement date of March 31, 2020, the fair value of land recognized in accordance with the IAS 16 revaluation model was nearly completely calculated by third-party, independent experts in line with internationally acknowledged measurement methods in accordance with level 2 of the IFRS 13 measurement hierarchy.

In the third quarter of the reporting year, Heidelberger Druckmaschinen Aktiengesellschaft sold an area of around 130,000 m² at the Wiesloch-Walldorf production site to a property developer for around € 43 million as part of the planned production site and structural optimization program. It is anticipated that the expected gain on disposal of approximately € 12 million will be recognized in the 2021/2022 financial year. In accordance with IFRS 5, the corresponding assets were classified as held for sale as of March 31, 2021 (see note 20). Also in this context, in the fourth quarter Heidelberger Druckmaschinen Aktiengesellschaft sold the Print Media Academy (PMA) in Heidelberg to a Luxembourg investment company. Heidelberg generated a purchase price in the low double-digit million euro range.

The carrying amounts of right-of-use assets from leases in which we are the lessee reported under property, plant and equipment developed as follows:

	1-Apr-2019	Additions	Depreciation and amortization	Disposals	Other changes	31-Mar-2020
Land and buildings	42,525	5,762	11,140	3,272	– 1,912	31,963
Technical equipment and machinery	313	1,255	47	–	–	1,521
Other equipment, operating and office equipment	16,331	7,763	8,441	162	– 217	15,274
	59,169	**14,780**	**19,628**	**3,434**	**– 2,129**	**48,758**

	1-Apr-2020	Additions	Depreciation and amortization	Disposals	Other changes	31-Mar-2021
Land and buildings	31,963	8,473	9,221	2,426	– 1,900	26,889
Technical equipment and machinery	1,521	1,955	177	–	– 3	3,296
Other equipment, operating and office equipment	15,274	7,769	8,589	536	– 141	13,777
	48,758	**18,197**	**17,987**	**2,962**	**– 2,044**	**43,962**

Please refer to note 28 for further information on the lease liabilities offsetting the right-of-use assets.

The carrying amounts of assets capitalized in non-current assets from operating leases in which we are the lessor are € 36,356 thousand (previous year: € 36,328 thousand). These assets are reported under technical equipment and machinery. These assets are printing presses leased to customers. The gross carrying amounts were € 51,754 thousand (previous year: € 54,268 thousand) and cumulative depreciation amounted to € 15,398 thousand (previous year: € 17,940 thousand). Depreciation of € 5,789 thousand (previous year: € 7,959 thousand) was recognized in the reporting year. Future lease income of € 21,024 thousand (previous year: € 21,185 thousand) is anticipated from operating leases. These undiscounted lease payments are due as follows:

	31-Mar-2020	**31-Mar-2021**
Up to 1 year	5,657	6,123
Between 1 and 2 years	5,138	5,999
Between 2 and 3 years	4,737	5,209
Between 3 and 4 years	3,769	2,826
Between 4 and 5 years	1,260	609
More than 5 years	624	258
	21,185	**21,024**

In connection with the refinancing of the Heidelberg Group (see note 28), property, plant and equipment and investment property were pledged as collateral by way of assignment and the appointment of a collective land charge. The carrying amounts of this collateral as of the end of the reporting period were € 471,689 thousand (previous year: € 477,696 thousand) and € 5,046 thousand (previous year: € 5,063 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 € 9,655 thousand (previous year: € 9,680 thousand). Investment property with a fair value of € 2,861 thousand (previous year: € 2,861 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 and assets held for sale

Financial assets include shares in subsidiaries totaling € 270 thousand (previous year: € 4,306 thousand), other investments of € 4,100 thousand (previous year: € 5,142 thousand) and securities of € 2,351 thousand (previous year: € 2,279 thousand). Please see note 33 for information on securities and their fair value.

In the course of the sale of the Gallus Group by Heidelberger Druckmaschinen Aktiengesellschaft to the Swiss benpac holding ag, which was communicated at the end of July 2020, the assets and liabilities of Gallus Holding AG, St. Gallen, Switzerland, Gallus Ferd. Rüesch AG, St. Gallen, Switzerland, Gallus Druckmaschinen GmbH, Langgöns-Oberkleen, and Heidelberg Web Carton Converting GmbH, Weiden, being transferred were classified as held for sale in line with IFRS 5 in the second quarter of the reporting year.

The sale of the Gallus Group anticipated for the fourth quarter of the 2020/2021 financial year was not completed. benpac holding ag failed to make the agreed purchase price payment of € 120 million as of the scheduled closing date of January 29, 2021, even though all the preconditions had been satisfied. As a result, Heidelberg exercised its legal right of withdrawal in the fourth quarter of the reporting year. On the basis of a personal acknowledgement of debt, Heidelberg is now asserting damages against Mr Marco Corvi in Switzerland. In addition, in DIS arbitration proceedings Heidelberg is asserting a claim for € 30 million against benpac holding ag. This relates to a partial suit connected with the contractual claim to lump-sum damages of € 50 million against benpac holding ag. On the basis of current information and estimates in relation to the recovery procedures pending in Switzerland against Marco Corvi and the arbitration proceedings initiated against benpac holding ag, conditions for recognition were not met as of March 31, 2021.

Because the Gallus transaction was not closed, the Gallus Group remains at Heidelberg. Thus as of March 31, 2021, the liabilities and most of the assets of Gallus Holding AG, Gallus Ferd. Rüesch AG, Gallus Druckmaschinen GmbH and Heidelberg Web Carton Converting GmbH were no longer classified as held for sale in line with IFRS 5.

The assets of € 41,098 thousand classified as held for sale (March 31, 2020: € 33,126 thousand) in accordance with IFRS 5 until March 31, 2021 relate to four plots of developed land whose sale is planned and has been initiated. The assets are predominantly allocated to the Heidelberg Digital Technology segment.

21 Receivables and other assets

			31-Mar-2020			**31-Mar-2021**
	Current	Non-current	Total	Current	Non-current	**Total**
Receivables from sales financing	**18,999**	**24,417**	**43,416**	**24,465**	**19,210**	**43,675**
Trade receivables	**298,873**	**–**	**298,873**	**245,728**	**0**	**245,728**
Other receivables and other assets						
Other tax assets	12,633	3	12,636	11,177	3	11,180
Cash and cash equivalents of Heidelberg Pension-Trust e.V.	–	15,025	15,025	–	14,704	14,704
Loans	105	2,067	2,172	70	4,807	4,877
Derivative financial instruments	4,399	–	4,399	1,508	–	1,508
Contract assets	434	913	1,347	691	1,069	1,760
Deferred income	8,070	861	8,931	6,665	752	7,417
Cash investment	–	–	–	20,000	–	20,000
Other assets	50,817	6,171	56,988	48,728	4,060	52,788
	76,458	**25,040**	**101,498**	**88,839**	**25,395**	**114,234**

Receivables from sales financing (not including lease receivables from finance leases) and trade receivables result from contracts with customers and amounted to € 341,391 thousand as of April 1, 2020 and € 288,580 thousand as of March 31, 2021.

In the reporting year, plan assets of € 3,943 thousand (previous year: € 266 thousand) are included in current other assets (see note 26).

In connection with the refinancing of the Heidelberg Group (see note 28), trade receivables, receivables from sales financing and other receivables and other assets were assigned as collateral by way of undisclosed assignment. The carrying amounts of this collateral as of the end of the reporting period were € 37,894 thousand (previous year: € 41,345 thousand), € 2,820 thousand (previous year: € 366 thousand) and € 449 thousand (previous year: € 47 thousand) respectively.

Receivables from sales financing

RECEIVABLES FROM SALES FINANCING are shown in the following table:

Contract currency	Carrying amount 31-Mar-2020 in € thousands	Remaining term in years	Effective interest rate in percent	Carrying amount **31-Mar-2021** in € thousands	Remaining term in years	Effective interest rate in percent
EUR	23,893	to 9	to 14	24,123	to 8	to 14
KRW	12,476	to 7	to 9	8,313	to 7	to 9
AUD	290	to 2	to 12	4,771	to 1	to 12
USD	2,440	to 7	to 9	1,598	to 6	to 9
Various	4,317			4,870		
	43,416			**43,675**		

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.

The derived market value of the collateral held for receivables from sales financing was € 35,980 thousand (previous year: € 42,425 thousand) as of the end of the reporting period. This collateral is essentially reservations of title, with the amount of security varying from region to region.

Impairment on receivables from sales financing developed as follows in the reporting year, with some higher-level additions in the previous year resulting from the impact of the global COVID-19 pandemic being reversed:

	2019/2020			**2020/2021**		
	Stage 1 – 12-month expected credit losses	Stage 2 – lifetime expected credit losses	Stage 3 – lifetime expected credit losses	Stage 1 – 12-month expected credit losses	Stage 2 – lifetime expected credit losses	Stage 3 – lifetime expected credit losses
As of the start of the financial year (IFRS 9)	655	–	6,295	1,338	–	5,865
Additions	1,042	–	1,509	163	–	1,284
Utilization	–	–	–984	–	–	–3,240
Reversals	–350	–	–830	–113	–	–1,349
Change in scope of consolidation, currency adjustments, other changes	–9	–	–125	–	–	1,298
As of the end of the financial year	**1,338**	**–**	**5,865**	**1,388**	**–**	**3,858**

Particularly due to the COVID-19 pandemic, receivables from sales financing, which previously had a carrying amount of € 3,308 thousand, were modified with the loss allowance being measured at lifetime expected credit losses (stage 3). The total net losses from these modifications of € 40 thousand in the year under review were recognized in profit or loss. The modifications did not result in a change in the loss allowance from the lifetime expected credit loss (stage 3) to the 12-month expected credit loss (stage 1). Modifications made in previous financial years also did not entail any material changes in the loss allowance from the lifetime expected credit loss (stage 3) to the 12-month expected credit loss (stage 1).

Receivables from sales financing still subject to enforcement measures of € 0 thousand (previous year: € 218 thousand) were written off in the reporting year.

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

	2019/2020			**2020/2021**		
Gross carrying amounts	Stage 1 – 12-month expected credit losses	Stage 2 – lifetime expected credit losses	Stage 3 – lifetime expected credit losses	Stage 1 – 12-month expected credit losses	Stage 2 – lifetime expected credit losses	Stage 3 – lifetime expected credit losses
Low risk	8,447	–	–	4,423	–	1,345
Medium risk	23,473	–	4,991	27,671	–	2,481
High risk	3,954	–	9,753	3,254	–	9,747
Total	**35,874**	**–**	**14,744**	**35,348**	**–**	**13,573**

Receivables from sales financing include lease receivables from finance leases in which in particular our financing companies act as lessors.

The following table shows the maturity structure of undiscounted lease payments and their reconciliation to net investment in the lease reported as a lease receivable:

	31-Mar-2020	31-Mar-2021
Up to 1 year	549	345
Between 1 and 2 years	186	228
Between 2 and 3 years	142	137
Between 3 and 4 years	59	93
Between 4 and 5 years	23	74
More than 5 years	20	34
Undiscounted lease payments	**979**	**911**
Unearned finance income	81	88
Net investment in the lease	**898**	**823**

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

Trade receivables

In accordance with the simplified approach for calculating write-downs on trade receivables, the following provision matrix was used to calculate the expected loss on receivables not impaired as of March 31, 2021:

			2019/2020			**2020/2021**
	Default ratio	Gross carrying amount	Expected loss	Default ratio	Gross carrying amount	Expected loss
Receivables neither past due nor impaired	3.04 %	214,771	6,531	0.95 %	179,714	1,711
Receivables past due but not impaired						
less than 30 days	3.85 %	39,897	1,536	1.26 %	28,428	358
between 30 and 60 days	5.99 %	17,201	1,031	3.13 %	11,619	363
between 60 and 90 days	6.96 %	9,750	678	5.63 %	4,088	230
between 90 and 180 days	7.85 %	8,753	687	5.78 %	4,071	235
more than 180 days	13.38 %	5,101	682	9.01 %	6,900	620
Total		**295,473**	**11,145**		**234,820**	**3,517**

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

The expected credit losses on trade receivables with a gross carrying amount of € 234,820 thousand as of the end of the reporting period are calculated on a collective basis.

The derived market value of the collateral held for receivables from machinery sales was € 112,729 thousand (previous year: € 151,057 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.

Total write-downs in the period for trade receivables amounted to € 7,007 thousand (previous year: € 20,221 thousand); the increase in expected losses in the previous year was due primarily to the impact of the global COVID-19 pandemic. Of this, write-downs booked to allowance accounts developed as follows in the reporting year:

	2019/2020		**2020/2021**	
	Expected losses	Impairment	Expected losses	Impairment
As of the start of the financial year	3,823	14,265	11,145	19,235
Additions	8,397	9,848	1,637	3,712
Utilization	–	– 1,968	–	– 2,975
Reversals	– 1,045	– 2,696	– 9,278	– 3,705
Change in scope of consolidation, currency adjustments, other changes	– 30	– 214	13	– 491
As of the end of the financial year	**11,145**	**19,235**	**3,517**	**15,776**

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

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

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

Other receivables and other assets

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

The cash and cash equivalents of Heidelberg Pension-Trust e. V. in the amount of € 14,704 thousand (previous year: € 15,025 thousand) are held in trust by the latter (see note 26). These instruments serve to secure all pension obligations. They are currently sufficient to satisfy in full the pension obligations not already covered by the Pensions-Sicherungs-Verein (pension guarantee association) in the event of a corresponding claim while also providing a liquidity buffer for any delayed pension payments.

Specific allowances for impairment losses of € 224 thousand (previous year: € 224 thousand) and € 3,544 thousand (previous year: € 8,333 thousand) relate to loans (gross carrying amount: € 5,101 thousand; previous year: € 2,396 thousand) and to other financial assets (gross carrying amount: € 52,075 thousand; previous year: € 46,605 thousand).

Of the impairment recognized on loans in the previous year, € 0 thousand (previous year: € 4,343 thousand) was utilized and € 0 thousand (previous year: € 0 thousand) was reversed. Additions to impairment losses of € 0 thousand were required (previous year: € 0 thousand). Of the impairment recognized on other financial assets in the previous year, € 476 thousand (previous year: € 654 thousand) was utilized and € 6 thousand (previous year: € 24 thousand) was reversed. Additions of € 173 thousand were required (previous year: € 452 thousand).

€ 3,473 thousand (previous year: € 3,399 thousand) of unimpaired loans and other financial assets were past due by more than 180 days.

Derivative financial instruments include asset cash flow hedges of € 467 thousand (previous year: € 2,341 thousand) and asset fair value hedges of € 1,041 thousand (previous year: € 2,058 thousand).

22 Deferred tax assets and deferred tax liabilities

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

	31-Mar-2020		**31-Mar-2021**	
	Assets	Liabilities	Assets	Liabilities
Tax loss carry-forwards	30,741	–	28,360	–
Assets:				
Intangible assets / property, plant and equipment / investment property / financial assets	3,936	76,441	2,949	78,156
Inventories, receivables and other assets	10,617	3,946	9,349	2,712
Securities	12	–	217	2
Liabilities:				
Provisions	89,099	148	88,373	358
Liabilities	12,223	1,928	9,443	1,110
Gross amount	146,628	82,463	138,691	82,338
Offsetting	77,985	77,985	77,848	77,848
Carrying amount	**68,643**	**4,478**	**60,843**	**4,490**

Deferred tax assets include non-current deferred taxes of € 49,970 thousand (previous year: € 51,671 thousand). Deferred tax liabilities include non-current deferred taxes of € 4,309 thousand (previous year: € 4,128 thousand).

As a result of currency translation, deferred tax assets decreased by € 2,136 thousand (previous year: increased by € 210 thousand) in the reporting year. Owing to the change in the consolidated group, deferred tax assets increased by € 124 thousand (previous year: increased by € 717 thousand).

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

			2019/2020			**2020/2021**
	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	– 9,354	– 6,556	– 15,910	– 43,893	– 1,447	– 45,340
Revaluation of land	169,823	– 1,308	168,515	–	– 3	– 3
Currency translation	– 5,234	–	– 5,234	– 1	–	– 1
Fair value of other financial assets	– 450	138	– 312	215	– 65	150
Cash flow hedges	2,092	– 140	1,952	– 3,834	144	– 3,690
Total other comprehensive income	**156,877**	**– 7,866**	**149,011**	**– 47,513**	**– 1,371**	**– 48,884**

23 Inventories

	31-Mar-2020	**31-Mar-2021**
Raw materials and supplies	110,410	93,362
Work and services in progress	265,439	231,242
Finished goods and goods for resale	275,007	210,921
Advance payments	9,291	6,444
	660,147	**541,969**

In order to adjust inventories to the net realizable value, write-downs of € 15,241 thousand were recognized in the year under review (previous year: € 73,281 thousand). These primarily relate to the decreased likelihood of market success for a small portion of our inventories and to the discontinuation of production of Primefire and large-format printing presses in conjunction with the comprehensive package of measures announced on March 2020. Used equipment was repossessed as collateral owing to the insolvency of customers.

The carrying amount of the inventories pledged as collateral in connection with the refinancing of the Heidelberg Group (see note 28) was € 302,861 thousand (previous year: € 366,166 thousand).

24 Securities and cash and cash equivalents

The fund units in the amount of € 55,760 thousand reported under securities in the previous year were almost completely sold in the year under review; a small residual amount was reclassified to financial assets. The securities relate to the retransfer in the previous year of almost all the trust assets of Heidelberg Pension-Trust e. V., which had previously been administered by Heidelberg Pension-Trust e.V. under the contractual trust arrangement (CTA) of Heidelberger Druckmaschinen Aktiengesellschaft and Heidelberger Druckmaschinen Vertrieb Deutschland GmbH (see note 26, where information on the allocation of funds of these securities is also provided).

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 € 26,493 thousand (previous year: € 13,794 thousand). Bank balances are exclusively held for short-term cash management purposes.

25 Equity

Share capital/number of shares outstanding/treasury stock

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

The share capital of Heidelberger Druckmaschinen Aktiengesellschaft amounts to € 779,466,887.68 and is divided into 304,479,253 shares.

As of March 31, 2021, 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, 2021 (previous year: 0.05 percent).

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

Contingent capital

Contingent Capital 2014

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

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

Since April 20, 2018, Heidelberger Druckmaschinen Aktiengesellschaft is entitled to repay the convertible bond ahead of schedule in full at the nominal value plus accrued interest. This requires that the share price multiplied by the applicable conversion ratio on 20 of the 30 consecutive trading days on the Frankfurt Stock Exchange before the announcement of the date of the early repayment exceeds 130 percent of the nominal value as of each of these 20 trading days. Each holder of the convertible bond was entitled to demand the repayment of all or some of his/her bonds for which the conversion right was not exercised and for which no early repayment was announced by Heidelberger Druckmaschinen Aktiengesellschaft as of March 30, 2020 at the set nominal amount plus interest incurred by March 30, 2020 (exclusively).

