Non-consolidated financial statements 2017/2018

HEIDELBERG Non-consolidated financial statements 2017/2018

Label printing.

The art of giving
brands and products
a face.

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HEIDELBERG

Heidelberger Druckmaschinen Aktiengesellschaft

Figures in € millions	2013/2014	2014/2015	2015/2016	2016/2017	**2017/2018**
Incoming orders	1,130	1,070	1,090	1,113	1,161
Net sales [1]	1,130	1,051	1,072	1,178	1,160
Foreign sales share in percent	83.1	81.3	82.0	79.9	81.1
Result of operating activities	–15	–57	140	89	20
in percent of sales	–1.3	–5.4	13.1	7.6	1.7
Net loss/profit for the year	–109	–127	86	71	–45
in percent of sales	–9.6	–12.1	8.0	6.0	–3.9
Investments [2]	35	41	40	76	119
Research and development costs	100	102	107	105	105
Total assets	1,995	1,953	1,956	2,070	2,157
Fixed assets	1,257	1,252	1,317	1,401	1,487
Equity	665	606	692	763	774
Subscribed capital	600	659	659	659	714
Equity ratio in percent	33.3	31.0	35.4	36.9	35.9
Earnings per share in € [3]	–0.47	–0.49	0.33	0.27	–0.16
Share price at financial year-end in € [4]	2.23	2.49	1.99	2.34	3.04
Market capitalization at financial year-end	522	641	512	602	847
Average number of employees for the year [5]	7,044	6,739	5,399	5,382	5,440

[1] German Accounting Directive Implementation Act (BilRUG) applied from the start of the 2016/2017 financial year. Prior-year figures not restated
[2] Not including financial assets
[3] Number of shares at the reporting date excluding treasury shares
[4] Xetra closing price, source: Bloomberg
[5] Number of employees excluding trainees

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Basic information on Heidelberger Druckmaschinen Aktiengesellschaft

Business model of Heidelberger Druckmaschinen Aktiengesellschaft

Company profile

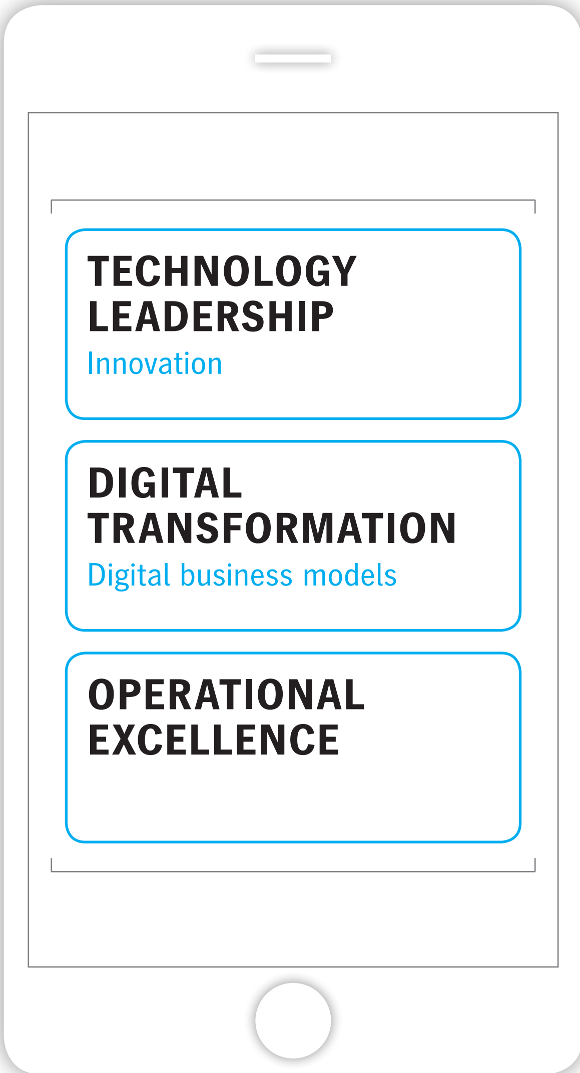
Heidelberger Druckmaschinen Aktiengesellschaft is the parent company of the Heidelberg Group. The Company has been a major provider for the global printing industry for many years and develops, manufactures and distributes products and services for commercial and packaging printing. In addition to manufacturing printing presses and equipment for printing plate imaging, the Company sells service parts and offers comprehensive services, as well as making its precision engineering expertise available to other companies within the framework of contract manufacturing. We offer our customers all the components tailored to their requirements for successful business operations; we provide integrated and reliable production processes, financially optimal investments and smooth access to all necessary materials.