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

Contingent Capital 2019

The Annual General Meeting on July 25, 2019 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 the above instruments (collectively 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 24, 2024, and to grant the bearers or creditors of the bonds options or conversion rights to up to 30,447,925 bearer shares of the Company with a pro rata amount of share capital of up to € 77,946,688.00 in total, in accordance with the further conditions of the bonds. Shareholders' preemption 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 € 77,946,688 for this purpose (CONTINGENT CAPITAL 2019); details of Contingent Capital 2019 can be found in Article 3 (4) of the Articles of Association. The resolution became effective on entry in the commercial register of the Mannheim Local Court on September 6, 2019.

Authorized capital

In accordance with the resolution of the Annual General Meeting on July 25, 2019, the Management Board was authorized, with the approval of the Supervisory Board, to increase the share capital of the Company by up to € 185,609,612.80 on one or more occasions by issuing up to 72,503,755 new shares against cash or non-cash contributions by July 24, 2024 (AUTHORIZED CAPITAL 2019). Shareholders' preemption rights can be disapplied in accordance with the further conditions of this authorization. The Management Board was authorized, with the approval of the Supervisory Board, to determine the further content of share rights and the conditions for issuing shares. Details on Authorized Capital 2019 can be found in Article 3 (5) of the Articles of Association. The resolutions became effective on entry of the amendment of the Articles of Association in the commercial register of the Mannheim Local Court on September 6, 2019.

Capital reserves

The capital reserves essentially include amounts from the capital increase in accordance with Section 272 (2) no. 1 HGB, from the non-cash capital increase in the context of the Gallus transaction in financial year 2014/2015, from the cash capital increase that took effect in March 2019, from simplified capital reductions in accordance with Section 237 (5) of the Aktiengesetz (AktG – German Stock Corporation Act) and expenses from the issuance of option rights to employees in line with IFRS 2: Share-based Payment and the difference between the issue proceeds and the fair value of the liability component from convertible 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, IFRS 9 fair value changes outside profit or loss and the revaluation of land recognized in accordance with IAS 16.

Appropriation of the net result of Heidelberger Druckmaschinen Aktiengesellschaft

The HGB net loss for the 2019/2020 financial year of € 263,486,620.69 was carried forward to new account in full.

The HGB net income for the 2020/2021 financial year of € 119,256,163.70 is offset against the loss carried forward from the previous year of € 351,796,056.91. The accumulated deficit of € 232,539,893.21 of the 2020/2021 financial year is carried forward to new account in full.

26 Provisions for pensions and similar obligations

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

Notes on significant pension commitments

HEIDELBERGER DRUCKMASCHINEN AKTIENGESELLSCHAFT (BASED IN HEIDELBERG, GERMANY), HEIDELBERGER DRUCKMASCHINEN VERTRIEB DEUTSCHLAND GMBH, HEIDELBERG POSTPRESS DEUTSCHLAND GMBH AND HEIDELBERG MANUFACTURING DEUTSCHLAND GMBH (EACH BASED IN WIESLOCH, GERMANY) accounted for € 934 million (previous year: € 956 million) of the present value of the defined benefit obligation (DBO) and € 29 million (previous year: € 28 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 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 collective agreement on company pension plans dated June 30, 2020 applies to all current and future pension beneficiaries of Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberger Druckmaschinen Vertrieb Deutschland GmbH and Heidelberg Manufacturing Deutschland GmbH, which was spun off effective 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 three, five or 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 trust assets are managed by the trustee in accordance with the respective trust agreement. This previously qualified as plan assets.

Heidelberger Druckmaschinen Aktiengesellschaft and Heidelberger Druckmaschinen Vertrieb Deutschland GmbH amended the trust agreement by way of an agreement with the trustee, Heidelberg Pension-Trust e. V., Heidelberg, dated March 17, 2020. Since then assets can be retransferred to Heidelberger Druckmaschinen Aktiengesellschaft and Heidelberger Druckmaschinen Vertrieb Deutschland GmbH providing they do not fall below the minimum level of € 15.0 million as newly defined in the trust agreement (see note 21). Since then this retransfer is also possible if the corresponding pension obligations are not yet overfunded. The trust assets affected by the amendment to the agreement are no longer classified as plan assets ex nunc/prospectively from the time the amendment came into force on March 17, 2020.

By way of agreements with Heidelberger Druckmaschinen Aktiengesellschaft and Heidelberger Druckmaschinen Vertrieb Deutschland GmbH dated March 17, 2020, the respective central works councils also approved this amendment to the trust agreement on behalf and in the interest of the beneficiaries. Heidelberger Druckmaschinen Aktiengesellschaft and Heidelberger Druckmaschinen Vertrieb Deutschland GmbH therefore derecognized the assets that had been contributed to plan assets in the total amount of € 394.8 million on March 17, 2010. In the previous year, this resulted in an increase in cash and cash equivalents of € 324.4 million, an addition to freely available securities in the amount of their fair value of € 55.4 million (see note 24), and an addition to other receivables and other assets in the amount of € 15.0 million (see note 21).

The retransfer required a corresponding application by the trustors and the corresponding approval of the trustee; the trustors did not have an entitlement to the retransfer. The funds retransferred may be used only for contractually defined measures in connection with the reduction of financial liabilities and Heidelberg's reorientation; in the case of defined events, including breaches of these conditions for the use of the funds, there is a contractual obligation to repay a portion of the retransferred funds to the trustee.

Information on the remaining trust assets can be found in note 21.

As of the end of the first quarter of 2020/2021, the pension plans for Company employees in Germany were reorganized. This entails merging the previous pension plans of Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberger Druckmaschinen Vertrieb Deutschland GmbH, Heidelberg Manufacturing Deutschland GmbH and Heidelberg Postpress Deutschland GmbH, and the uniform indexation of Company pensions on the basis of the expected lower rate of inflation. The new regulations result in a reduction of expected future pension increases.

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 previous 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. From April 1, 2020, all future contributions to the defined contribution plan were transferred to a third party; the related funds were transferred in June 2020. The Heidelberg Group Pension Scheme accounts for € 255 million (previous year: € 227 million) of the present value of the defined benefit obligation (DBO) and € 246 million (previous year: € 210 million) of plan assets. The defined benefit portion is based on final salary with a guaranteed pension level. The pension level is dependent on the length of employment and the respective salary before retiring. Pension payments are adjusted based on the development of the retail price index. This plan is subject to the statutory funding objective under the UK Pension Act 2004. The necessary financing is performed at least every three years by way of so-called technical assessments. These determine whether the statutory funding objective has been complied with. The defined benefit plan is managed by a trustee, the board of which is elected partly by the Company and partly by the members of the plan. The trustee is responsible for obtaining the assessment, the pension payments and investing the plan assets; if necessary, these functions are transferred to professional advisors. The last assessment of technical funding took place as of March 31, 2018 and – on the basis of the assumptions at this date determined by the trustee – identified a technical funding deficit of GBP 13.0 million. On the basis of this, the agreement reached in July 2013 between Heidelberg and the trustee for annual payments over ten years of GBP 2.47 million, commencing in July 2013 until 31 January 2024, will continue.

The PENSION FUNDS OF THE SWISS COMPANIES, which manage pension assets as foundations independent of the Company and are subject to Swiss legislation on occupational pensions, accounted for € 126 million (previous year: € 136 million) of the present value of the defined benefit obligation (DBO) and € 140 million (previous year: € 130 million) of plan assets. These obligations are based on retirement, disability and surviving dependents benefits. The retirement benefits are usually a pension. This is determined based on the individual pension credit saved by the employee by the time of retirement and the regulatory conversion rates. However, at the discretion of the employee, pension credit can also be drawn in the form of a lump-sum payment. Disability and surviving dependents benefits are calculated from the pension credit projected at regulatory retirement age or are defined as a percentage of the pay insured. For each insured employee, the Swiss companies pay an annual employer's contribution to the respective pension fund. The amount of this is determined in the respective pension regulations as a percentage of the pay insured and can be adjusted by the pension fund board of trustees, which consists of equal numbers of employer and employee representatives. In the event of a severe deficit the pension fund board of trustees can resolve to impose recapitalization contributions, if there are no other measures to remedy the deficit. In such 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 € 8 million (previous year: € 7 million) of the present value of the defined benefit obligation (DBO) and € 9 million (previous year: € 7 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) Cost 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-2020	**31-Mar-2021**
Provisions for pensions and similar obligations	985,620	945,537
Assets from defined benefit pension plans	266	3,943
Net carrying amounts at the end of the financial year	**985,354**	**941,594**

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, 2019	**1,337,463**	**71,255**	**1,408,718**	**– 828,218**	**580,500**
Current service cost	7,165	2,734	9,899	–	9,899
Interest expense (+)/income (–)	25,036	1,109	26,145	– 15,180	10,965
Past service cost/gains (–)/losses (+) from settlements and curtailments	– 1,285	– 664	– 1,949	–	– 1,949
Remeasurements:	– 12,555	1,959	– 10,596	19,950	9,354
Gains (–)/losses (+) from changes in demographic assumptions	– 4,825	11	– 4,814	–	– 4,814
Gains (–)/losses (+) from changes in financial assumptions	– 5,257	1,384	– 3,873	–	– 3,873
Gains (–)/losses (+) from experience-based adjustments	– 2,473	563	– 1,909	–	– 1,909
Difference between interest income recognized in profit or loss and actual income from plan assets	–	–	–	19,950	19,950
Currency translation differences	– 1,155	573	– 582	758	176
Contributions:	3,711	294	4,005	– 7,162	– 3,157
Employers	–	–	–	– 5,250	– 5,250
Pension plan participants	3,711	294	4,005	– 1,912	2,093
Payments made	– 63,029	– 2,917	– 65,946	50,361	– 15,585
Declassification of trust assets of Heidelberg Pension-Trust e.V. as plan assets	– 766,296	766,296	–	394,800	394,800
Changes in the scope of consolidation, other changes	–	351	351	–	351
As of March 31, 2020	**529,055**	**840,990**	**1,370,045**	**– 384,691**	**985,354**

	Funded benefit obligations	Unfunded benefit obligations	Present value of the defined benefit obligations	Fair value of plan assets	**Total**
As of April 1, 2020	**529,055**	**840,990**	**1,370,045**	**– 384,691**	**985,354**
Current service cost	2,171	6,470	8,641	–	8,641
Interest expense (+)/income (–)	8,502	12,917	21,419	– 6,273	15,146
Past service cost/gains (–)/losses (+) from settlements and curtailments [1]	– 8,377	– 64,414	– 72,791	–	– 72,791
Remeasurements: [2]	35,699	51,352	87,051	– 43,158	43,893
Gains (–)/losses (+) from changes in demographic assumptions	– 13,764	– 562	– 14,326	–	– 14,326
Gains (–)/losses (+) from changes in financial assumptions	50,580	50,972	101,552	–	101,552
Gains (–)/losses (+) from experience-based adjustments	– 1,117	942	– 175	–	– 175
Difference between interest income recognized in profit or loss and actual income from plan assets [3]	–	–	–	-43,158	– 43,158
Currency translation differences	5,227	– 1,273	3,954	– 5,032	– 1,078
Contributions:	1,666	2,135	3,801	– 6,083	– 2,282
Employers	–	–	–	– 4,417	– 4,417
Pension plan participants	1,666	2,135	3,801	– 1,666	2,135
Payments made	– 30,245	– 26,548	– 56,793	23,422	– 33,371
Changes in the scope of consolidation, other changes	2,163	– 2,089	74	– 1,992	– 1,918
As of March 31, 2021	**545,861**	**819,540**	**1,365,401**	**– 423,807**	**941,594**

[1] This primarily includes income from the reorganization of the company pension plan for employees of the companies in Germany that took effect at the end of the first quarter of the reporting year
[2] A discount rate of 1.40 percent as of March 31, 2020 (March 31, 2020: 1.80 percent) was used to calculate the remeasurement of net liabilities (assets) from defined benefit pension plans for the German companies. This discount rate is based on a narrower selection of the corporate bonds used to determine the discount rate for the euro zone (without narrowing selection: 1.10 percent). Without this modification, the losses arising on the remeasurement of defined benefit pension plans would have been € 42,558 thousand higher as of March 31, 2021
[3] This includes effects of the asset ceiling of €11,255 thousand, which were taken into account by deducting them from the fair value of the plan assets

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

In percent	2019/2020		**2020/2021**	
	Domestic	Foreign	Domestic	Foreign
Discount rate	1.80	1.66	1.40	1.39
Expected future salary increases	2.75	0.49	2.75	0.41
Expected future pension increases	1.40	1.59	0.59	2.17

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:

	2019/2020	of which:		**2020/2021**	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	3,427	3,352	75	5,105	5,022	83
Equity instruments	80,102	79,679	423	109,135	108,669	466
Debt instruments	159,678	150,735	8,943	141,127	131,681	9,446
Real estate	19,055	–	19,055	–	–	–
Securities funds	85,028	68,419	16,609	139,594	103,632	35,962
Qualifying insurance policies	27,993	–	27,993	29,387	–	29,387
Other	9,408	9,408	–	10,432	10,379	53
	384,691	**311,593**	**73,098**	**434,780**	**359,383**	**75,397**

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 € 27,922 thousand (previous year: € 49,434 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-2020	Change in %	**31-Mar-2021**	Change in %
Present value of the material defined benefit obligations [1]	1,325,771		1,322,687	
Present value of the material defined benefit obligations assuming that				
the discount rate were				
0.50 percentage points higher	1,232,788	– 7.0	1,232,061	– 6.9
0.50 percentage points lower	1,430,144	7.9	1,424,644	7.7
the expected future salary increase were				
0.25 percentage points higher	1,326,816	0.1	1,323,190	0.0
0.25 percentage points lower	1,325,238	0.0	1,322,204	0.0
the expected future pension increase were				
0.25 percentage points higher	1,358,246	2.4	1,334,835	0.9
0.25 percentage points lower	1,298,296	– 2.1	1,313,498	– 0.7
Increase in life expectancy per entitled beneficiary [2]	1,382,885	4.3	1,379,991	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 € 7 million in financial year 2021/2022 (previous year: € 7 million). With regard to the material defined benefit obligations, undiscounted pension payments amounting to € 47 million (previous year: € 46 million) are anticipated for financial year 2021/2022. The weighted average duration of the material defined benefit obligations is 15 years (previous year: 16 years).

27 Other provisions

			31-Mar-2020			31-Mar-2021
	Current	Non-current	Total	Current	Non-current	**Total**
Staff obligations	55,379	14,993	70,372	56,699	22,678	79,377
Sales obligations	68,534	5,729	74,263	66,532	4,760	71,292
Other	134,173	73,609	207,782	93,601	62,832	156,433
	258,086	**94,331**	**352,417**	**216,832**	**90,270**	**307,102**

	As of 1-Apr-2020	Change in scope of consolidation, currency adjustments, reclassification	Utilization	Reversal	Addition	**As of 31-Mar-2021**
Staff obligations	70,372	−2,563	35,203	2,853	49,624	79,377
Sales obligations	74,263	−236	26,484	21,289	45,038	71,292
Other	207,782	−3,066	86,901	20,444	59,062	156,433
	352,417	−5,865	148,588	44,586	153,724	**307,102**

As a result of the mandatory introduction of IFRIC Interpretation 23: Uncertainty over Income Tax Treatments and the related decision by the IFRS Interpretations Committee (IFRS IC) of September 17, 2019, in the previous year uncertain tax positions previously recognized under tax provisions were reported for the first time under “Income tax liabilities” in the consolidated statement of financial position.

Additions include accrued interest and the effects of the change in discount rates of € 1,864 thousand (previous year: € 2,730 thousand). These relate to expenses of € 736 thousand (previous year: € 1,100 thousand) for staff obligations, € 0 thousand (previous year: € 3 thousand) for sales obligations and expenses of € 1,128 thousand (previous year: € 1,627 thousand) for miscellaneous other provisions.

STAFF PROVISIONS essentially relate to bonuses (€ 22,336 thousand; previous year: € 23,460 thousand) and the cost of early retirement payments and partial retirement programs (€ 34,642 thousand; previous year: € 22,677 thousand).

SALES PROVISIONS mainly relate to warranties, reciprocal liability and buyback obligations (€ 45,017 thousand; previous year: € 47,431 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 € 530 thousand (previous year: € 1,180 thousand) relate entirely to financial guarantees generally issued to finance partners of our customers for sales financing. The maximum risk of default of these financial guarantees that can result in cash outflows in the subsequent financial year is € 14,902 thousand (previous year: € 14,654 thousand). Utilization of the provisions for reciprocal liability and buyback obligations is predominantly expected over a short-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 predominantly include provisions for our portfolio and cost efficiency measures of € 120,643 thousand (previous year: € 174,739 thousand), provisions for onerous contracts of € 6,398 thousand (previous year: € 2,180 thousand) and provisions for legal disputes of € 12,517 thousand (previous year: € 13,871 thousand). 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 dispute 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-2020				**31-Mar-2021**
	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]	4,533	146,976	–	151,509	–	–	–	–
Amounts due to banks [1]	82,358	153,548	5,782	241,688	121,086	73,312	526	194,924
Convertible bond [1]	5	17,200	–	17,205	17,205	0	0	17,205
Lease liabilities	20,065	31,878	2,012	53,955	21,337	28,181	1,874	51,392
Other	7,060	–	–	7,060	7,720	–	–	7,720
	114,021	**349,602**	**7,794**	**471,417**	**167,348**	**101,493**	**2,400**	**271,241**

[1] Including deferred interest

Financial liabilities developed as follows:

	As of 1-Apr-2019	Cash changes		Non-cash changes			**As of 31-Mar-2020**
		Free cash flow	From financing activities	Change in scope of consolidation	Currency adjustments	Other	
Corporate bond	150,309	– 12,000	–	–	–	13,200	151,509
Amounts due to banks	249,205	– 11,100	– 6,023	–	– 484	10,090	241,688
Convertible bond	57,574	– 4,906	– 40,340	–	–	4,877	17,205
Lease liabilities [1]	63,137	– 2,223	– 22,153	– 1,231	– 52	16,477	53,955
Other	4,075	–	3,005	–	– 20	–	7,060
	524,300	– 30,229	– 65,511	– 1,231	– 556	44,644	**471,417**

[1] Liabilities from finance leases adjusted as of April 1, 2019 due to IFRS 16

	As of 1-Apr-2020	Cash changes		Non-cash changes			As of 31-Mar-2021
		Free cash flow	From financing activities	Change in scope of consolidation	Currency adjustments	Other	
Corporate bond	151,509	– 14,774	– 145,026	–	–	8,291	–
Amounts due to banks	241,688	– 10,159	– 40,852	– 163	– 347	4,757	194,924
Convertible bond	17,205	– 903	–	–	–	903	17,205
Lease liabilities	53,955	– 1,820	– 22,891	– 713	– 1,493	24,354	51,392
Other	7,060	–	750	– 1	– 84	– 5	7,720
	471,417	– 27,656	– 208,019	– 877	– 1,924	38,300	**271,241**

Corporate bond

On May 5, 2015, Heidelberger Druckmaschinen Aktiengesellschaft issued an unsecured corporate bond of € 205 million with a maturity of seven years and a coupon of 8.00 percent (corporate bond). Around € 55 million of the corporate bond was redeemed from cash in July 2018. In September 2020, the remaining amount of € 150 million of the corporate bond was repaid early from cash.

Convertible bond

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

From April 20, 2018, Heidelberger Druckmaschinen Aktiengesellschaft is entitled to repay the convertible bond ahead of schedule in full at the nominal value plus accrued interest. This requires that the share price multiplied by the applicable conversion ratio on 20 of the 30 consecutive trading days on the Frankfurt Stock Exchange before the announcement of the date of the early repayment exceeds 130 percent of the nominal value as of each of these 20 trading days. Each holder of the convertible bond was entitled to demand the repayment of all or some of his/her bonds for which the conversion right was not exercised and for which no 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).

In the fourth quarter of the 2019/2020 financial year, most of the investors in the convertible bond exercised their right to early repayment in accordance with section 4(5) of the terms and conditions of the bond at a nominal amount of € 41,400 thousand as of March 30, 2020. The total nominal amount of the remaining outstanding bonds was € 17,200 thousand as of March 31, 2021.

The liability component of the convertible bond was recognized at present value on issue, taking into account a market interest rate, and is increased at the end of each reporting period by the interest portion of that period in line with the effective interest rate method. The amount of interest accrued, which results from the difference between the coupon and the effective interest rate, was € 0 thousand (previous year: € 1,392 thousand) in the year under review.

The fair value of the convertible bond on the basis of the stock exchange listing corresponds to the first level of the IFRS 13 measurement hierarchy and is € 16,262 thousand (previous year: € 14,405 thousand) compared to the carrying amount of € 17,205 thousand (previous year: € 17,205 thousand).

Amounts due to banks

Amounts due to banks are shown in the table below:

Type	Contract currency	Carrying amount 31-Mar-2020 in € thousands	Remaining term in years	Effective interest rate in %	Carrying amount **31-Mar-2021** in € thousands	Remaining term in years	Effective interest rate in %
Loans	EUR	227,877	up to 7	up to 5.10	188,366	up to 5	up to 3.60
Loans	Various	13,252	up to 1	up to 12.50	5,578	up to 1	up to 20.50
Other	Various	559	up to 1	up to 2.50	980	up to 1	up to 2.50
		241,688			**194,924**		

The stated effective interest rates largely match the agreed nominal interest rates.

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

The Heidelberg Group was able to meet its financial obligations due at all times in the reporting year. The CREDIT LINES not yet fully utilized in our Group of € 143,009 thousand (previous year: € 139,870 thousand) can be used as financing for general business purposes and for our portfolio and cost efficiency measures.

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 with a banking syndicate was newly agreed at improved conditions with a volume of € 320 million and a term to March 2023. It was agreed with the syndicate in March 2020 to reduce the facility to around € 266.5 million.

The amortizing loan of € 5 million funded by the KfW, which was granted in December 2015, was repaid in full by the end of the term in September 2020 (previous year: € 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 digitization, and the expansion of the digital printing portfolio. The development loan is available in callable tranches, each with a term of seven years. In April 2016, Heidelberger Druckmaschinen Aktiengesellschaft called an initial tranche of € 50 million from this loan; this will amortize by April 2023. The remainder was called in January and March 2017 via further tranches of € 20 million and € 30 million respectively; these will amortize accordingly over terms until January 2024 and March 2024 respectively. The fair value of the loan is € 68,120 thousand (previous year: € 65,375 thousand) compared to its carrying amount of € 69,230 thousand (previous year: € 69,408 thousand).

To finance the investment in relocating our research and development activities to our Wiesloch-Walldorf production site, a development loan of € 42.1 million maturing in September 2023 (initially: September 2024) was arranged with a syndicate of banks refinanced by KfW ("Energy Efficiency Program – Energy-efficient Construction and Renovation"). The funding was paid over the course of construction. Heidelberger Druckmaschinen Aktiengesellschaft called an initial tranche of € 5.1 million from this development loan in March 2017, a second tranche of € 20.7 million in March 2018 and a third tranche of € 16.3 million in June 2018. Its fair value is € 16,100 thousand (previous year: € 22,171 thousand) compared to its carrying amount of € 16,211 thousand (previous year: € 22,947 thousand).

In May 2017, a loan of € 25.7 million was borrowed which, following unscheduled repayment of € 4 million in March 2021, is now amortizing over a term until the end of December 2025 (previously: June 2027). It is secured by the lender's equal participation in the existing collateral concept. The fair value of this loan is € 11,939 thousand (previous year: € 17,493 thousand) compared to its carrying amount of € 12,064 thousand (previous year: € 18,634 thousand).

In connection with the purchase/sale of the research and development center in Heidelberg in the 2018/2019 financial year, a loan of around € 32.5 million was taken over, which will be amortized by March 2022. The fair value of this loan is € 26,530 thousand (previous year: € 27,395 thousand) compared to its carrying amount of € 28,483 thousand (previous year: € 29,893 thousand).

A KfW loan of € 6 million was granted in July 2019 to finance investment in our IT landscape, and will be amortized until July 2024. The fair value of this loan is € 3,871 thousand (previous year: € 4,902 thousand) compared to its carrying amount of € 3,900 thousand (previous year: € 5,101 thousand).

In July and August 2019, two loans funded by KfW totaling € 4.2 million and € 3.8 million were borrowed to finance investments in two buildings at our Wiesloch-Walldorf production site, which will be amortized over a term until July and April 2024, respectively. The fair values of these loans are € 2,518 thousand (previous year: € 3,431 thousand)/€ 2,234 thousand (previous year: € 3,098 thousand), as compared to their carrying amounts of € 2,536 thousand (previous year: € 3,570 thousand)/€ 2,232 thousand (previous year: € 3,230 thousand).

An amortizing loan supported by the Italian State Guarantee Fund for Small and Medium-sized Enterprises of € 5 million maturing in August 2026 was issued in August 2020. The fair value of this loan is € 4,513 thousand (previous year: € 0 thousand) compared to its carrying amount of € 5,000 thousand (previous year: € 0 thousand).

The fair value of each of these eight financial liabilities was calculated on the basis of the discounted cash flow method using market interest rates and corresponds to the second level in the fair value hierarchy according to IFRS 13.

The 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 present diversified financing structure with a maturity profile up to 2023 provides Heidelberg with a stable financing base.

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.

Lease liabilities

Lease liabilities as per the statement of financial position are as follows:

	31-Mar-2020	**31-Mar-2021**
Current	20,065	21,337
Non-current	33,890	30,055
Lease liabilities	**53,955**	**51,392**

The maturity structure of the lease liabilities based on cash flows is as follows:

	31-Mar-2020	**31-Mar-2021**
Up to 1 year	20,468	21,730
Between 1 and 5 years	31,374	30,447
More than 5 years	5,798	3,333
Total	**57,640**	**55,510**

Some of the building leases contain prolongation and cancellation options. This guarantees the Heidelberg Group's flexibility in terms of the necessary volume of space and rent price structure. Possible future payments for optional rental periods that are not reasonably certain are of minor significance. Furthermore there are future payments from residual value guarantees and leases that have been contractually agreed but that have not yet begun. However, these are immaterial to the Heidelberg Group.

As of March 31, 2021, there were lease obligations from short-term leases of € 453 thousand (previous year: € 590 thousand).

29 Contract liabilities

Contract liabilities essentially comprise advance payments on orders and prepayments for future maintenance and services and amounted to € 202,394 thousand (previous year: € 172,519 thousand). These amounts are reversed to profit or loss over the term of the agreement. The contract liabilities in place as of April 1, 2020 resulted in net sales of € 149,476 thousand (previous year: € 156,348 thousand).

30 Trade payables

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

31 Other liabilities

				31-Mar-2020				**31-Mar-2021**
	Up to 1 year	Between 1 and 5 years	More than 5 years	Total	Up to 1 year	Between 1 and 5 years	More than 5 years	**Total**
Accruals (staff)	57,550	–	–	57,550	46,619	–	–	46,619
From derivative financial instruments	3,586	2,698	–	6,284	4,748	–	–	4,748
From other taxes	21,878	42	–	21,920	25,551	42	–	25,593
For social security contributions	7,680	–	–	7,680	4,667	–	–	4,667
Deferred income	4,389	2,261	5,951	12,601	4,035	2,076	6,063	12,174
Other	26,554	1,896	–	28,450	24,715	42	–	24,757
	121,637	6,897	5,951	**134,485**	110,335	2,160	6,063	**118,558**

Derivative financial instruments

Derivative financial instruments include negative fair values from cash flow hedges of € 4,090 thousand (previous year: € 3,694 thousand) and from fair value hedges of € 658 thousand (previous year: € 2,590 thousand).

Deferred income

Deferred income includes taxable investment subsidies of € 7,838 thousand (previous year: € 7,663 thousand), tax-free investment allowances of € 85 thousand (previous year: € 107 thousand) and other deferred income of € 4,251 thousand (previous year: € 4,831 thousand).

In the reporting year, TAXABLE SUBSIDIES essentially include a subsidy for the energy-related refurbishment of our Innovation Center at the Wiesloch-Walldorf production site.

TAX-FREE ALLOWANCES include allowances under the German Investment Allowance Act of 2007/2010 of € 85 thousand (previous year: € 107 thousand) for the Brandenburg production site.

Miscellaneous other liabilities

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

32 Income tax liabilities

Income tax liabilities include uncertain tax positions of € 54,679 thousand (previous year: € 56,244 thousand). As in previous years, these mainly relate to the risks of reassessment.

33 Disclosures on financial instruments

Carrying amounts of financial instruments

The carrying amounts of financial instruments can be transitioned to the measurement categories of IFRS 9:

Reconciliation > Assets

Items in statement of financial position	IFRS 9 measurement category [1]	Carrying amounts			Carrying amounts		
				31-Mar-2020			**31-Mar-2021**
		Current	Non-current	Total	Current	Non-current	**Total**
Financial assets							
Shares in affiliated companies	n. a.	–	4,306	4,306	–	270	270
Other investments	n. a.	–	5,142	5,142	–	4,100	4,100
Securities	FVOCI	–	2,279	2,279	–	2,351	2,351
			11,727	11,727		6,721	6,721
Receivables from sales financing							
Receivables from sales financing not including finance leases	AC	18,482	24,035	42,517	24,124	18,728	42,852
Receivables from finance leases	n. a.	517	382	899	341	482	823
		18,999	24,417	43,416	24,465	19,210	43,675
Trade receivables	AC	298,873	–	298,873	245,728	–	245,728
Other receivables and other assets							
Derivative financial instruments	n. a.[2]	4,399	–	4,399	1,508	–	1,508
Miscellaneous financial assets	AC	27,519	18,358	45,877	37,295	19,920	57,215
		31,918	18,358	50,276	38,803	19,920	58,723
Miscellaneous other assets		44,540	6,682	51,222	50,036	5,475	55,511
		76,458	25,040	101,498	88,839	25,395	114,234
Securities	FVTPL	55,760	–	55,760	–	–	–
Cash and cash equivalents	AC	372,719	–	372,719	204,371	–	204,371

[1] Notes on abbreviations for IFRS 9 measurement categories:
FVOCI: financial assets at fair value through other comprehensive income
AC: financial assets/liabilities at amortized cost
FVTPL: financial assets at fair value through profit or loss
n. a.: no IFRS 9 measurement category

[2] As in the previous year, derivative financial instruments do not include hedges assigned to the IFRS 9 measurement category of financial assets at fair value through profit or loss

Reconciliation > Equity and liabilities

Items in statement of financial position	IFRS 9 measurement category [1]	Carrying amounts			Carrying amounts		
		31-Mar-2020			**31-Mar-2021**		
		Current	Non-current	Total	Current	Non-current	**Total**
Financial liabilities							
Corporate bond	FLaC	4,533	146,976	151,509	–	–	–
Convertible bond	FLaC	5	17,200	17,205	17,205	–	17,205
Amounts due to banks	FLaC	82,358	159,330	241,688	121,086	73,838	194,924
Lease liabilities	n. a.	20,065	33,890	53,955	21,337	30,055	51,392
Other financial liabilities	FLaC	7,060	–	7,060	7,720	–	7,720
		114,021	357,396	471,417	167,348	103,893	271,241
Trade payables	FLaC	212,195	–	212,195	146,190	–	146,190
Other liabilities							
Derivative financial instruments	n. a. [2]	3,586	2,698	6,284	4,748	–	4,748
Miscellaneous financial liabilities	FLaC	14,351	6	14,357	13,894	43	13,937
		17,937	2,704	20,641	18,642	43	18,685
Miscellaneous other liabilities		103,700	10,144	113,844	91,693	8,180	99,873
		121,637	12,848	134,485	110,335	8,223	118,558

[1] IFRS 9 measurement categories:
FLaC: financial liabilities at amortized cost
n. a.: no IFRS 9 measurement category

[2] As in the previous year, derivative financial instruments do not include hedges assigned to the IFRS 9 measurement category of financial liabilities at fair value through profit or loss

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-2020	**31-Mar-2021**
Up to 1 year	439,364	385,742
Between 1 and 5 years	379,411	110,658
More than 5 years	11,844	3,859
	830,619	**500,259**

Net gains and losses

The net gains and losses are assigned to the IFRS 9 measurement categories as follows:

	2019/2020	**2020/2021**
Financial liabilities at amortized cost	– 30,864	–15,957
Financial assets at fair value through profit or loss	69	–1,447
Financial investments in equity instruments at fair value through other comprehensive income	– 450	215
Financial assets at amortized cost	– 17,620	7,247

Net gains and losses include € 2,375 thousand (previous year: € 2,890 thousand) of interest income and € 20,463 thousand (previous year: € 32,130 thousand) of interest expenses for financial assets and financial liabilities measured at amortized cost.

The derecognition of financial assets measured at amortized cost gave rise to gains and losses of € 0 thousand (previous year: € 0 thousand) and € 1,788 thousand (previous year: € 1,997 thousand) respectively in the reporting period.

As in the previous year, no financial assets measured at fair value through other comprehensive income were sold in the reporting year.

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. In this connection, it is also responsible for the cash pooling operations of our Group as a whole. Within the Corporate Treasury department, we ensure that there is both a functional and a physical separation of the trading, processing and risk control activities, and that this is regularly reviewed by our Internal Audit department.

The prerequisite for an adequate risk management system is a well-founded database. The Corporate Treasury department of Heidelberger Druckmaschinen Aktiengesellschaft operates a Group-wide financial reporting system – the Treasury Information System. This system is used to identify interest rate, currency and liquidity risks within the Group and to derive appropriate action plans and strategies with which to manage these risks on a central basis in line with guidelines issued by the Management Board. Heidelberg operates a monthly, annualized consolidated liquidity planning system on a rollover basis, which makes it possible to manage current and future liquidity needs in a timely manner.

The Heidelberg Group is exposed to market price risks in the form of interest rate and exchange rate fluctuations. In general, derivative financial instruments are used to limit these risks. Corresponding contracts with third-party banks are mainly concluded through Heidelberger Druckmaschinen Aktiengesellschaft. The credit ratings of these business partners are reviewed regularly. The risk control activities include an ongoing market evaluation of contracted transactions.

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

The derivative financial instruments designated as hedges are reported in the statement of financial position under other receivables and other assets/other liabilities.

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

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.

	Nominal volumes		Fair values	
	31-Mar-2020	**31-Mar-2021**	31-Mar-2020	**31-Mar-2021**
Currency hedging				
Cash flow hedge				
Forward exchange transactions	151,683	118,406	1,345	–2,256
of which: assets	98,969	9,970	2,341	466
of which: liabilities	52,714	108,436	–996	–2,722
Fair value hedge				
Forward exchange transactions	303,225	150,444	–532	383
of which: assets	133,629	86,729	2,058	1,041
of which: liabilities	169,596	63,715	–2,590	–658
Interest rate hedging				
Cash flow hedge				
Interest rate swaps	29,893	28,483	–2,698	–1,368
of which: assets	–	–	–	–
of which: liabilities	29,893	28,483	–2,698	–1,368

	31-Mar-2020				**31-Mar-2021**			
	Up to 1 year	Between 1 and 5 years	More than 5 years	Total undiscounted cash flows	Up to 1 year	Between 1 and 5 years	More than 5 years	Total undiscounted cash flows
Derivative financial liabilities								
Outgoing payments	–225,152	–1,325	–	–226,477	–177,690	–	–	–177,690
Associated incoming payments	220,226	–	–	220,226	172,789	–	–	172,789
Derivative financial assets								
Outgoing payments	–230,472	–	–	–230,472	–96,495	–	–	–96,495
Associated incoming payments	234,694	–	–	234,694	97,845	–	–	97,845

Currency hedging

Hedging strategy

CURRENCY RISKS arise as a result of exchange rate fluctuations in connection with net risk positions in foreign currency. These occur for receivables and liabilities, anticipated cash flows and onerous contracts. The highly probable underlying transactions to be hedged are always fully designated. The extent of the risk hedged is equal to the nominal volume shown in the table on page 137. Only forward exchange transactions are used as hedging instruments at this time. Hedge effectiveness is calculated using the critical terms match method. Only the spot component of the hedging transaction is designated. Only discontinued hedged items can lead to ineffectiveness in this respect.

The forward exchange transactions outstanding as of the end of the reporting period of € 118,406 thousand essentially hedge highly likely currency risks expected from purchase volumes of our subsidiaries over the next 12 months. Therefore, the remaining term of these derivatives at the end of the reporting period was up to one year. As of the end of the reporting period, a net volume of € 15,723 thousand from hedges relates to the Canadian dollar and a net volume of € 46,839 thousand relates to the US dollar. The average hedging rate for these transactions was CAD 1.51/EUR and USD 1.21/EUR.

Cash flow hedge

The underlying transactions hedged against currency risks as part of cash flow hedges and recognized in the cash flow hedge reserve relate exclusively to active hedges amounting to € –2,870 thousand (previous year: € –723 thousand) as of the end of the reporting period.

In connection with the hedging of currency risks, the non-designated portion of cash flow hedges resulted in an expense of € 356 thousand (previous year: € 1,856 thousand) in the reporting year, which was reported under financial result.

As of the end of the reporting period, hedges resulted in total assets of € 466 thousand (previous year: € 2,341 thousand) and liabilities of € 2,722 thousand (previous year: € 996 thousand). The change in value of the designated portion of the hedge was recognized outside profit and loss and will be recognized in the result of operating activities over the subsequent 12 months. No cash flow hedges were terminated early and no expenses were transferred from the hedge reserve to the financial result because the forecast purchasing volumes of our subsidiaries were no longer considered highly likely (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 € 1,325 thousand (previous year: € 1,910 thousand) and the translation of hedged items at closing rates of € 1,741 thousand (previous year: € 2,309 thousand) are reported in the consolidated income statement.

In connection with the hedging of currency risks, the non-designated portion of fair value hedges resulted in expense of € 175 thousand (previous year: income of € 391 thousand) in the reporting year, which was reported under financial result.

Interest rate hedging

INTEREST RATE RISKS generally occur for floating rate refinancing transactions. Typically only variable interest payments are designated as hedged items. Other risk components are disregarded. The extent of the risk hedged is equal to the nominal volume shown in the table above. Only interest rate swaps are used as hedging instruments at this time. Hedge effectiveness is calculated using the critical terms match method. The interest payments of the hedged items are fully hedged. Ineffectiveness can arise, for example, if different interest calculation methods or interest periods are used.