Our mission is to shape the digital future of our industry. We are aiming to develop Heidelberger Druckmaschinen Aktiengesellschaft and its subsidiaries into an end-to-end digital system for industrial value added, assisting print shops in their own digital transformation. Heidelberger Druckmaschinen Aktiengesellschaft also carries out Group functions.

Sites

Heidelberger Druckmaschinen Aktiengesellschaft operates the following five sites in Germany: Heidelberg, Wiesloch-Walldorf, Brandenburg, Neuss and Kiel. The Heidelberg site has the research and development department and several training centers. Sheetfed offset printing presses are manufactured at specialized production sites operating as part of a production network and at Heidelberg Manufacturing Deutschland GmbH, Wiesloch. Rotationally symmetrical and profiled parts are supplied by the Brandenburg plant, and model parts, electronic components and experimental components are produced at the Wiesloch-Walldorf plant. Here we also assemble the vast majority of our sheetfed offset printing presses. The Wiesloch-Walldorf production site is also home to development work and prepress services. The Neuss site provides services for the postpress packaging product area (folding-box gluers and die-cutters). The fifth production site is Kiel. It performs development work and provides prepress services.

Strategic agenda



Our digital agenda

Profitable growth through systematic implementation of digital agenda

In the 2017/2018 reporting year, Heidelberger Druckmaschinen Aktiengesellschaft revealed and documented its path to sustainably profitable growth by publishing a digital agenda. Heidelberger Druckmaschinen Aktiengesellschaft performs central tasks within the Heidelberg Group, which is actively shaping and pioneering digitization in the industry as an end-to-end system provider of printing presses, consumables, software and services. The most important component on this path is the smart use of the data already available to us through the digital connection and networking of customer equipment. The Company is focused on customer requirements and on generating value added in terms of efficiency, profitability and customer success. Heidelberger Druckmaschinen Aktiengesellschaft has brought together the strategic pillars in the three core areas of technology leadership, digital transformation and operational excellence.

Growth through expansion of technology leadership

Around 9 percent of sales are channeled into research and development to expand our innovation leadership. With automation functions such as push-to-stop and the networking of printing presses, software, consumables and services to create a smart print shop, Heidelberger Druckmaschinen Aktiengesellschaft is a pioneer and digitization driver in offset printing. The networked presses serve as information providers (big data), which form the basis for digital business and therefore growth opportunities. The expansion of the software range is therefore one of the central pillars of our growth and digitization strategy. With our comprehensive Prinect production workflow, our management information systems for central operations management and the Heidelberg Assistant, which enables digital cooperation with the customer throughout the entire lifecycle and assists in productivity enhancement with big data performance analysis, we already have a digitization solution that redefines the foundations of the customer-supplier relationship.

Digital transformation

In the area of digital transformation, too, we focus on maximum efficiency and productivity using intelligent systems and autonomous processes and have asked ourselves the question: What are our customers really looking for? “Just” a printing press to print premium products, or a high-performing, reliable overall system that helps them focus on their own customers, such as brand-name manufacturers, in order to be able to put a label on their products, thus giving them a unique identity? Together with its subsidiaries, Heidelberger Druckmaschinen Aktiengesellschaft has created the smart print shop, which forms the basis for Heidelberg’s unique strategic positioning as an end-to-end system across the customer’s entire value chain and utilization phase. The Heidelberg Group is the only provider in the industry that can offer its customers a full range of printing presses, services, consumables, consulting and software in an all-in contract. The customer’s value added comes from the data-based, optimal interaction of all coordinated individual components, as this leads to a substantial enhancement in overall system effectiveness. Put simply, we deliver results and not individual products. Under digital business models, the objective for our sales and marketing work is therefore not individual deals, but rather the long-term success of our customers, because this benefits both us and our customers.

Accordingly, unlike under transactional business models, under a subscription contract the customer no longer pays for the individual components, but rather for the use of the high-performance product as measured by the number of printed sheets. This is a logical consequence when products are offered as services.