Cash flow hedge

The Heidelberg Group limits the risk from increasing interest expenses for refinancing by using interest rate swaps, under which Heidelberg receives variable-rate interest and pays fixed interest (payer interest rate swap). In connection with the purchase/sale of the research and development center in Heidelberg in financial year 2018/2019, in addition to a loan, an interest rate swap of the same nominal amount was entered into to hedge against rising interest rates. As of the end of the reporting period, the interest rate swap had a nominal volume of € 28,483 thousand, a remaining term of one year and a negative fair value of

€ 1,368 thousand (previous year: € 2,698 thousand). The hedging interest rate is 4.39 percent. A total of € 196 thousand (previous year: € 293 thousand) has been recognized in other comprehensive income and will be reclassified to the financial result over the term of the hedge.

As in the previous year no cash flow hedges of interest rate risks were terminated early in the reporting year and no hedge reserve expenses were transferred to the financial result. The underlying transactions hedged against interest rate risks as part of cash flow hedges and recognized in the cash flow hedge reserve relate exclusively to active hedges amounting to € 196 thousand as of the end of the reporting period. € 97 thousand (previous year: € 0 thousand) were transferred from the hedge reserve to the financial result, as the hedged items affected profit or loss in the reporting year.

The reserve for cash flow hedges developed as follows in relation to the hedging of currency and interest rate risks:

	2019/2020	**2020/2021**
As of April 1	– 936	1,016
Effective portion of changes in value		
Currency risks	– 61	– 248
Interest rate risks	293	196
Reclassification to the income statement due to the recognition of the hedged item		
Currency risks	1,860	– 3,782
Interest rate risks	–	–
Reclassification to the income statement due to non-occurrence of expected cash flows		
Currency risks	–	–
Interest rate risks	–	–
Tax effect from the change in reserves	– 140	144
As of March 31	1,016	– 2,674

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 € 6,027 thousand higher (previous year: € 699 thousand lower) as of the end of the reporting period and the financial result would have been € 6 thousand lower (previous year: € 2 thousand higher). Assuming a 10 percent decrease in the value of the euro, the hedge reserve would have been € 7,366 thousand lower (previous year: € 855 thousand higher) and the financial result would have been € 8 thousand higher (previous year: € 2 thousand lower).

In accordance with IFRS 7, recognized INTEREST RATE RISKS of the Heidelberg Group must also be shown. These are partly due to the portion of primary floating rate financial instruments that were not hedged through the use of derivative financial instruments within cash flow hedges. In addition, a hypothetical change in market interest rates with regard to derivative financial instruments would result in changes to the hedge reserve in the cash flow hedge. However, fixed-income financial instruments carried at amortized cost and floating rate financial instruments hedged within cash flow hedges are not subject to any recognized interest rate risk. These financial instruments are therefore not taken into account. Assuming an increase of 100 basis points in the market interest rate across all terms, the hedge reserve would have been € 208 thousand (previous year: € 498 thousand) higher as of the end of the reporting period and the financial result would have been € 8 thousand (previous year: € 396 thousand) lower. Assuming a decrease of 100 basis points in the market interest rate across all terms, the hedge reserve would have been € 211 thousand (previous year: € 509 thousand) lower and the financial result would have been € 8 thousand (previous year: € 396 thousand) higher.

Risk of default

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

Fair values of securities, loans and derivative financial instruments

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

The individual levels are defined as follows:

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

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

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

Securities are classified as financial assets at fair value through other comprehensive income in the amount of € 2,351 thousand (previous year: € 2,279 thousand) and as a matter of principle are recognized at fair value. This classification was based on the strategic nature of these financial investments. The securities of € 55,760 thousand classified as “financial assets at fair value through profit or loss” in the previous year were almost completely sold and/or reclassified to financial assets to the amount of a small residual holding in the reporting year (see note 24). 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 procedure 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 financial assets and financial liabilities recognized at fair value were assigned to the IFRS 13 fair value hierarchy as follows on March 31, 2021:

				31-Mar-2020				**31-Mar-2021**
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	**Total**
Securities	2,279	55,760	–	58,039	2,308	43	–	2,351
Derivative financial assets	–	4,399	–	4,399	–	1,508	–	1,508
Assets carried at fair value	**2,279**	**60,159**	–	**62,438**	**2,308**	**1,551**	–	**3,859**
Derivative financial liabilities	–	6,284	–	6,284	–	4,748	–	4,748
Liabilities carried at fair value	–	**6,284**	–	**6,284**	–	**4,748**	–	**4,748**

In the reporting year, there were no reclassifications between the first and second level of the fair value hierarchy).

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-2020					
Derivative financial instruments (assets)	4,399	–	4,399	−1,985	2,415
Trade receivables	300,109	−1,236	298,873	–	298,873
Derivative financial instruments (liabilities)	6,284	–	6,284	−1,985	4,299
Trade payables	213,431	−1,236	212,195	–	212,195
31-Mar-2021					
Derivative financial instruments (assets)	1,508	–	1,508	−634	874
Trade receivables	248,643	−2,915	245,728	–	245,728
Derivative financial instruments (liabilities)	4,748	–	4,748	−634	4,114
Trade payables	149,105	−2,915	146,190	–	146,190

34 Guarantees and contingent liabilities

Contingent liabilities from sureties and guarantees, amounting to € 5,257 thousand as of March 31, 2021 (previous year: € 5,736 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.

35 Other financial liabilities

Other financial liabilities break down as follows:

	31-Mar-2020				**31-Mar-2021**			
	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**
Investments and other purchasing commitments	13,260	9,027	–	22,287	10,387	8,879	–	19,266

The figures shown are nominal values.

In the reporting year, other financial liabilities relate to investments and other purchasing commitments. The latter include financial liabilities in connection with orders of property, plant and equipment totaling € 5,944 thousand (previous year: € 7,282 thousand) and liabilities for the purchase of raw materials, consumables and supplies amounting to € 13,322 thousand (previous year: € 15,005 thousand).

Additional information

36 Earnings per share in accordance with IAS 33

	2019/2020	**2020/2021**
Net result after taxes (€ thousands)	–343,002	–42,890
Number of shares in thousands (weighted average)	304,336	304,336
Basic earnings per share (€)	–1.13	–0.14
Diluted earnings per share (€)	–1.13	–0.14

The basic earnings per share are calculated by dividing the net result after taxes by the weighted average number of the shares outstanding in the reporting year of 304,336 thousand (previous year: 304,336 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, 2021.

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

Taking into account the corresponding number of shares from the convertible bond, there is no dilution of earnings per share, as the net result for the period – as in the previous year – is adjusted for the interest expense recognized in the financial result for the convertible bonds. In the future, such instruments may have a fully dilutive effect.

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

		2019/2020		**2020/2021**
	Potentially dilutive financial instruments (total)	Dilutive financial instruments applied in calculation	Potentially dilutive financial instruments (total)	Dilutive financial instruments applied in calculation
Numerator for basic earnings (€ thousands)	–343,002	–343,002	–42,890	–42,890
Plus effects from the convertible bond recognized in profit or loss (€ thousands)	4,877	0	903	0
Numerator for diluted earnings (€ thousands)	**–338,125**	**–343,002**	**–41,987**	**–42,890**
Number of shares (thousands)				
Denominator for basic earnings per share (weighted average number of shares, thousands)	**304,336**	**304,336**	**304,336**	**304,336**
Convertible bond	18,804	0	5,530	0
Denominator for diluted earnings per share (thousands)	**–**	**304,336**	**–**	**304,336**
Denominator for potentially diluted earnings per share (thousands)	**323,140**	**–**	**309,866**	**–**
Basic earnings per share (€)	–	–1.13	–	–0.14
Diluted earnings per share (€)	–	–1.13	–	–0.14

37 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.

€ 12,943 thousand (previous year: € 24,492 thousand) of investments in intangible assets, property, plant and equipment and investment property relate to intangible assets, € 46,859 thousand (previous year: € 71,034 thousand) to property, plant and equipment. Investments do not include additions from leases of € 18,197 thousand (previous year: € 14,137 thousand). The income from company disposals relates to the sale of CERM N.V., BluePrint Products N.V. and Hi-Tech Chemicals BVBA as well as the Hi-Tech Coatings companies in the previous year.

Income of € 158 thousand (previous year: € 102 thousand) from the disposal of intangible assets, property, plant and equipment and investment property relates to intangible assets and € 33,841 thousand (previous year: € 21,710 thousand) to property, plant and equipment.

The cash outflows for leases in which Heidelberg is the lessee amounted to € 22,891 thousand (previous year: € 22,153 thousand). Payments from leases for short-term or low-value assets are shown entirely under operating activities. The payments from all other leases in which Heidelberg is the lessee are divided into the principal component and the interest component in the consolidated statement of cash flows. The principal portion of lease installments 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.

In the previous year, the income from the retransfer of trust assets of Heidelberg Pension-Trust e.V. related to the contractual trust arrangement (CTA) of Heidelberger Druckmaschinen Aktiengesellschaft and Heidelberger Druckmaschinen Vertrieb Deutschland GmbH (see note 26). These retransferred assets were previously held in trust by Heidelberg Pension-Trust e.V.; in the previous year, they were reported under changes in cash from investing 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 (€ 204,371 thousand; previous year: € 372,719 thousand). For foreign exchange restrictions please see note 24.

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

38 Information on segment reporting

	Heidelberg Digital Technology		Heidelberg Lifecycle Solutions		Heidelberg Financial Services		**Heidelberg Group**	
	1-Apr-2019 to 31-Mar-2020	**1-Apr-2020 to 31-Mar-2021**	1-Apr-2019 to 31-Mar-2020	**1-Apr-2020 to 31-Mar-2021**	1-Apr-2019 to 31-Mar-2020	**1-Apr-2020 to 31-Mar-2021**	1-Apr-2019 to 31-Mar-2020	**1-Apr-2020 to 31-Mar-2021**
External sales	1,413,954	1,143,450	930,554	765,487	4,942	4,232	2,349,450	1,913,169
EBITDA excluding restructuring result [1] (segment result)	– 10,869	8,931	111,816	134,272	1,208	3,122	102,155	146,325
Depreciation and amortization excluding depreciation and amortization due to restructuring [2]	70,963	49,338	24,453	28,176	671	234	96,087	77,748
EBIT excluding restructuring result	– 81,832	– 40,407	87,363	106,096	537	2,888	6,068	68,577
Non-cash expenses	379,821	184,394	56,084	40,093	3,624	1,739	439,529	226,226

[1] Result of operating activities before interest, taxes, depreciation and amortization, excluding restructuring result
[2] Depreciation and amortization including write-downs

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.

In line with the internal organizational and reporting structure, the Heidelberg Group is broken down into the business segments Heidelberg Digital Technology, Heidelberg Lifecycle Solutions and Heidelberg Financial Services. Heidelberg Digital Technology comprises the sheetfed offset, the label printing, the postpress and the digital printing business. Lifecycle Business (service, consumables) and Software Solutions are bundled in the Heidelberg Lifecycle Solutions segment. The Heidelberg Financial Services segment continues to comprise sales financing business. Further information on the business activities, products and services of the individual segments can be found in note 8 and in the chapters "Management and control" and "Segments and business units" in the Group management report.

Geographically, 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 activities 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-2019 to 31-Mar-2020	**1-Apr-2020 to 31-Mar-2021**
EBITDA excluding restructuring result (segment result)	102,155	146,325
Depreciation and amortization excluding depreciation and amortization due to restructuring	96,087	77,748
EBIT excluding restructuring result	6,068	68,577
Restructuring result	– 275,488	– 50,937
Result of operating activities	– 269,420	17,640
Financial income	4,004	5,277
Financial expenses	56,389	46,284
Financial result	– 52,385	– 41,007
Net result before taxes	**– 321,805**	**– 23,367**

Information by region

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

	Heidelberg Digital Technology		Heidelberg Lifecycle Solutions		Heidelberg Financial Services		**Heidelberg Group**	
	1-Apr-2019 to 31-Mar-2020	**1-Apr-2020 to 31-Mar-2021**	1-Apr-2019 to 31-Mar-2020	**1-Apr-2020 to 31-Mar-2021**	1-Apr-2019 to 31-Mar-2020	**1-Apr-2020 to 31-Mar-2021**	1-Apr-2019 to 31-Mar-2020	**1-Apr-2020 to 31-Mar-2021**
Europe, Middle East and Africa								
Germany	200,314	153,497	120,684	104,625	2,180	1,767	323,178	259,889
Other Europe, Middle East and Africa region	311,826	272,090	276,280	208,942	237	168	588,343	481,200
	512,140	425,587	396,964	313,567	2,417	1,935	911,521	741,089
Asia/Pacific								
China	280,228	262,610	45,423	45,808	85	157	325,736	308,575
Other Asia/Pacific region	183,904	157,030	154,392	128,192	1,344	954	339,640	286,176
	464,132	419,640	199,815	174,000	1,429	1,111	665,376	594,751
Eastern Europe	159,710	126,312	108,089	101,090	493	687	268,292	228,089
North America								
USA	199,490	117,504	149,884	122,337	410	323	349,784	240,164
Other North America region	45,859	28,246	50,691	38,314	178	172	96,728	66,732
	245,349	145,750	200,575	160,651	588	495	446,512	306,896
South America	32,623	26,161	25,111	16,179	15	4	57,749	42,344
	1,413,954	**1,143,450**	**930,554**	**765,487**	**4,942**	**4,232**	**2,349,450**	**1,913,169**

Of the non-current assets, which comprise intangible assets, property, plant and equipment and investment property, € 651,885 thousand (previous year: € 704,140 thousand) relate to Germany and € 236,063 thousand (previous year: € 236,775 thousand) to other countries.

39 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 of the Heidelberg Group.

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 decreased from € 202,423 thousand to € 109,043 thousand. In relation to total assets, the equity ratio is lower than the previous year's level at 5.0 percent (previous year: 7.8 percent).

Notwithstanding the positive free cash flow in the year under review, net debt was up year-on-year at € 66,870 thousand (previous year: € 42,938 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, 2021, the financing of the Heidelberg Group mainly consists of a promotional loan of the European Investment bank of € 100 million with a staggered maturity until March 2024, a promotional loan refinanced by KfW for € 42.1 million maturing in September 2023 arranged with a syndicate of banks, a loan of around € 32.5 million maturing in March 2022 assumed in connection with the purchase/sale of the research and development center in Heidelberg, a loan of € 25.7 million maturing at the end of December 2025 taken up in May 2017, a convertible bond with a remaining volume of € 17.2 million maturing in March 2022, a promotional loan from KfW of € 6 million taken up in July 2019 and maturing in July 2024, a promotional loan for SMEs in Italy of € 5 million maturing in August 2026 from the state guarantee fund, two loans funded by KfW of € 4.2 million and € 3.8 million taken up in July and August 2019 and maturing in July and April 2024, respectively, and a revolving credit facility with a banking syndicate totaling around € 266.5 million maturing in 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 present diversified financing structure with a maturity profile up to 2023 provides Heidelberg with a stable financing base. For further details regarding the financing instruments, please refer to note 28.

40 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 AktG and made it permanently accessible to the shareholders on the website WWW.HEIDELBERG.COM under About Us > Company > Corporate Governance. Earlier declarations of compliance are also permanently available here.

41 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 63 to 69) and the corporate governance report.

The members of the Supervisory Board and the Management Board are listed in the separate overview presented on pages 166 to 167 (Supervisory Board) and 168 (Management Board).

MEMBERS OF THE MANAGEMENT BOARD: The total cash compensation (= total compensation) in accordance with HGB amounts to € 1,869 thousand (previous year: € 3,295 thousand), comprising the fixed compensation including fringe benefits of € 1,114 thousand (previous year: € 1,826 thousand), one-year variable compensation of € 642 thousand (previous year: € 474 thousand) and multi-year variable compensation of € 113 thousand (previous year: € 995 thousand). The multi-year variable compensation includes € 113 thousand (previous year: € 441 thousand) for the fair value calculated as of the grant date for the total shareholder return (cash-settled share-based compensation); this is not distributed over the performance period (three years).

The total compensation according to IFRS of € 2,289 thousand (previous year: € 10,335 thousand) relates to short-term benefits of € 1,756 thousand (previous year: € 2,300 thousand), post-employment benefits of € 374 thousand (previous year: € 611 thousand), other long-term benefits of € –149 thousand (previous year: € 540 thousand), termination benefits of € 0 thousand (previous year: € 6,011 thousand) and share-based payments of € 308 thousand (previous year: income of € 873 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, in each case the respective fair value is recognized in profit or loss over three years from the grant year. No preemption rights or options were granted. Rather, cash settlement was granted depending on the development of the price of Heidelberger Druckmaschinen Aktiengesellschaft shares.

From financial year 2017/2018, the multi-year variable compensation granted is determined according to two benchmarks: earnings before taxes (EBT) according to the IFRS consolidated income statement and total shareholder return (TSR). The targets for these two benchmarks, the respective thresholds and the maximum overfulfillment are all defined at the beginning of the relevant three-year period (performance period). Half the multi-year variable compensation is attributable to each benchmark, i.e. 45 percent of the fixed annual compensation in the event of 100 percent fulfillment of the targets for each of the relevant benchmarks. Overfulfillment of a benchmark is recognized and can at most result in a doubling of the attributable multi-year variable target compensation. Both benchmarks are associated with an objective fulfillment threshold that must be reached in order for the multi-year variable compensation for the benchmark in question to be paid out. However, overfulfillment of a benchmark can only increase the multi-year variable compensation if the other benchmark reaches at least the threshold. The basis for target measurement for the total shareholder return is the long-term expected return (Heidelberg share price increases) during the performance period. The baseline value for each performance period is determined at the beginning of the first financial year of the performance period. The achievement of objectives is checked and ascertained at the end of each three-year period. The multi-year variable compensation is paid out at the end of the month in which the Annual General Meeting – after the end of the final financial year of the three-year period – resolves on the appropriation of the net result. For the multi-year variable compensation, achievement of the relevant threshold results in a payout amounting to 25 percent of the amount that would be payable in the event of 100 percent objective fulfillment. If the objective attainment lies between the threshold and the defined objective, the payout is determined by linear interpolation. If overfulfillment is to be recognized, the amount of the payout is either determined as a percentage according to the degree of overfulfillment or – if a maximum recognizable value for overfulfillment has been defined – by linear interpolation between the objective and the maximum recognizable value. In the event of a member joining or leaving within an ongoing performance period, that member has a pro rata temporis claim to any multi-year variable compensation determined after the end of the performance period. In the event of a member leaving, pro rata temporis multi-year variable compensation is calculated for the performance periods still ongoing at this time on the basis of the determination of goals as of the exit date, which is then frozen. There was 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 was counted towards this new rule and paid out after the end of the three-year period in financial year 2019/2020. This was measured on the basis of the above special rule assuming an achievement rate of 30 percent as of March 31, 2020.

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 2020 to 2022 performance period was € 82 thousand in total as of March 31, 2021 (previous year: € 10 thousand). The underlying measurement parameters used to calculate the fair value as of March 31, 2021 are as follows: risk-free continuous zero interest rates: end of performance period: – 0.69 percent (previous year: – 0.70 percent) and payout date: – 0.70 percent (previous year: – 0.71 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 2021 and 2022; historic volatility based on closing prices for Heidelberger Druckmaschinen Aktiengesellschaft shares: 65.38 percent (previous year: 49.21 percent).

The fair value for the 2021 to 2023 performance period was € 232 thousand in total as of March 31, 2021. The underlying measurement parameters used to calculate the fair value as of March 31, 2021 are as follows: risk-free continuous zero interest rates: end of performance period: – 0.72 percent and payout date: –0.72 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 2021 and 2022; historic volatility based on closing prices for Heidelberger Druckmaschinen Aktiengesellschaft shares: 60.54 percent.

As of March 31, 2021, Heidelberger Druckmaschinen Aktiengesellschaft had recognized provisions and liabilities for the compensation of active members of the Management Board with short-term benefits of € 642 thousand (previous year: € 0 thousand), post-employment benefits of € 374 thousand (previous year: € 897 thousand), other long-term benefits of € 160 thousand (previous year: € 309 thousand) and share-based payments of € 314 thousand (previous year: € 6 thousand).

No loans or advances were granted in the reporting period; the Heidelberg Group has not undertaken any contingent liabilities.

FORMER MEMBERS OF THE MANAGEMENT BOARD AND THEIR SURVIVING DEPENDENTS: The total cash compensation (= total compensation) amounted to € 3,149 thousand (previous year: € 8,619 thousand); of this figure, € 890 thousand (previous year: € 885 thousand) related to obligations to former members of the Management Board and their surviving dependents of Linotype-Hell Aktiengesellschaft, which were assumed in financial year 1997/1998 under the provisions of universal succession, while € 0 thousand (previous year: € 5,499 thousand) related to benefits recognized in profit or loss for the three members of the Management Board who left the Company in the previous year. As in the previous year, no share options were held as of the end of the reporting period. The pension obligations (defined benefit obligations in accordance with IFRS) amounted to € 57,316 thousand (previous year: € 55,367 thousand); of this figure, € 7,053 thousand (previous year: € 7,571 thousand) related to pension obligations of the former Linotype-Hell Aktiengesellschaft which were assumed in financial year 1997/1998 under the provisions of universal succession.

MEMBERS OF THE SUPERVISORY BOARD: For the year under review, fixed annual 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 € 859 thousand (previous year: € 792 thousand). This compensation does not include VAT. Furthermore, members of the Supervisory Board who are employees in a company of the Heidelberg Group receive an activity-related standard market compensation. No loans or advances were granted to members of the Supervisory Board in the reporting period; the Heidelberg Group has not undertaken any contingent liabilities for Supervisory Board members.

42 Related party transactions

Business relations exist between numerous companies and Heidelberger Druckmaschinen Aktiengesellschaft and its subsidiaries in the course of ordinary business. This comprises the affiliated companies not included in the consolidated financial statements, three joint ventures and one associated company, which are regarded as related companies of the Heidelberg Group. Related parties include members of the Management Board and the Supervisory Board. Transactions were performed with these related parties, which impacted as follows:

	2019/2020	**2020/2021**
Liabilities	6,040	3,171
Non-consolidated subsidiaries	6,040	3,171
Joint ventures	0	0
Receivables	3,172	751
Non-consolidated subsidiaries	3,172	749
Joint ventures	0	2
Expenses	5,607	4,125
Non-consolidated subsidiaries	5,607	4,125
Joint ventures	0	0
Income	6,597	11,022
Non-consolidated subsidiaries	6,586	9,790
Joint ventures	11	1,232

Write-downs of € 78 thousand (previous year: € 0 thousand) were recognized on receivables from these related companies in the reporting year. Revenue mainly includes sales.

With companies controlled by a member of the Supervisory Board there were trade relationships which impacted as follows:

	2019/2020	**2020/2021**
Liabilities	3,750	798
Receivables	127	181
Expenses	29,541	21,542
Net sales	4,573	684

Write-downs of € 175 thousand were recognized on receivables from these companies in the reporting year (previous year: € 0 thousand).

All transactions were concluded at standard market terms and did not differ from trade relationships with other companies.

43 Exemption under Section 264 (3) and 264b of the German Commercial Code

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

- docufy GmbH, Bamberg [1), 2)];
- Gallus Druckmaschinen GmbH, Langgöns-Oberkleen [1), 2)];
- Heidelberg Boxmeer Beteiligungs-GmbH, Wiesloch [1)];
- Heidelberg China-Holding GmbH, Wiesloch [1)];
- Heidelberg Consumables Holding GmbH, Wiesloch [1)];
- Heidelberger Druckmaschinen Vertrieb Deutschland GmbH, Wiesloch [1), 2)];
- Heidelberg Manufacturing Deutschland GmbH, Wiesloch [1), 2)];
- Heidelberg Postpress Deutschland GmbH, Wiesloch [1), 2)];
- Heidelberg Print Finance International GmbH, Wiesloch [3)];
- Heidelberger Druckmaschinen Intellectual Property AG & Co. KG, Wiesloch [4)].

1) Exempt from disclosing annual financial statements in accordance with Section 264 (3) HGB
2) Exempt from preparing a management report in accordance with Section 264 (3) 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
4) Exempt from disclosing annual financial statements and a management report in accordance with Section 264b HGB

44 Auditor's fees

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

	2019/2020	**2020/2021**
Fees for		
Audits of financial statements	1,541	935
Other assurance services	89	82
Tax advisory services	–	–
Other services	212	125
	1,842	**1,142**

Material other assurance services for Heidelberger Druckmaschinen Aktiengesellschaft provided by the auditor relate to services with regard to the non-financial report, the German Securities Trading Act (WpHG) and energy industry law. Other services relate to services in connection with the implementation of regulatory requirements and other project-related consulting services.

45 Events after the end of the reporting period

In order to better reflect the focus on the respective customer needs, profitability and potential in accordance with the new operating model introduced as part of the Company's realignment, Heidelberg will report in a new segment structure from April 1, 2021. With the three segments Print Solutions, Packaging Solutions and Technology Solutions, Heidelberg is focusing its business management even more closely on the target markets and their customer requirements.

Heidelberg, May 20, 2021

HEIDELBERGER DRUCKMASCHINEN
AKTIENGESELLSCHAFT
The Management Board

Rainer Hundsdörfer Marcus A. Wassenberg

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 20, 2021

HEIDELBERGER DRUCKMASCHINEN
AKTIENGESELLSCHAFT
The Management Board

Rainer Hundsdörfer Marcus A. Wassenberg

The following copy of the auditor's report also includes a "Report on the assurance in accordance with Sec. 317 (3b) HGB on the electronic reproduction of the financial statements and the management report prepared for publication purposes" ("separate report on ESEF compliance"). The subject matter underlying the separate report on ESEF compliance (ESEF documents subject to assurance) is not attached. The ESEF documents that have been subject to assurance can be viewed in and obtained from the Bundesanzeiger [German Federal Gazette].

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, 2021, and the consolidated statement of comprehensive income, consolidated income statement, statement of changes in consolidated equity and consolidated statement of cash flows for the financial year from April 1, 2020 to March 31, 2021 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, which is combined with the Company's management report, for the financial year from April 1, 2020 to March 31, 2021. In accordance with the German legal requirements, we have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to [§ [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code]] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at March 31, 2021, and of its financial performance for the financial year from April 1, 2020 to March 31, 2021, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the „Other Information" section of our auditor's report.

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

Basis for the Audit Opinions

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

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from April 1, 2020 to March 31, 2021. 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.

1 Recoverability of goodwill

Our presentation of this key audit matter has been structured as follows:

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

Hereinafter we present the key audit matter:

1 Recoverability of goodwill

1 In the Company's consolidated financial statements goodwill amounting in total to EUR 130.0 million (6.0 % of total assets or 119.3 % 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 as well as the expected effects of the ongoing Corona crisis on the business activities of the Group 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, also against the background of the effects of the Corona crisis, subject to considerable 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. In this connection, we also evaluated the assessment of the executive directors regarding the effects of the Corona crisis on the business activities of the Group and examined how they were taken into account in determining the future cash flows. 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. We verified that the necessary disclosures were made in the notes to the consolidated financial statements relating to groups of cash-generating units for which a reasonably possible change in an assumption would result in the recoverable amount falling below the carrying amount of the cash-generating units including the allocated goodwill. Overall, the valuation parameters and assumptions used by the executive directors are comprehensible.

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

Other Information

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

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section "Legal Disclosures" of the group management report
- 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 controls.

- 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

Assurance Report in Accordance with § 317 Abs. 3b HGB on the Electronic Reproduction of the Consolidated Financial Statements and the Group Management Report Prepared for Publication Purposes

Reasonable Assurance Conclusion

We have performed an assurance engagement in accordance with §317 Abs. 3b HGB to obtain reasonable assurance about whether the reproduction of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the attached electronic file „HDM_AG_KA+LB_ESEF-2021-03-31.zip" and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance engagement only extends to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained within this reproduction nor to any other information contained in the above-mentioned electronic file.

In our opinion, the reproduction of the consolidated financial statements and the group management report contained in the above-mentioned attached electronic file and prepared for publication purposes complies in all material respects with the requirements of §328 Abs. 1 HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the above-mentioned electronic file beyond this reasonable assurance conclusion and our audit opinion on the accompanying consolidated financial statements and the accompanying group management report for the financial year from April 1, 2020, to March 31, 2021, contained in the "Report on the Audit of the Consolidated Financial Statements and on the Group Management Report" above.

Basis for the Reasonable Assurance Conclusion

We conducted our assurance engagement on the reproduction of the consolidated financial statements and the group management report contained in the above-mentioned attached electronic file in accordance with §317 Abs. 3b HGB and the Exposure Draft of IDW Assurance Standard: Assurance in Accordance with §317 Abs. 3b HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (ED IDW AsS 410) and the International Standard on Assurance Engagements 3000 (Revised). Accordingly, our responsibilities are further described below in the "Group Auditor's Responsibilities for the Assurance Engagement on the ESEF Documents" section. Our audit firm has applied the IDW Standard on Quality Management: Requirements for Quality Management in the Audit Firm (IDW QS 1).

Responsibilities of the Executive Directors and the Supervisory Board for the ESEF Documents

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic reproduction of the consolidated financial statements and the group management report in accordance with §328 Abs. 1 Satz 4 Nr. 1 HGB and for the tagging of the consolidated financial statements in accordance with §328 Abs. 1 Satz 4 Nr. 2 HGB.

In addition, the executive directors of the Company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of §328 Abs. 1 HGB for the electronic reporting format, whether due to fraud or error.

The executive directors of the Company are also responsible for the submission of the ESEF documents together with the auditor's report and the attached audited consolidated financial statements and audited group management report as well as other documents to be published to the operator of the German Federal Gazette [Bundesanzeiger].

The supervisory board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

Group Auditor's Responsibilities for the Assurance Engagement on the ESEF Documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance with the requirements of §328 Abs. 1 HGB, whether due to fraud or error. We exercise professional judgment and maintain professional skepticism throughout the assurance engagement. We also:

- Identify and assess the risks of material non-compliance with the requirements of §328 Abs. 1 HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance conclusion.
- Obtain an understanding of internal control relevant to the assurance engagement on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance conclusion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815 in the version applicable as at the balance sheet date on the technical specification for this electronic file.
- Evaluate whether the ESEF documents enables a XHTML reproduction with content equivalent to the audited consolidated financial statements and to the audited group management report.
- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on July 23, 2020. We were engaged by the supervisory board on July 23, 2020. We have been the group auditor of the 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 Dr. Bernd Roese.

Mannheim, May 21, 2021

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Bernd Roese	ppa. Stefan Sigmann
Wirtschaftsprüfer	Wirtschaftsprüfer

Financial section 2020/2021

Further information

List of shareholdings

List of shareholdings as per Section 285 no. 11 and Section 313 (2)
(in conjunction with Section 315a (1)) HGB

(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	12,515	1,716
Gallus Druckmaschinen GmbH [1]	D	Langgöns-Oberkleen	100	2,238	– 2,396
Heidelberg Boxmeer Beteiligungs-GmbH [1]	D	Wiesloch	100	127,091	9,282
Heidelberg China-Holding GmbH [1]	D	Wiesloch	100	58,430	116,627
Heidelberg Consumables Holding GmbH [1]	D	Wiesloch	100	382	12,547
Heidelberg Digital Platforms GmbH [1]	D	Wiesloch	100	3,766	– 8
Heidelberger Druckmaschinen Intellectual Property AG & Co. KG	D	Wiesloch	100	105,506	0
Heidelberger Druckmaschinen Vertrieb Deutschland GmbH [1]	D	Wiesloch	100	33,616	– 5,501
Heidelberg Manufacturing Deutschland GmbH [1]	D	Wiesloch	100	42,561	– 10,751
Heidelberg Postpress Deutschland GmbH [1]	D	Wiesloch	100	9,617	– 7,026
Heidelberg Print Finance International GmbH [1]	D	Wiesloch	100	34,849	1,163
Heidelberg Printed Electronics GmbH [5]	D	Wiesloch	100	– 39	– 58
Heidelberg Web Carton Converting GmbH	D	Weiden	100	5,378	2,162
Zaikio GmbH	D	Mainz	100	– 777	– 672
Outside Germany [2]					
Baumfolder Corporation	USA	Sidney, Ohio	100	– 2,168	– 282
Europe Graphic Machinery Far East Ltd.	PRC	Hong Kong	100	2,177	454
Gallus Ferd. Rüesch AG	CH	St. Gallen	100	42,426	690
Gallus Holding AG	CH	St. Gallen	100	33,300	11,847
Gallus Inc. [4]	USA	Philadelphia, Pennsylvania	100	1,029	136
Heidelberg Americas, Inc.	USA	Kennesaw, Georgia	100	101,068	– 3,658
Heidelberg Asia Pte. Ltd.	SGP	Singapore	100	7,083	– 287
Heidelberg Baltic Finland OÜ	EST	Tallinn	100	510	– 1
Heidelberg Benelux B.V.	NL	Haarlem	100	50,129	– 1,023
Heidelberg Benelux N.V.	BE	Brussels	100	13,822	– 175
Heidelberg Boxmeer B.V.	NL	Boxmeer	100	35,222	6,740
Heidelberg Canada Graphic Equipment Ltd.	CDN	Mississauga	100	8,213	– 633
Heidelberg China Ltd.	PRC	Hong Kong	100	7,242	2,086
Heidelberg do Brasil Sistemas Graficos e Servicos Ltda.	BR	São Paulo	100	8,006	4,759
Heidelberg France S.A.S.	F	Roissy-en-France	100	14,893	375
Heidelberg Grafik Ticaret Servis Limited Sirketi	TR	Istanbul	100	3,040	195
Heidelberg Graphic Equipment (Shanghai) Co. Ltd.	PRC	Shanghai	100	190,024	21,288
Heidelberg Graphic Equipment Ltd. - Heidelberg Australia -	AUS	Notting Hill, Melbourne	100	17,236	– 1,169

Name	Country/Domicile		Shareholding in percent	Equity	Net result after taxes
Heidelberg Graphic Equipment Ltd. - Heidelberg New Zealand -	NZ	Auckland	100	2,348	– 70
Heidelberg Graphic Equipment Ltd. - Heidelberg UK -	GB	Brentford	100	25,321	– 7,862
Heidelberg Graphic Systems Southern Africa (Pty) Ltd.	ZA	Johannesburg	100	1,052	– 239
Heidelberg Graphics (Beijing) Co. Ltd.	PRC	Beijing	100	19,308	7,786
Heidelberg Graphics (Thailand) Ltd.	TH	Bangkok	100	7,711	1,613
Heidelberg Graphics (Tianjin) Co. Ltd.	PRC	Tianjin	100	5,711	510
Heidelberg Graphics Taiwan Ltd.	TWN	Wu Ku Hsiang	100	2,154	– 335
Heidelberg Group Trustees Ltd.	GB	Brentford	100	0	0
Heidelberg Hong Kong Ltd.	PRC	Hong Kong	100	10,072	243
Heidelberg India Private Ltd.	IN	Chennai	100	1,903	67
Heidelberg International Ltd. A/S	DK	Ballerup	100	57,888	1,317
Heidelberg International Trading (Shanghai) Co. Ltd.	PRC	Shanghai	100	109	– 1
Heidelberg Italia S.r.L.	IT	Bollate	100	19,239	1,676
Heidelberg Japan K.K.	J	Tokyo	100	18,781	2,391
Heidelberg Korea Ltd.	ROK	Seoul	100	2,980	564
Heidelberg Magyarország Kft.	HU	Kalasch	100	3,949	742
Heidelberg Malaysia Sdn Bhd	MYS	Petaling Jaya	100	– 5,046	– 346
Heidelberg Mexico, S. de R.L. de C.V.	MEX	Mexico City	100	11,003	– 516
Heidelberg Philippines, Inc.	PH	Makati City	100	4,148	– 98
Heidelberg Polska Sp z.o.o.	PL	Warsaw	100	8,787	461
Heidelberg Praha spol s.r.o.	CZ	Prague	100	1,653	31
Heidelberg Print Finance Australia Pty Ltd.	AUS	Notting Hill, Melbourne	100	23,683	111
Heidelberg Print Finance Korea Ltd.	ROK	Seoul	100	17,446	618
Heidelberg Schweiz AG	CH	Bern	100	6,461	1,405
Heidelberg Slovensko s.r.o.	SK	Bratislava	100	708	– 219
Heidelberg Spain S.L.U.	ES	Cornella de Llobregat	100	8,119	– 562
Heidelberg Sverige AB	S	Solna	100	4,033	339
Heidelberg USA, Inc.	USA	Kennesaw, GA	100	77,498	8,804
Heidelberger CIS OOO	RUS	Moscow	100	– 14,100	– 1,037
Heidelberger Druckmaschinen Austria Vertriebs-GmbH	A	Vienna	100	20,958	– 1,742
Heidelberger Druckmaschinen Osteuropa Vertriebs-GmbH	A	Vienna	100	7,170	– 1,191
Press Parts Outlet GmbH	A	Vienna	100	2,046	59
Linotype-Hell Ltd.	GB	Brentford	100	4,024	0
MTC Co., Ltd.	J	Tokyo	99.99	7,990	8
P.T. Heidelberg Indonesia	ID	Jakarta	100	11,847	1,623

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	– 201	– 36
Heidelberg Catering Services GmbH [1]	D	Wiesloch	100	386	– 2,273
Heidelberg Digital Unit GmbH [1]	D	Wiesloch	100	100	45
Heidelberger Druckmaschinen Vermögensverwaltungsgesellschaft mbH	D	Walldorf	100	27	0
Menschick Trockensysteme GmbH	D	Renningen	100	140	83
Outside Germany [2]					
Gallus India Private Limited [4]	IN	Mumbai	100	0	0
Gallus Mexico S. de R.L. de C.V. [4]	MEX	Mexico City	100	0	0
Heidelberg Hellas A.E.E.	GR	Metamorfosis	100	3,899	315
Heidelberger Druckmaschinen Ukraina Ltd.	UA	Kiev	100	–187	311