Operational excellence at all levels to increase productivity

However, the strategic development of Heidelberg Druckmaschinen Aktiengesellschaft does not end with digital transformation; it also concentrates on leveraging efficiency and cost-cutting potential. This comprises improvements in our logistics, location and space consolidation and the standardization of printing press platforms. In order to adapt our corporate and management culture to the challenges of modern, globalized and digital business, the definition of our new strategic orientation was followed by the transition of the Company’s management structure to a leaner, more efficient and more agile organization. The new management organization was launched at the start of the new financial year on April 1, 2018.

Organization

The new organization that has been in place since April 1, 2018 is more customer-centric, meaning it is intended to create value added for customers. It was designed according to holistic solutions for customers, rather than individual products. Our smart products require continuous coordination across segment boundaries, as the customer journey extends from product development to cloud operation and the improvement of services to after-sales customer contact. Administrative functions in the sales and marketing units have been centralized, while the number of levels has been reduced. Moving ahead, the different customer segments will be addressed with their own strategies and offers, and with one central face to the customer for all Heidelberg products and services.

In line with its internal reporting structure, the operating activities of Heidelberger Druckmaschinen Aktiengesellschaft were divided into the following segments in the 2017/2018 financial year: Heidelberg Digital Technology and Heidelberg Digital Business and Services. Within the segments, Heidelberger Druckmaschinen Aktiengesellschaft is divided into business units (BUs). Each business unit formulates plans for how best to leverage the potential offered by their respective submarket. The Production, Sales and Administration functions, which continue to be organized centrally, derive targets on the basis of these plans and implement them. This organizational approach allows us to define our strategies at the level of the respective submarkets while generating synergies within the functions and upholding the principle of “one face to the customer”.

The businesses bundled in the previous segments Heidelberg Digital Technology (HDT) and Digital Business and Services (HDB) are being restructured into the Heidelberg Digital Technology and Heidelberg Lifecycle Solutions segments.

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

The Heidelberg Lifecycle Solutions segment bundles lifecycle business (Service, Consumables), Software Solutions and Heidelberg Platforms (offerings outside the print media industry). In this area, we create value added for customers by addressing their entire value chain with bespoke solutions and new business models.

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

Research and development

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

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

Heidelberger Druckmaschinen Aktiengesellschaft has successfully developed the Primefire 106 to market readiness. The first units have been installed at customers, and the product was launched on schedule at the start of the year. In particular, the system allows packaging printers to build new business areas, for example with the production of variable or even individual packaging, or by adding traceability and security elements to individual packaging.

The needs-driven printing of small runs with the Primefire 106 optimizes supply chain processes and helps to reduce storage costs.

With the help of digitization, Heidelberger Druckmaschinen Aktiengesellschaft is further developing its push-to-stop approach. With this approach to the printing process, we have initiated a paradigm shift in industrial print production using sheetfed offset printing presses. While processes have been actively planned, launched and handled by operators to date, in the future this will be done by the press itself. The process, which runs from order creation through to logistics, is largely autonomous. An operator only intervenes in the process when something is not running completely smoothly. With this highly automated industrial solution, consisting of machine operation and our Prinect connection, we are advancing and securing the future viability of our core business. Our customers can therefore significantly increase their competitive capability and will have more time to take care of their own customers.

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

Together with the Baden-Württemberg Minister for Science, Research and the Arts, Theresia Bauer, Heidelberger Druckmaschinen Aktiengesellschaft officially announced the launch of its new innovation center at the Wiesloch-Walldorf production site in November 2016. The world's most state-of-the-art research facility for the printing industry will be completed by 2018, becoming home to around 1,000 jobs.

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

A total of 809, or around 15 percent, of our employees are active in the area of research and development. In the year under review, we invested € 105 million, or around 9 percent of our sales, in research and development.

Economic report

We have already achieved key strategic targets with the implementation of our digital agenda measures. Profitable growth is a core objective of this strategic orientation. An assessment of the business activity of Heidelberger Druckmaschinen Aktiengesellschaft requires a differentiation between its function as the largest operating company and its function as the holding company and parent of the Heidelberg Group.

Heidelberger Druckmaschinen Aktiengesellschaft's business represents an excerpt of the overall business activity of the Heidelberg Group and is managed on the basis of the Group's key performance indicators. Only the consolidated financial statements of the Heidelberg Group can provide a comprehensive analysis of these performance indicators.

Heidelberger Druckmaschinen Aktiengesellschaft's function as the holding company and parent of the Heidelberg Group is reflected in its financial result.