Name	Country/Domicile		Shareholding in percent	Equity	Net result after taxes
Joint ventures 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	832	18
Heidelberg NetworX Holding Company Limited	PRC	Hong Kong	52	2,728	–7
Shenzhen Heidelberg NetworX Technology Co., Ltd.	PRC	Shenzen	52	828	–1,850
Associated companies not accounted for using the equity method owing to immateriality for the net assets, financial position and results of operations					
Germany					
InnovationLab GmbH [3]	D	Heidelberg	20	2,955	111

[1] Before profit transfer
[2] Disclosures for companies outside Germany in accordance with IFRS
[3] Prior-year figures as financial statements not yet available
[4] In liquidation
[5] Previously: Heidelberger Postpress Beteiligungen GmbH

The Supervisory Board

Dr. Martin Sonnenschein
Shareholder of
A.T. Kearney, Berlin
b) SupplyOn AG

Ralph Arns*
Chair of the
Central Works Council,
Heidelberg/Wiesloch-Walldorf
Deputy Chair of the
Supervisory Board

Joachim Dencker*
Spokesperson of the
Executive Staff, Wiesloch-Walldorf

Gerald Dörr*
Deputy Chair 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
Management Board of thjnk AG,
Hamburg
a) NDR Media GmbH
Studio Hamburg GmbH

Oliver Jung
Chair of the Management Board of
Festo SE & Co. KG, Esslingen
a) Leistritz AG

Kirsten Lange
(until July 23, 2020)
Management Consultant and
supervisory board member, Ulm;
Adjunct Professor of INSEAD,
Fontainebleau, France
a) ATS Automation Tooling Systems Inc.,
Toronto, Canada

Li Li
Chair of Masterwork Group Co., Ltd.,
Tianjin, People's Republic of China

Petra Otte*
Trade union secretary of IG Metall
Baden-Württemberg, Stuttgart
a) Audi AG

Ferdinand Rüesch
Entrepreneur, St. Gallen, Switzerland
b) Ferd. Rüesch AG, Switzerland
(Chair of the Administration Board)

Ina Schlie
(since July 23, 2020)
Diplom-Volkswirtin (degree in
economics) and supervisory board
member, Heidelberg
a) q.beyond AG
b) Würth-Gruppe
(Member of the Advisory Board)

Beate Schmitt*
Full-time member of the
Works Council,
Heidelberg/Wiesloch-Walldorf

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

Committees of the Supervisory Board

MANAGEMENT COMMITTEE

Dr. Martin Sonnenschein (Chair)
Ralph Arns
Gerald Dörr
Mirko Geiger
Oliver Jung
Ferdinand Rüesch

MEDIATION COMMITTEE UNDER ARTICLE 27 PARAGRAPH 3 OF THE CODETERMINATION ACT

Dr. Martin Sonnenschein
Ralph Arns
Gerald Dörr
Ferdinand Rüesch

COMMITTEE ON ARRANGING PERSONNEL MATTERS OF THE MANAGEMENT BOARD

Dr. Martin Sonnenschein (Chair)
Ralph Arns
Gerald Dörr
Karen Heumann
Ferdinand Rüesch
Beate Schmitt

AUDIT COMMITTEE

Oliver Jung (Chair until July 23, 2020)
Ina Schlie (Chair since July 23, 2020)
Ralph Arns
Mirko Geiger
Kirsten Lange (until July 23, 2020)
Beate Schmitt
Dr. Martin Sonnenschein

NOMINATION COMMITTEE

Dr. Martin Sonnenschein (Chair)
Oliver Jung
Ferdinand Rüesch

STRATEGY COMMITTEE

Dr. Martin Sonnenschein (Chair)
Ralph Arns
Mirko Geiger
Karen Heumann
Oliver Jung
Kirsten Lange (until July 23, 2020)
Li Li
Ferdinand Rüesch
Ina Schlie (since July 23, 2020)

The Management Board

Rainer Hundsdörfer
Heidelberg
Chief Executive Officer,
Management Board Member
Heidelberg Digital Technology and
Heidelberg Lifecycle Solutions

- * Marquardt GmbH (Chair)
- ** Heidelberg Americas, Inc., USA
  (Chair of the Board of Directors)
  Heidelberg USA, Inc., USA
  (Chair of the Board of Directors)

Marcus A. Wassenberg
Heidelberg
Chief Financial Officer,
Management Board Member
Heidelberg Financial Services,
Chief Human Resources Officer

- ** Heidelberg Americas, Inc., USA
  Heidelberg USA, Inc., USA
  Heidelberg Graphic Equipment Ltd.,
  Australia
  Heidelberg Japan K.K., Japan

* 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. MARTIN SONNENSCHEIN
Chair of the Supervisory Board

Dear shareholders,

The past financial year 2020/2021 was a year of enormous challenges for each and every one of us. The COVID-19 crisis accompanied us throughout the entire reporting year, leaving its mark in all areas as well as on our financial key figures. Heidelberg successfully counteracted the impact of the global pandemic, significantly strengthening its financial base, optimizing its processes and structures and establishing sustainable cost-cutting measures thanks to the transformation program it initiated in spring 2020. We stabilized the Company and opened up perspectives for the future. This is impressively demonstrated by the results we achieved in a financial year that was anything but straightforward.

In the past financial year, our Company also showed that it can do more than just build first-class, state-of-the-art printing presses. With its solutions for private charging systems for electric vehicles – known as Wallboxes – Heidelberg has started a new success story in the market for e-mobility and made a name for itself beyond the printing and packaging markets. This kind of technology transfer from printing press production, which remains Heidelberg's undisputed core competency, to other promising industries opens up new opportunities for the Company to monetize its unique innovative strength across a wide range of fields and applications, and we intend to increasingly move in this direction, in order to create additional value. As a technology company, Heidelberg seeks out leading positions in new markets with extensive growth momentum and considerable earnings potential with a view to leveraging its full potential.

Thanks to the success of its transformation program and the focus on growth areas within its core competency of printing and packaging together with its digitalization and software solutions and industry-spanning platforms and new business areas, Heidelberg is now in a position to generate value, create customer value and operate profitably for all of its stakeholders, from shareholders and employees to customers and business partners. The financial year 2020/2021 represented an important step in the right direction, and we will now do everything in our power to guide Heidelberg into a sustainably profitable future. The Management Board and the Supervisory Board are pursuing this goal together with clear orientation and consistent action.

Close cooperation between Management Board and Supervisory Board

The Supervisory Board of Heidelberger Druckmaschinen AG again performed its duties in accordance with the law, the Articles of Association and its Rules of Procedure in full in the financial year 2020/2021. The Supervisory Board continuously monitored the Management Board, regularly advised it on the running of the Company and oversaw key strategic issues. We were assured of the legality, expediency and compliance of the work of the Management Board at all times.

The Management Board reported to the Supervisory Board regularly, promptly and comprehensively in written or verbal form on all matters relevant to the Company. Namely, these include planning, corporate strategy, major transactions by the Company and the Group, and the associated opportunities and risks, in addition to compliance issues. The Management Board kept the Supervisory Board informed continuously and in detail about the Group's sales, earnings, employment and business performance, and the Company's financial position. On receipt of the information, the Supervisory Board discussed and dealt with all the above topics in depth. In particular, the Supervisory Board discussed and examined all 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. The Chair of the Supervisory Board was in continuous contact with the Management Board and especially with the Chief Executive Officer and discussed significant current issues and developments at the Company with them. The focal points of these discussions included strategy, risk management and the Company's business situation and liquidity. The chairs 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 all decisions of material importance to the Company and the Group in good time and reviewed these decisions ahead of their implementation. The members of the Supervisory Board always had sufficient opportunity to scrutinize the information and resolution proposals they received from the Management Board and to make suggestions at the meetings of the committees and the Supervisory Board as a whole.

Where 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 so required by law and the Articles of Association or the Rules of Procedure for the Management Board.

The Supervisory Board is aware that the Supervisory Board member Ms. Li Li is the CEO and President of Masterwork Group Co. Ltd. Ms. Li Li did not participate in the discussion and resolution of the Supervisory Board on the conclusion of the long-term cooperation agreement with Masterwork Group Co., Ltd. Above and beyond this, the members of the Management Board and the Supervisory Board did not experience any conflicts of interest in the period under review that would have required disclosure in accordance with the German Corporate Governance Code.

The members of the Supervisory Board undertake the basic and advanced training they need to carry out their duties, such as on corporate governance issues or new products, autonomously and are supported by the Company where necessary. As part of her induction, the member of the Supervisory Board newly appointed in the financial year 2020/2021 met with the members of the Management Board to discuss current topics in the respective Management Board divisions in order to obtain an overview of the relevant topics at the Company.

Meetings of the Supervisory Board and key topics

The Supervisory Board held five ordinary meetings and two extraordinary meetings in the reporting year, some of which were held as conference calls due to the pandemic. The average attendance rate at the meetings of the Supervisory Board and its committees was around 98 percent in the financial year 2020/2021. The following table shows the individual breakdown of meeting participation:

	Meeting attendance
Full Supervisory Board	
Dr. Martin Sonnenschein (Chair)	7/7
Ralph Arns*	7/7
Joachim Dencker*	7/7
Gerald Dörr*	7/7
Mirko Geiger*	7/7
Karen Heumann	6/7
Oliver Jung	7/7
Kirsten Lange - until July 23, 2020 -	3/3
Li Li	7/7
Petra Otte*	7/7
Ferdinand Rüesch	7/7
Beate Schmitt*	7/7
Ina Schlie - since July 23, 2020 -	4/4
Audit Committee	
Ina Schlie (Chair) - since July 23, 2020 -	3/3
Oliver Jung (Chair until July 23, 2020)	5/7
Ralph Arns*	7/7
Mirko Geiger*	7/7
Kirsten Lange - until July 23, 2020 -	4/4
Beate Schmitt*	7/7
Dr. Martin Sonnenschein	7/7
Personnel Matters Committee	
Dr. Martin Sonnenschein (Chair)	6/6
Ralph Arns*	6/6
Gerald Dörr*	6/6
Karen Heumann	6/6
Ferdinand Rüesch	6/6
Beate Schmitt*	6/6

	Meeting attendance
Nomination Committee	
Dr. Martin Sonnenschein (Chair)	4/4
Oliver Jung	4/4
Ferdinand Rüesch	4/4
Strategy Committee	
Dr. Martin Sonnenschein (Chair)	1/1
Ralph Arns*	1/1
Mirko Geiger*	1/1
Karen Heumann	1/1
Oliver Jung	1/1
Kirsten Lange - until July 23, 2020 -	-
Li Li	0/1**
Ferdinand Rüesch	1/1
Ina Schlie - since July 23, 2020 -	1/1
Management Committee	
Dr. Martin Sonnenschein (Chair)	6/6
Ralph Arns*	6/6
Gerald Dörr*	6/6
Mirko Geiger*	6/6
Oliver Jung	6/6
Ferdinand Rüesch	6/6

* Employee representative
** Ms. Li Li was unable to attend the meeting of the Strategy Committee. However, the Chair of the Supervisory Board, Dr. Sonnenschein, asked for Ms. Li's opinions on strategic matters ahead of the meeting.

The members of the Management Board took part in the meetings of the Supervisory Board unless it seemed appropriate to discuss individual matters without their participation.

The Supervisory Board's discussions focused on issues relating to strategy, the portfolio and the business activities of Heidelberger Druckmaschinen AG. The Supervisory Board also continued to intensively address the liquidity situation, the capital structure and M & A transactions, particularly the sale of the Print Media Academy in Heidelberg, the sale of part of the plant premises in Wiesloch-Walldorf, and the sale of the Gallus Group to the benpac Group.

In particular, the Supervisory Board discussed the following key topics in the reporting year:

At its extraordinary meeting on April 30, 2020, the Supervisory Board discussed the current financial situation of the Company, resource allocation, and opportunities and risks. The Supervisory Board also discussed cash planning and COVID-19 scenarios as well as the cooperation with Masterwork. Management Board matters were also addressed. Additionally, Dr. Sonnenschein reported on the meeting of the Nomination Committee on March 25, 2020 and on potential partnerships.

At its meeting on June 4, 2020, the Supervisory Board discussed the reporting of the Management Board on the business situation and the budget, as at every meeting held in the year under review. In particular, the Supervisory Board also addressed the single-entity and consolidated financial statements and the management reports for the Company and the Heidelberg Group for the financial year 2019/2020, the report of the Supervisory Board, the Corporate Governance Declaration that is combined with the Corporate Governance Report, and the separate non-financial report for the financial year 2019/2020. Following the presentation and discussion of the auditor's report on the single-entity and consolidated financial statements, including the supplementary audit, the Supervisory Board established that there were no objections based on the final results of the examination by the Audit Committee and its own examination, and thus approved the single-entity and consolidated financial statements. The Supervisory Board also adopted the agenda for the 2020 Annual General Meeting and the resolution proposals made by the Supervisory Board to the Annual General Meeting, including the proposal concerning the election of Dr. Martin Sonnenschein and Ms. Ina Schlie as members of the Supervisory Board of the Company. The meeting also discussed the liquidity situation, equity measures and the new operating model. Furthermore, the chairs of the respective committees reported on the meeting of the Personnel Matters Committee on June 3, 2020, the meeting of the Nomination Committee on May 27, 2020, the meetings of the Audit Committee on May 5 and June 3, 2020, and the meeting of the Management Committee on May 12, 2020.

The Supervisory Board discussed an M & A project at its meeting on July 23, 2020 ahead of the Annual General Meeting. The chairs of the respective committees reported on the meetings of the Audit Committee on July 22, 2020, the Personnel Matters Committee on July 6, 2020, and the Management Committee on June 30, 2020. The meeting also discussed compliance topics as well as the forthcoming Annual General Meeting and the corresponding resolution proposals.

At the constituent meeting immediately following the Annual General Meeting on July 23, 2020, the Supervisory Board reappointed Dr. Martin Sonnenschein as the Chair of the Supervisory Board and Ralph Arns as the Deputy Chair of the Supervisory Board and elected the members of the six Supervisory Board committees. Furthermore, the Supervisory Board resolved to commission PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft as the auditor of the single-entity and consolidated financial statements for the financial year 2020/2021 following its election by the Annual General Meeting and issued the corresponding audit engagement. The Supervisory Board also resolved to amend the Rules of Procedure for the Supervisory Board with a view to the amendments to the Articles of Association resolved by the Annual General Meeting.

At its extraordinary meeting on September 3, 2020, the Supervisory Board discussed the current business situation and financing options of the Company and discussed and resolved the sale of the Gallus Group to the benpac Group. The Supervisory Board also discussed strategic approaches in China and marketing and sales during the COVID-19 crisis. Further cooperation with the Masterwork Group Co. Ltd was also discussed. Dr. Sonnenschein reported on the work of the Personnel Matters Committee. An ongoing project was also discussed.

The meeting of the Supervisory Board on November 26, 2020 focused on reporting and discussing the current business situation with the Management Board. A report on the status of the Gallus transaction with benpac was also provided. Additionally, the Supervisory Board discussed the cooperation with Masterwork Group Co. Ltd. and approved the conclusion of a long-term cooperation agreement involving the formation of a joint venture, HeiMaster Technology Co. Ltd. (HeiMaster), in Tianjin, China. The Supervisory Board also confirmed the resolution regarding the creation of a land charge. After reviewing the recommendations and suggestions of the German Corporate Governance Code, the Supervisory Board also approved the issue, amendment and publication of the declaration of compliance of November 26, 2020. The Supervisory Board also discussed Management Board matters. The chairs of the respective committees reported on the meeting of the Audit Committee on November 6, 2020, the meeting of the Strategy Committee on November 25, 2020, the meetings of the Management Committee on August 21 and November 13, 2020, and the meetings of the Personnel Matters Committee on October 29 and November 18, 2020. The Supervisory Board also acknowledged and approved the new allocation of duties as of October 1, 2020.

The topics discussed at the Supervisory Board's last meeting of the reporting year, on March 25, 2021, included 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 also addressed competition, strategy, projects, Gallus, and M & A and finance projects. The chairs of the respective committees also reported on the meetings of the Audit Committee on February 2 and 9, 2021 as well as the meetings of the Management Committee on February 19 and March 10, 2021.

Furthermore, the Supervisory Board passed five resolutions by way of written circular during the financial year 2020/2021.

Corporate governance

The Supervisory Board continuously addressed the standards of good corporate governance in the course of financial year 2020/2021. 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.

Corporate governance at Heidelberger Druckmaschinen AG is discussed in detail in the combined corporate governance report and corporate governance declaration on pages 177 to 185 of the Annual Report.

Work in the committees

The Supervisory Board of the Company has set up six permanent committees to support it in its work:

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

The Supervisory Board's six committees prepare decisions for the Supervisory Board as a whole and pass resolutions on matters delegated to them for a decision.

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 in the financial year 2020/2021 is presented in the notes to the consolidated financial statements.

The Personnel Matters Committee met six times in the reporting year 2020/2021. Its activities focused on the definition and review of the targets for variable compensation, the reorganization of Management Board compensation with a view to the recommendations of the German Corporate Governance Code, and human resources matters relating to Management Board contracts. The Audit Committee held six regular meetings and one extraordinary meeting in the reporting year. It examined quarterly and ad hoc issues relating to the Company's net assets, financial position and results of operations and its risk reporting. Furthermore, together with the auditor, this committee also focused intensively on the annual and consolidated financial statements in addition to the quarterly financial statements, the accounting policies applied and the specifics of the separate and consolidated financial statements. Other topics discussed at the meetings included the liquidity situation of the Heidelberg Group and its refinancing, the development of the capital structure (equity and borrowed funds), the effects of the reorganization and ongoing development of the segments, revenue recognition and accounting for leases, the revaluation of land, accounting for and assessing the subscription business model, risk management, the internal controlling and audit system, compliance, the implementation and impact of the portfolio and restructuring measures, the impact of the COVID-19 pandemic, the accounting treatment of pension provisions, investment controlling and sales financing.

The Strategy Committee met once in the reporting year and discussed the core business of the Company, contract and lifecycle business, the strategy in China, the value chain and the strategic orientation of R & D operations. The Strategy Committee also discussed the growth in digital business and software, the growth strategy for e-mobility and printed electronics, and packaging.

The Nomination Committee met four times in the reporting year. Its meeting in 2020 addressed the proposals for election to the Supervisory Board at the Annual General Meeting on July 23, 2020 (Dr. Martin Sonnenschein, Ina Schlie), while its meetings in 2021 addressed the successor to Ms. Karen Heumann.

The Management Committee met six times in the reporting year. It discussed strategic opportunities, the business situation and measures to strengthen the Company's equity, the Gallus transaction, and the Company's planning.

The Mediation Committee in accordance with section 27 (3) of the German Codetermination Act did not need to convene in the reporting year.