Economic environment and industry development

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

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

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

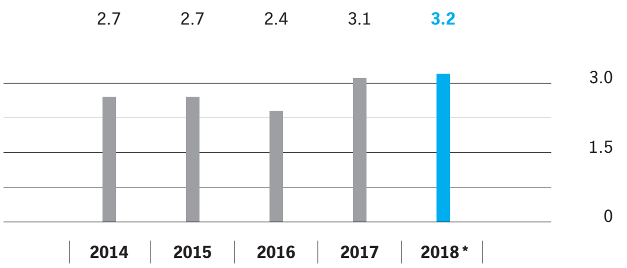
The Japanese economy has grown for eight quarters in succession, though the rate of growth slowed towards the end of 2017. The rise in gross domestic product in China was higher in 2017 than in the previous year at 6.9 percent. Production on other Asian emerging markets has continued to surge to date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

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

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

Change in global GDP [1)]

Figures in percent



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

The chain-weighted method would deliver the following results:
2014: 2.9 %; 2015: 2.9 %; 2016: 2.5 %; 2017: 3.2 %; 2018: 3.4 %

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

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

SHEETFED OFFSET PRINTING accounts for around 40 percent of the printing volume, and is still the most frequently used printing technology. DIGITAL PRINTING has steadily increased its share of the global printing volume to around 15 percent since 2000, and the trend towards customization means that it will continue to gain in importance, particularly in industrial applications.

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

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

Business development

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

As forecast, the sales generated by Heidelberger Druckmaschinen Aktiengesellschaft were essentially unchanged year-on-year at € 1,160 million (previous year: € 1,178 million). Incoming orders increased by around 4 percent year-on-year to € 1,161 million (previous year: € 1,113 million).

We achieved our forecast of operating profitability at the level of the previous year on a like-for-like basis. EBITDA in the previous year (€ 123 million) contained restructuring and non-recurring effects relating in particular to the accrual of Heidelberger Druckmaschinen Real Estate GmbH & Co. KG, Walldorf, and the increase in the carrying amount of the equity investment in Heidelberg Graphic Equipment Ltd., Brentford, UK. These positive effects were offset by expenses primarily relating to partial retirement agreements in the previous year. EBITDA in the year under review (€ 59 million) was also influenced by restructuring and non-recurring effects. In particular, this related to the income largely generated in connection with the addition of the Print Media Academy in Heidelberg. This positive effect was offset by expenses for HR measures in connection with the measures aimed at optimizing our management and organizational structure.

We continued to optimize our financing structure in the year under review. Our instruments and maturities are balanced and diversified. The reduction in the average pension discount rate meant that, as forecast, the financial result in the year under review was lower than in the previous year.

The net result after taxes decreased from € 71 million in the previous year to € – 45 million. Adjusted for the restructuring and non-recurring effects in the year under review, Heidelberger Druckmaschinen Aktiengesellschaft essentially broke even after taxes, thereby meeting the forecast made in the previous year.

Net assets, financial position and results of operations

Irrespective of the € 18 million decrease in sales to € 1,160 million, operating profitability (EBITDA) increased by a mid-range seven-digit amount to € 59 million in the 2017/2018 financial year without taking into account the restructuring and non-recurring effects in the year under review and the previous year as described under "Business development".

Income statement

Figures in € millions	2016/2017	**2017/2018**
Net sales	1,178	1,160
Total operating performance	1,229	1,224
EBITDA [1]	123	59
in percent of net sales	10.5 %	5.1 %
EBIT [2]	89	20
in percent of net sales	7.5 %	1.7 %
Financial result	– 43	– 63
Taxes on income	– 25	2
Net result after taxes	71	– 45
in percent of net sales	6.0 %	– 3.9 %

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

The main factor affecting the financial result was the interest expenses for pension obligations. Despite the further optimization of our financing structure in the year under review, the financial result declined to € – 63 million (previous year: € – 43 million) as a result of the reduction in the average pension discount rate. The positive EBIT of € 20 million (previous year: € 89 million) was insufficient to offset the financial result in the past financial year, meaning that the net result after taxes was negative at € – 45 million (previous year: € 71 million).