Audit of the single-entity and consolidated financial statements

The Annual General Meeting on July 23, 2020, appointed PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, as the auditor of the single-entity and consolidated financial statements. This company audited the single-entity financial statements for the financial year 2020/2021, 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 on May 20, 2021 and issued each with unqualified opinions. The auditor responsible for the audit was Dr. Bernd Roese, who held this position for the first year. 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 all of the members of the Supervisory Board immediately after their preparation. The reports of the auditors were also distributed to all of the members of the Supervisory Board in good time. At the meeting of the Audit Committee on June 1, 2021, the responsible auditor presented the results of the audit and the Audit Committee discussed the single-entity and consolidated financial statements, the management report for the Company and the management report for the Heidelberg Group and the audit documentation in the presence of the auditor in order to prepare its discussion by the full Supervisory Board. The auditor answered all questions in full. The auditor was also represented at the Supervisory Board meeting on June 2, 2021 by the two auditors who signed the audit opinions. During the meeting of the full Supervisory Board, they reported on the results of their audit and on the fact that there are no significant weaknesses in the internal controlling and risk management system with regard to the (Group) accounting process. They were available to the members of the Supervisory Board to answer questions and answered all of these questions in full. 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 Chair of the Audit Committee reported to the Supervisory Board on the key contents and findings of the examination by the Audit Committee and gave recommendations for the resolutions by the Supervisory Board, including the approval of the single-entity and consolidated financial statements as prepared. In line with the Audit Committee's proposal, the Supervisory Board then concurred with the audit findings. On the basis of its own examination of the single-entity financial statements, the consolidated financial statements, the management report of Heidelberger Druckmaschinen Aktiengesellschaft and the management report of the Heidelberg Group, the Supervisory Board came to the conclusion that it had no reservations. The Supervisory Board approved the single-entity financial statements of Heidelberger Druckmaschinen Aktiengesellschaft for the year ended March 31, 2021 as prepared by the Management Board and the consolidated financial statements of the Heidelberg Group for the year ended March 31, 2021. The single-entity financial statements were therefore adopted.

The Supervisory Board also examined the separate combined non-financial report for the financial year 2020/2021. This was reviewed by the auditor, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, on the basis of a voluntary content review resolved by the Supervisory Board. The Supervisory Board discussed the separate combined non-financial report with the auditors and came to the conclusion that it had no reservations. The separate combined non-financial report will be published on the Company's website on June 9, 2021.

Personnel changes in the Supervisory Board and the Management Board

There were two personnel changes among the shareholder representatives on the Supervisory Board of Heidelberger Druckmaschinen AG. Ms. Kirsten Lange stepped down from the Supervisory Board of the Company at the end of the Annual General Meeting on July 23, 2020. Ms. Ina Schlie was newly elected to the Supervisory Board at the Annual General Meeting on July 23, 2020.

The Supervisory Board wishes to express its particular gratitude to the departing member of the Supervisory Board for her work.

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

The Supervisory Board would like to thank the members of the Management Board, all the employees of the Heidelberg Group around the world and their representatives on the Supervisory Board, the members of the Works Councils and the Representative Committee for their commitment in the financial year 2020/2021 and their achievements in a challenging environment.

The Supervisory Board would like to conclude by thanking you, the shareholders, for the confidence you have placed in the Company and in the shares of Heidelberger Druckmaschinen Aktiengesellschaft.

Heidelberg, June 2, 2021

FOR THE SUPERVISORY BOARD

DR. MARTIN SONNENSCHEIN

Chair of the Supervisory Board

Corporate Governance Declaration, Corporate Governance Report (as of June 2021)

The Corporate Governance Declaration in accordance with sections 289f and 315d of the German Commercial Code (HGB) has been combined for Heidelberger Druckmaschinen Aktiengesellschaft and the Heidelberg Group. Unless expressly stated otherwise below, the information shown applies to both Heidelberger Druckmaschinen Aktiengesellschaft and the Heidelberg Group. In this declaration on the management of the Company, the Management Board and the Supervisory Board also report on corporate governance (Corporate Governance Report). The Corporate Governance Declaration is also available on our website www.heidelberg.com under Corporate Governance Declaration/Corporate Governance Report.

This Corporate Governance Declaration contains the declaration of compliance in accordance with section 161 of the German Stock Corporation Act (AktG), relevant information about corporate governance practices, descriptions of the working procedures of the Management Board and the Supervisory Board and the composition and working procedures of the committees, and information on the targets for the proportion of women and the Company's diversity concept.

1. Basic information

Our actions are guided by the principles of transparent corporate management and control (corporate governance). Corporate governance enjoys high priority at Heidelberger Druckmaschinen Aktiengesellschaft. It is the foundation for the trust of shareholders, customers, investors, employees, the financial markets and the public in our Company.

As Heidelberger Druckmaschinen Aktiengesellschaft is a listed company (German securities code number (WKN) 731400, ISIN DE0007314007) domiciled in Germany and entered in the commercial register of the Mannheim Local Court under HRB 330004, corporate governance and the requirements for its corporate management are regulated primarily by the German Stock Corporation Act (AktG), the German Codetermination Act (MitbestG), the suggestions and recommendations of the German Corporate Governance Code (in its most recent version), the Articles of Association of Heidelberger Druckmaschinen Aktiengesellschaft, and the Rules of Procedure for the Supervisory Board and the Management Board. The Rules of Procedure for the Management Board and the Supervisory Board in their most recent version can be found on the website of Heidelberger Druckmaschinen AG (www.heidelberg.com) under Articles of Association & Rules of Procedure.

The recommendations and suggestions of the Code were again largely complied with in the financial year 2020/2021. Ensuring effective management and control in an evolving corporate structure remains the priority. It is regularly checked to ensure that all laws and mandatory regulations are complied with throughout the Group and that recognized standards and recommendations are followed in addition to the Company's values, Code of Conduct and corporate guidelines.

2. Current declaration of compliance

The Management Board and the Supervisory Board addressed the recommendations of the German Corporate Governance Code in the financial year 2020/2021. These discussions culminated in the adoption of the annual declaration of compliance on November 26, 2020:

Declaration on the German Corporate Governance Code in accordance with section 161 AktG

The Management Board and the Supervisory Board of Heidelberger Druckmaschinen Aktiengesellschaft hereby submit the following declaration of compliance in accordance with section 161 of the Aktiengesetz (AktG – German Stock Corporation Act):

I. Declaration of compliance with the German Corporate Governance Code as amended on February 7, 2017

Since issuing its last declaration of compliance on November 27, 2019, Heidelberger Druckmaschinen Aktiengesellschaft complied with all the recommendations of the Government Commission of the German Corporate Governance Code as amended on February 7, 2017 (the "2017 Code"), and as promulgated by the German Federal Ministry of Justice in the official section of the Federal Gazette on April 24, 2017, up until the publication of the new version of the German Corporate Governance Code in the official section of the Federal Gazette on March 20, 2020, with the following exceptions:

The Company deviated from the recommendation of item 5.3.2 (3), third sentence of the 2017 Code, which states that the Chair of the Supervisory Board should not be the Chair of the Audit Committee, until the end of November 30, 2019 as, given the workload associated with the office of Chair of the Audit Committee, no other member of the Supervisory Board felt able to assume this role at the time of the election. However, the recommendation of item 5.3.2 (3), third sentence of the 2017 Code has been followed since December 1, 2019.

Heidelberger Druckmaschinen Aktiengesellschaft deviated from the recommendations of item 5.4.1 (2) of the 2017 Code to the extent that the Supervisory Board is expected to set a limit on the time that members of the Supervisory Board can be on this committee. In the opinion of the Supervisory Board of the Company, personal qualifications, long-term experience and expertise should be the primary factors for proposals of suitable candidates for election to the Supervisory Board.

Furthermore, Heidelberger Druckmaschinen Aktiengesellschaft deviated from the recommendation of item 5.4.1 (5), second sentence of the 2017 Code to the extent that the Company only publishes the résumés of the shareholder representatives on the Supervisory Board on its website on account of the data protection interests of its employees.

II. Declaration of compliance with the German Corporate Governance Code as amended on December 16, 2019

Since the German Corporate Governance Code as amended on December 16, 2019 was published in the official section of the Federal Gazette on March 20, 2020 (the “2020 Code”), the Company has complied with the recommendations of the 2020 Code with the following exceptions and will comply with the recommendations of the 2020 Code with the following exceptions:

Heidelberger Druckmaschinen Aktiengesellschaft has deviated from recommendation C.14 of the 2020 Code, which states that résumés for all members of the Supervisory Board should be updated on the Company’s website each year, and will continue to do so in the future to the extent that the company publishes only the résumés of the shareholder representatives on the Supervisory Board on its website on account of the data protection interests of its employees. In light of this, the Company also initially deviated from recommendation C.3 of the 2020 Code – to disclose the term of Supervisory Board membership for all members of the Supervisory Board – with reference to the employee representatives on the Supervisory Board. The Supervisory Board terms for all members of the Supervisory Board have been available on the Company’s website since November 2020, and the Company will comply with recommendation C.3 of the 2020 Code in the future.

Recommendations G.1 to G.16 of the 2020 Code relating to the remuneration system for the Management Board and Management Board remuneration were extensively amended. The current remuneration system for the Management Board and the existing Management Board contracts do not currently meet the recommendations of G.1 to G.16 of the 2020 Code in full. As per the rationale of the 2020 Code, amendments to the Code are not required to be taken into account in current Management Board contracts, but rather – to the extent that they are to be followed – only when Management Board contracts are extended after the revised version of the 2020 Code enters into force. The Personnel Matters Committee is reviewing the remuneration system and currently preparing a proposal to the Supervisory Board for the new version of the remuneration system. The Supervisory Board will review the Management Board remuneration system and resolve on it in accordance with section 87a AktG and intends to present the remuneration system to the 2021 Annual General Meeting for approval in accordance with the statutory transitional periods. In the course of the resolution on the remuneration system under section 87a AktG, the Supervisory Board will decide to what extent the remuneration-related recommendations of the 2020 Code will be met in the future.

The Management Board and the Supervisory Board provisionally intend to update the annual declaration of compliance on November 25, 2021 following due examination. This declaration will then be published at www.heidelberg.com under Corporate Governance, which is also where previous declarations of compliance can be found.

3. Information on corporate governance practices

Our philosophy is to manage with goals. It extends across all divisions and hierarchical levels of the Company and is reflected in remuneration systems and practice. Goals are derived from the strategy. Their content is determined, agreed and regularly reviewed and is remunerated accordingly at the end of the defined period.

In doing so, the Company adheres to a comprehensive system of internal guidelines headed by the Company’s values. Five principles in the areas of management, organization, the code of conduct, quality, and environmental protection form the framework for more detailed specifications in further guidelines, which also cover occupational safety and product safety issues.

For Heidelberger Druckmaschinen Aktiengesellschaft, compliance is a fundamental element of successful management and good corporate governance. Heidelberger Druckmaschinen Aktiengesellschaft is aware of its role in society and its responsibility toward its customers, suppliers, business partners, employees and shareholders. Reliability for its business partners, the quality of its products and services, proper processes and legal compliance are key principles for the business activities of Heidelberger Druckmaschinen Aktiengesellschaft.

The purpose of the code of conduct is to provide guidance for all employees around the world. This extends from clear requirements for legal compliance and recommendations on conduct in respect of business partners and employees to the Company's clearly formulated expectations regarding the careful handling of operating resources. A binding Business Partner Code of Conduct is also communicated to suppliers worldwide in close cooperation between Compliance and the Procurement department.

The Company's Management Board and executives work together to ensure compliance with internal regulations, and this is regularly reviewed by Internal Audit. In addition, an external and independent ombudsman is in place to confidentially receive information from employees and third parties giving rise to a suspicion of crimes or other violations of the law or (internal) regulations (especially illegal business practices).

We have also published our Code of Conduct and our Business Partner Code of Conduct in the Compliance section of our website at www.heidelberg.com. The values and the Code of Conduct are also published under Corporate Governance.

4. Description of the working procedures of the Management Board and the Supervisory Board

In accordance with the requirements of the AktG, the management system of the Company is divided into a management body, the Management Board, and a monitoring body, the Supervisory Board. This dual management system as prescribed by the AktG provides for a personal and functional separation between the management body (Management Board) and the monitoring body (Supervisory Board). The Management Board manages the Company, while the Supervisory Board monitors and advises the Management Board. The Annual General Meeting is an additional corporate body at which shareholders can exercise their rights as owners of the Company.

The Management Board currently consists of two members.

The Supervisory Board consists of 12 members. In accordance with the MitbestG, half of the members are shareholder representatives and half are employee representatives. Information on the current composition of the Management Board and the Supervisory Board and the mandates of their members can be found on pages 166 to 168 of our Annual Report.

In addition to the legal requirements and the recommendations of the German Corporate Governance Code, the Rules of Procedure for the Management Board in particular detail the activities, duties and internal organization of the Management Board. Together with the Rules of Procedure for the Supervisory Board, the Rules of Procedure for the Management Board also regulate cooperation between the two executive bodies. We have published the Rules of Procedure for the Management Board, which include the current allocation of duties, and the Rules of Procedure for the Supervisory Board on our website www.heidelberg.com under Corporate Governance.

On the basis of the Rules of Procedure for the Management Board and the Supervisory Board, the detailed working procedures of the Management Board and the Supervisory Board and the detailed cooperation between the executive bodies of the Company are as follows:

The Management Board manages the Company under its own authority with the goal of generating sustained value added. It has an obligation to the interests of the Company and takes into account the concerns of its shareholders, employees, and other groups affiliated to the Company (stakeholders). The members of the Management Board are jointly responsible for overall management. They work cooperatively and inform each other about key measures and processes within their departments. The Management Board conducts the Company's business in accordance with the law, the Articles of Association and these Rules of Procedure. It also ensures compliance with these provisions and corporate policy within the Group in addition to ensuring appropriate risk and opportunity management.

The Supervisory Board advises the Management Board on, and monitors its management of, the Company. All of the members of the Supervisory Board have the same rights and obligations regarding their activities and responsibilities on the Supervisory Board. They are not required to comply with orders or instructions.

At the time of reporting, the Supervisory Board consists of the following members:

Name
Dr. Martin Sonnenschein – Chair of the Supervisory Board
Ralph Arns* – Deputy Chair of the Supervisory Board
Joachim Dencker*
Gerald Dörr*
Mirko Geiger*
Karen Heumann
Oliver Jung
Li Li
Petra Otte*
Ferdinand Rüesch
Ina Schlie
Beate Schmitt*

* Employee representatives

Further information on all members of the Supervisory Board in office during the reporting period can be found on pages 166 to 167 of our Annual Report.

The Management Board works with the Supervisory Board on a basis of trust for the good of the Company. The Management Board is responsible for providing the Supervisory Board with sufficient information, which the Supervisory Board actively supports in line with its own Rules of Procedure. The Management Board and the Supervisory Board report on corporate governance within the Company in the Corporate Governance Declaration that is combined with the Corporate Governance Report. This includes an explanation of why recommendations of the German Corporate Governance Code have not been or are not complied with. This is explained in particular in the declaration in accordance with Section 161 AktG.

In the first three months of the financial year, the Management Board must prepare the annual financial statements, the management report, the consolidated financial statements and the Group management report for the last financial year and submit these to the Supervisory Board immediately upon their completion. At the same time, the Management Board must submit to the Supervisory Board the proposal it intends to make to the Annual General Meeting for the appropriation of net profits. The separate combined non-financial report is also presented to the Supervisory Board immediately after it has been prepared. The Supervisory Board examines the single-entity financial statements and the management report, the consolidated financial statements and the Group management report, and any proposal on the appropriation of net profits. Following discussions with the auditor and taking into account the audit reports prepared by the auditor and the audit findings of the Audit Committee, the Supervisory Board declares whether it has any objections to raise based on the final result of its own examination. If this is not the case, the Supervisory Board approves the financial statements; the annual financial statements are adopted once this approval is granted. The Supervisory Board also examines the separate non-financial report. The Supervisory Board reports to the Annual General Meeting on the results of its examination and the nature and extent of its monitoring of the Management Board during the past financial year.

The Management Board reports on its strategy, its intended business policy and other fundamental corporate planning issues at Company and Group level at least once a year. This report sets out the focal points for the Management Board's planned management of the Company. In particular, this includes an explanation of the intended development and strategic orientation of the Group, a presentation of the financial and accounting policy for the Group and its divisions, and an explanation of and reasons for deviations between previously reported objectives and actual performance. Irrespective of this, the Chair of the Supervisory Board maintains regular contact with the Chair of the Management Board and discusses the strategy, business performance and risk management of the Company with him.

At the meeting of the Supervisory Board in connection with the resolution on the single-entity and consolidated financial statements (the accounts meeting), the Management Board reports on the profitability of the Company and the Group and, in particular, the return on equity. This report includes details of the earnings power of the Group as a whole and its individual divisions on the basis of informative profitability data, with comparisons against the previous year and against forecasts in each case.

In accordance with the Articles of Association and the Rules of Procedure, the Management Board requires the approval of the Supervisory Board for acquisitions, disposals and the encumbrance of property and hereditary building rights, for acquisitions and disposals of shares in companies and for accepting warranties, guarantees or similar liabilities if their value exceeds the limits set out in the Articles of Association and/or the Rules of Procedure. Taking out loans also requires the approval of the Supervisory Board. The Articles of Association and the Rules of Procedure for the Management Board and the Supervisory Board set out additional actions that require approval and how this is regulated. The Supervisory Board granted its approval for individual transactions to the extent so required by law and the Articles of Association or the Rules of Procedure for the Management Board.

The Supervisory Board's tasks include the appointment and, where applicable, dismissal of the members of the Management Board. The Supervisory Board also defines the individual total compensation of the members of the Management Board at the proposal of the Personnel Matters Committee and resolves and regularly reviews the compensation system for the Management Board. The Supervisory Board works with the Management Board and with the support of the Personnel Matters Committee to ensure the long-term succession planning for the Management Board. In addition to the requirements of the AktG and the German Corporate Governance Code, long-term succession planning takes qualifications, professional experience and diversity into account in particular. The Personnel Matters Committee regularly advises on long-term succession planning for the Management Board. In doing so, it takes into account the Company's management planning as explained to it by the Management Board. The Management Board and the Supervisory Board also discuss the Company's management planning and the systematic development of managers on an ad hoc basis. In filling Management Board positions, the Personnel Matters Committee regularly performs an initial selection of suitable candidates and conducts structured interviews with them, taking into account the respective requirement profile. The Personnel Matters Committee reports to the Supervisory Board on this process, presents individual candidates to the Supervisory Board, and submits a recommended resolution to the Supervisory Board. In identifying and selecting candidates, the Supervisory Board and the Personnel Matters Committee are supported by external advisors as necessary. The current age limit for Management Board members as defined in the respective contracts of employment is 65 years of age.

The Supervisory Board regularly assesses how effectively the Supervisory Board as a whole and its committees perform their duties. The Supervisory Board conducted its most recent self-assessment in March 2021 by means of an online questionnaire.

The members of the Supervisory Board undertake the basic and advanced training they need to carry out their duties, such as on corporate governance issues or new products, autonomously and are supported by the Company where necessary. New members of the Supervisory Board are given the opportunity to meet with the members of the Management Board for a bilateral discussion of current topics in order to obtain an overview of the relevant topics at the Company.

The composition of the Supervisory Board, including the necessary personal information and details of mandates on other supervisory boards, can be found on pages 166 to 167 of our Annual Report. Details of the work of the Supervisory Board can be found in the current Report of the Supervisory Board on pages 170 to 176 of the Annual Report. The remuneration report can be found on pages 63 to 69 of the Annual Report. The Annual Report will be published in the Investor Relations section of our website www.heidelberg.com on June 9, 2021.

5. Description of the composition and working procedures of the committees

The Management Board has not formed any committees.

The Supervisory Board has formed six committees consisting of its members: the Mediation Committee, the Audit Committee, the Personnel Matters Committee, the Management Committee, the Nomination Committee, and the Strategy Committee.

The Supervisory Board appoints a member of each committee as the chair of that committee unless stated otherwise in the Rules of Procedure. In selecting and appointing the Chair of the Audit Committee, the Supervisory Board ensures that the Chair of the Audit Committee has special knowledge and experience in the application of accounting standards and internal control procedures and is familiar with auditing, is independent of the Company, the Management Board or a controlling shareholder, and is not a former member of the Management Board of the Company whose appointment ended less than two years ago. The

Chair of the Supervisory Board should not serve as the Chair of the Audit Committee.

As a matter of principle, the Rules of Procedure also permit the Supervisory Board to delegate Supervisory Board decisions to its committees. However, decisions on the remuneration of the Management Board lie with the Supervisory Board. They may not be delegated to the Personnel Matters Committee and must be decided by the full Supervisory Board.

The Chairs of the committees regularly report to the meetings of the Supervisory Board on the meetings of the committees and their activities. These consist primarily in preparing specific topics and resolutions to be discussed at Supervisory Board meetings.

The committees of the Supervisory Board are composed as follows as of the reporting date:

Management Committee
Dr. Martin Sonnenschein (Chair)
Ralph Arns
Gerald Dörr
Mirko Geiger
Oliver Jung
Ferdinand Rüesch

Mediation Committee in accordance with section 27 (3) of the German Codetermination Act
Dr. Martin Sonnenschein
Ralph Arns
Gerald Dörr
Ferdinand Rüesch

Committee on Arranging Personnel Matters of the Management Board
Dr. Martin Sonnenschein (Chair)
Ralph Arns
Gerald Dörr
Karen Heumann
Ferdinand Rüesch
Beate Schmitt

Audit Committee
Ina Schlie (Chair)
Ralph Arns
Mirko Geiger
Oliver Jung
Beate Schmitt
Dr. Martin Sonnenschein

Nomination Committee
Dr. Martin Sonnenschein (Chair)
Oliver Jung
Ferdinand Rüesch

Strategy Committee
Dr. Martin Sonnenschein (Chair)
Ralph Arns
Mirko Geiger
Karen Heumann
Oliver Jung
Li Li
Ferdinand Rüesch
Ina Schlie

The committees are also described on page 167 of our Annual Report. Details of the work of the Supervisory Board committees can be found in the current Report of the Supervisory Board on pages 170 to 176 of the Annual Report. Information on the remuneration of the Management Board and Supervisory Board members can be found in the remuneration report on pages 63 to 69 of the Annual Report. The Annual Report will be published in the Investor Relations section of our website www.heidelberg.com on June 9, 2021.

6. Targets for the proportion of women

When filling managerial positions at the Company, the Management Board takes diversity into account and strives to ensure the appropriate representation of women. For the period to June 30, 2022, the Management Board has defined a target of 5 percent for management level 1 and 7.5 percent for management level 2. The proportion of women is currently 3.8 percent at ML 1 and 6.2 percent at ML 2. The Supervisory Board has resolved to maintain the current proportion of women on the Management Board and has set a target for the proportion of women on the Management Board of 0 percent for the period to June 30, 2022. This expressly does not affect the fact that the Supervisory Board strives to take diversity into account on the whole when making HR decisions.

In accordance with the statutory provisions of sections 96 (1), 101 (1) AktG and section 7 (1) sentence 1 no. 1 MitbestG, the Supervisory Board consists of six shareholder representatives and six employee representatives. In accordance with section 96 (2) sentence 1 AktG, the Supervisory Board consists of at least 30 percent women and 30 percent men. As of the reporting date, the Supervisory Board had five female members, three of whom were appointed by the shareholders and two by the employees.

7. Diversity concept and profile of skills and expertise

The aspect of diversity is an important selection criterion for the Company with regard to the composition of the Management Board and the Supervisory Board.

The Company seeks to achieve a composition of the two executive bodies that ensures the comprehensive fulfillment of all tasks assigned to the Management Board and the Supervisory Board. In filling Management Board positions and making proposals for the election of Supervisory Board members, the Supervisory Board therefore primarily looks at the personal suitability of the respective candidates, their professional qualifications and experience, their time availability, their integrity and independence, and their commitment and performance. Diversity of opinion is also supported by ensuring a range of different ages.

The current composition of the Management Board and the Supervisory Board satisfies these requirements. All of the members of the Management Board and the Supervisory Board have high levels of professional experience and expertise enabling them to manage or monitor a company.

The career advancement of women is taken into account to a particular extent. In the event of new candidates having equal professional and personal aptitude, the appointment of women to the Supervisory Board, the Management Board and the two levels of management below the Management Board should be considered with a view to increasing the proportion of women in the medium and long term.

The aspects of diversity that are important to the Supervisory Board and that are taken into account in its composition are set out in greater detail in the presentation of its objectives and its profile of skills and expertise.

Taking the sector, the size of the Company and the share of international business into account, the Supervisory Board is guided in particular by the following targets and profile of skills and expertise for the future composition of the Board as a whole:

a) All Supervisory Board members must have sufficient corporate or operating experience as well as knowledge of their field and ensure that they have enough time to perform their Supervisory Board tasks, so that the Supervisory Board as a whole has the knowledge, skills and specific experience necessary to perform its tasks properly.

b) All Supervisory Board members must have the reliability and personal integrity necessary for the fulfillment of the Supervisory Board's monitoring duties.

c) At least four of the shareholder representatives on the Supervisory Board must be "independent" of the Company and the Management Board as defined in the German Corporate Governance Code. These are currently Dr. Martin Sonnenschein, Karen Heumann, Oliver Jung and Ina Schlie. The Company does not currently have a controlling shareholder.

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 AktG, supervisory boards of listed companies that are subject to codetermination must be composed of at least 30 percent women (i.e. at least four) and at least 30 percent men (i.e. at least four). This gender ratio must be complied with by the Supervisory Board as a whole unless the shareholder or employee representatives object to overall compliance in accordance with section 96 (2) sentence 3 AktG. Prior to the election of shareholder representatives to the Supervisory Board on July 23, 2020, neither the shareholder representatives nor the employee representatives objected to the overall compliance with the statutory gender ratio in accordance with section 96 (2) sentence 3 AktG. The Supervisory Board therefore had to be comprised of at least two women and at least two men on both the shareholder representative and employee representative sides. As of March 31, 2021, the Supervisory Board was composed of five women (around 42 percent) and seven men (around 58 percent), thereby satisfying the gender ratio. At its meeting on May 18, 2021, the Supervisory Board discussed the specific proposal for election to be made to the 2021 Annual General Meeting and, at the recommendation of the Nomination Committee, resolved to propose that the Annual General Meeting elect Dr. Fritz Oesterle to the Supervisory Board. If the proposed candidate is elected, the statutory gender ratio will continue to be satisfied with regard to both the shareholder representatives and the Supervisory Board as a whole providing there are no other changes.

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

The current composition of the Supervisory Board complies with these targets and fulfills the profile of skills and expertise.

8. Shareholders and Annual General Meeting

Shareholders exercise their rights as shareholders, and in particular their information and voting rights, at the Annual General Meeting in accordance with the provisions of the law and the Articles of Association. All the significant regulations relating to our Annual General Meeting and the rights of our shareholders can be found in our Articles of Association, which we publish on our website www.heidelberg.com under Corporate Governance.

Excerpts of the most important regulations of the Articles of Association as of the reporting date can be found below.

The Annual General Meeting of the Company is held at the registered office of the Company, at the location of a German branch or operating facility of the Company or a company associated with it, or at a different location within the Federal Republic of Germany with a population of at least 100,000 people.

The Annual General Meeting must be held in the first eight months of the financial year.

The Annual General Meeting must be convened with at least the amount of notice required by law.

Shareholders are authorized to participate in the Annual General Meeting and exercise voting rights only if they register for the Annual General Meeting and present proof of their shareholdings. Registration must be made in writing in German or English. Proof of shareholding must be presented in writing and issued by the last intermediary in accordance with section 67c (3) AktG. This can also be sent directly to the Company by the last intermediary and must refer to the start of the 21st day before the Annual General Meeting. The registration and the proof of shareholding must be received by the Company at the address specified for this purpose in the notice of convocation no later than six days before the Annual General Meeting, not including the day on which they are received and the day of the Annual General Meeting. The notice of convocation for the Annual General Meeting may specify a shorter period for registration and receipt of proof of shareholding to be measured in days.

Each shareholder may be represented at the Annual General Meeting by a proxy. Unless otherwise stipulated by law or in the notice of convocation for the Annual General Meeting, proxy must be granted, revoked, and evidenced to the company in writing. This shall not affect the provisions of section 135 AktG.

The Management Board may enable shareholders to cast their votes in writing or by way of electronic communication even if they do not attend the Annual General Meeting (postal voting). The Management Board may regulate the details of the scope and procedure for postal voting. Furthermore, the Management Board may allow shareholders to participate in the Annual General Meeting without being present at its venue and without a proxy, and to exercise all or some of their rights in full or in part by means of electronic communication (online participation). The Management Board may regulate the details of the scope and procedure for online participation.

The Annual General Meeting is chaired by the Chair of the Supervisory Board or, if he is unavailable, by another shareholder member of the Supervisory Board to be determined by him. In the event that neither the Chair of the Supervisory Board nor another member of the Supervisory Board determined by him chairs the meeting, the person chairing the meeting is elected by the shareholder members of the Supervisory Board present at the Annual General Meeting by a simple majority of the votes cast.

The Chair heads the meeting and determines the order in which items are discussed and the voting procedure.

He may reasonably restrict the time in which shareholders may ask questions and give speeches. Above all, he may, at the commencement or during the course of the Annual General Meeting, set reasonable time limits for the entire Annual General Meeting, for the period of discussion on any individual agenda items, and for presenting any individual questions and speeches.

Heidelberg, June 2, 2021

HEIDELBERGER DRUCKMASCHINEN
AKTIENGESELLSCHAFT

The Supervisory Board

Dr. Martin Sonnenschein

The Executive Board

Rainer Hundsdörfer   Marcus A. Wassenberg

Compliance

- Enhancement of the existing compliance management system
- Continued roll-out of the Business Partner Code of Conduct to suppliers and business partners
- Focal points in the financial year 2021/2022: Strengthening of the regional and local compliance organization, expansion of training program, roll-out of online training

Compliance management system

The Management Board of the Heidelberg Group is committed to adhering to the applicable laws, provisions and regulations and to systematically pursuing and punishing compliance misconduct and violations. The Management Board has established a compliance management system (CMS) in order to ensure that the employees, managers and executive bodies of the Heidelberg Group act with integrity and in accordance with the law.

The Heidelberg Group's CMS is based on Audit Standard (PS) 980 issued by the Institute of Public Auditors in Germany (IDW). Its seven basic elements set out the key structural, organizational and process requirements for operational realization within the Heidelberg Group. The Heidelberg Group's CMS aims to identify compliance misconduct and violations at an early stage and prevent them in order to minimize and prevent liability and reputational damage to the Heidelberg Group and its employees, managers and executive bodies. The CMS is intended to aggregate measures and regulations that ensure that the actions of the Heidelberg Group's employees, managers and executive bodies are always consistent with the applicable statutory and other provisions and the Group's internal values and guidelines. Compliance with the applicable statutory and other provisions and the generally accepted moral, ethical and social principles are a central element of how the Heidelberg Group sees itself as a company. As part of the continuous enhancement of the CMS, a comprehensive compliance risk analysis was initiated in the financial year 2020/2021 in order to identify and assess potential compliance risks and manage them by means of effective and appropriate compliance measures and controls.

Compliance guidelines

The Code of Conduct for employees is an important element of the CMS. The Code of Conduct is based on the values of the Heidelberg Group and has been adapted to reflect the Ten Principles of the UN Global Compact. Among other things, it contains commitments on combating bribery and corruption, compliance with the regulations of anti-trust, anti-money laundering and tax law, integrity with respect to customers, suppliers and business partners, sustainability and product responsibility, compliance with foreign trade and customs law, compliance with human rights, data protection, protecting corporate assets, and ensuring working conditions that are fair, respectful, and free from discrimination. The Code of Conduct sets out the principles that the Heidelberg Group undertakes to uphold. It constitutes a binding framework and provides guidance for the day-to-day actions and decisions of the Heidelberg Group. The managers and executive bodies of the Heidelberg Group are required to act as role models and support their employees in complying with the Code of Conduct.

The Heidelberg Group also expects its suppliers and business partners to uphold these principles by signing up to the Business Partner Code of Conduct. The Business Partner Code of Conduct contains guidelines and principles aimed at ensuring compliance with laws, provisions and regulations. It forms the basis for the continuous, longstanding partnership with the suppliers and business partners of the Heidelberg Group on the basis of integrity. The continued roll-out of the Business Partner Code of Conduct is intended to be expanded on a Group-wide basis to all suppliers and business partners of the Heidelberg Group in the financial year 2021/2022.

The package of compliance guidelines is supplemented by the Heidelberg Group's internal principles, guidelines, regulations and work instructions. It provides guidance for the employees, managers and executive bodies of the Heidelberg Group with regard to dealing with customers, suppliers and business partners. The internal regulations form the basis for ensuring that the Heidelberg Group acts with integrity and in accordance with the law, particularly with regard to combating bribery and corruption.

Compliance organization

Since October 1, 2020, responsibility for compliance has been allocated to the Chief Financial Officer and Head of Financial Services. In terms of the organizational structure, the compliance organization has therefore been reassigned to the Legal, Patents & Compliance department. The head of the Legal, Patents & Compliance department heads the compliance organization in the role of Chief Compliance Officer (CCO). The CCO reports directly to the Chief Financial Officer and Head of Financial Services. The CCO also reports regularly to the Supervisory Board about compliance risks and measures as part of the Audit Committee of the Supervisory Board.

The CCO and the compliance team, consisting of the central compliance office and the regional compliance officers, serve as the central point of contact for all compliance-related questions. The compliance organization will be expanded and strengthened further in the financial year 2021/2022. In particular, plans include the in-depth training of regional compliance officers and the appointment and training of additional local compliance officers.

In addition, the Compliance Committee headed by the CCO meets regularly to evaluate and control Group-specific compliance risks and measures. Among other things, the Compliance Committee supports the compliance organization in the Group-wide implementation of and adherence to compliance measures and controls.

Compliance training and communication

The compliance office develops a risk- and target group-oriented training concept and effective and appropriate training documents. The training documents cover topics including the Code of Conduct, dealing with gifts, invitations and hospitality, dealing with suppliers and business partners with integrity, protecting corporate assets, and information on dealing with compliance violations. The training documents are provided to the local and regional compliance officers. Compliance training is intended to help the employees, managers and executive bodies of the Heidelberg Group to act with integrity and in accordance with the law.

The training program will be supported and further expanded on a Group-wide basis in the financial year 2021/2022, including online training. This training will also have a particular focus on the Group-wide implementation of train the trainer programs, which are intended to provide in-depth training and support for the local and regional compliance officers within the Heidelberg Group.

External communication for the Heidelberg Group's customers, suppliers and business partners has also been updated and expanded. Activities in the financial year 2021/2022 will concentrate on further strengthening and expanding internal communication.

Dealing with compliance violations

The Heidelberg Group has established various reporting channels so that external and internal whistleblowers can report potential compliance misconduct and violations at an early stage in order to ensure clarification. The Management Board of the Heidelberg Group is committed to systematically pursuing and punishing compliance misconduct and violations. Sanctions are imposed on a case-by-case basis, taking into account the nature and seriousness of the compliance misconduct or violation and the applicable law.

The ombudsman is the central reporting body for external and internal whistleblowers at the Heidelberg Group. Through the ombudsman, the Heidelberg Group ensures that employees, customers, suppliers and business partners can report potential compliance misconduct and violations confidentially and, if required, anonymously.

Compliance misconduct and violations can also be reported to the compliance function directly, via the Management Board, the Works Council or line managers, and in particular via the Group-wide regional compliance officers of the Heidelberg Group.

Financial calendar 2021/2022

June 9, 2021	Press Conference, Annual Analysts' and Investors' Conference
July 23, 2021	Annual General Meeting
August 4, 2021	Publication of First Quarter Figures 2021/2022
November 10, 2021	Publication of Half-Year Figures 2021/2022
February 9, 2022	Publication of Third Quarter Figures 2021/2022
June 9, 2022	Press Conference, Annual Analysts' and Investors' Conference
July 21, 2022	Annual General Meeting

Subject to change

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Five-year overview – Heidelberg Group

Figures in € millions	2016/2017	2017/2018	2018/2019	2019/2020	**2020/2021**
Incoming orders	2,593	2,588	2,559	2,362	2,000
Net sales	2,524	2,420	2,490	2,349	1,913
Foreign sales share in percent	84.8	84.9	84.8	86.2	86.4
EBITDA [1]	179	172	180	102	146
in percent of sales	7.1	7.1	7.2	4.3	7.6
Result of operating activities excluding restructuring result	108	103	101	6	69
Net result before taxes	34	39	32	– 322	– 23
Net result after taxes	36	14	21	– 343	– 43
in percent of sales	1.4	0.6	0.8	– 14.6	– 2.2
Research and development costs	119	121	127	126	87
Investments	105	142	134	110	78
Total assets	2,219	2,256	2,329	2,602	2,169
Net working capital [2]	667	610	684	645	505
Receivables from sales financing	58	66	60	43	44
Equity	340	341	399	202	109
in percent of total equity and liabilities	15.3	15.1	17.1	7.8	5.0
Financial liabilities	470	438	465	471	271
Net debt [3]	252	236	250	43	67
Free cash flow	24	– 8	– 93	225 [4]	40
in percent of sales	1.0	– 0.3	– 3.7	9.6	2.1
Return on equity in percent [5]	10.6	4.1	5.3	– 169.8	– 39.4
Earnings per share in €	0.14	0.05	0.07	– 1.13	– 0.14
Dividend in €	–	–	–	–	–
Share price at financial year-end in € [6]	2.34	3.04	1.55	0.56	1.15
Market capitalization at financial year-end	602	847	472	171	350
Number of employees at financial year-end [7]	11,511	11,563	11,522	11,316	10,212

[1] Result of operating activities before interest and taxes and before depreciation and amortization, excluding restructuring result
[2] The total of inventories and trade receivables less trade payables and advance payments
[3] Net total of financial liabilities and cash and cash equivalents and current securities
[4] Including inflow from trust assets of around € 324 million
[5] After taxes
[6] Xetra closing price, source prices: Bloomberg
[7] Number of employees excluding trainees

FINANCIAL CALENDAR 2021/2022

JUNE 9, 2021
Press Conference,
Annual Analysts' and Investors' Conference

JULY 23, 2021
Annual General Meeting

AUGUST 4, 2021
Publication of First Quarter Figures 2021/2022

NOVEMBER 10, 2021
Publication of Half-Year Figures 2021/2022

FEBRUARY 9, 2022
Publication of Third Quarter Figures 2021/2022

JUNE 9, 2022
Press Conference,
Annual Analysts' and Investors' Conference

JULY 21, 2022
Annual General Meeting

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