Sales amounted to € 1,160 million in the year under review (previous year: € 1,178 million). As part of the adjustment of the corporate strategy, the segments were reorganized as of April 1, 2017. Since that date, the Digital Print business unit and the Digital Solutions business unit have been allocated to the Heidelberg Digital Business and Services (HDB) segment (formerly Heidelberg Services), while the Postpress business unit has been allocated to the Heidelberg Digital Technology segment (formerly Heidelberg Equipment). The figures for the 2016/2017 financial year have been restated accordingly. In terms of the prior-year figures, this resulted in a reclassification of around € 17 million in sales from the Heidelberg Digital Technology segment to the Heidelberg Digital Business and Services segment. Sales in the Heidelberg Digital Technology segment remained essentially unchanged year-on-year, declining by € 6 million to € 888 million (previous year: € 894 million). Sales in the Heidelberg Digital Business and Services segment amounted to € 272 million in the year under review (previous year: € 284 million), thereby declining slightly year-on-year due to the restatement of the prior-year figures.

Sales development varied from region to region. Sales growth was generated in the Eastern Europe and Asia/Pacific regions, while the Europe, Middle East and Africa and South America regions in particular saw a reduction in sales. This trend affected the Europe, Middle East and Africa region to the greatest extent, with sales declining by € 20 million to € 533 million (previous year: € 553 million). Germany in particular recorded higher sales in the previous year due to trade fairs, which it was unable to repeat in the year under review; nevertheless, it remained the largest individual market in terms of sales. We also reported lower sales in the United Kingdom due to uncertainty concerning the forthcoming Brexit. The Netherlands saw positive development with high seven-digit growth in sales. The € 13 million downturn in sales in the South America region to € 38 million (previous year: € 51 million) was primarily attributable to the markets of Bolivia and Argentina, as well as to smaller markets. The most important market in the region, Brazil, recorded sales growth compared with the previous year. The Asia/Pacific region generated sales growth of € 14 million to € 325 million (previous year: € 311 million) thanks to the sharp rise in sales in China following the China Print trade fair in May 2017. The Vietnamese and Japanese markets both saw a lower sales volume than in the previous year. The North America region recorded sales of € 150 million in the year under review (previous year: € 154 million). Sales in the Eastern Europe region increased by € 5 million to € 113 million (previous year: € 108 million). Both regions were therefore largely unchanged year-on-year.

Other operating income almost halved, decreasing by € 60 million year-on-year to € 69 million (previous year: € 129 million). The prior-year figure included income from the accrual of Heidelberger Druckmaschinen Real Estate GmbH & Co. KG, Walldorf (€ 41 million) and an increase in the carrying amount of the equity investment in Heidelberg Graphic Equipment Ltd., Brentford, UK (€ 14 million). The € 11 million reduction in reversals of provisions (previous year: € 26 million) also contributed to the lower level of other operating income. This was partially offset by an increase in income from currency translation to € 45 million (previous year: € 40 million).

The collectively agreed wage and salary increase of 2 percent and the rise in weekly working time from 33 to 34 hours, both of which came into force on April 1, 2017, meant that staff costs increased by € 21 million or 5 percent to € 439 million (previous year: € 418 million).

Other operating expenses declined by € 18 million year-on-year to € 235 million (previous year: € 253 million). The prior-year figure contained expenses in connection with the industry trade fair drupa and increased staff obligations as a result of partial retirement agreements concluded in connection with the adjustment of personnel capacities. Rental and lease expenses also declined (€ – 6 million), largely as a result of the addition of the World Logistics Center in Wiesloch-Walldorf and the Print Media Academy in Heidelberg. At the same time, expenses for other external services increased by € 7 million.

The result of operating activities amounted to € 20 million in the year under review after € 89 million in the previous year.

The financial result declined by € 20 million year-on-year to € – 63 million (previous year: € – 43 million). Irrespective of the reduction in the average discount rate for pension provisions, interest expense improved by € 2 million thanks to the optimization of the financing structure. Income from dividends and profit transfer agreements with subsidiaries (€ – 18 million) was the main reason for the reduction in net investment income.

The positive taxes on income of € 25 million in the previous year were primarily attributable to the accrual of Heidelberger Druckmaschinen Real Estate GmbH & Co. KG, Walldorf, into Heidelberger Druckmaschinen Aktiengesellschaft.

Balance sheet structure

Figures in € millions	31-Mar-2017	as a percentage of total assets	**31-Mar-2018**	as a percentage of total assets
Fixed assets	1,401	67.7	1,488	69.0
Current assets [1]	669	32.3	669	31.0
Total assets	**2,070**	**100.0**	**2,157**	**100.0**
Equity	763	36.9	774	35.9
Special reserves	1	0.0	1	0.0
Provisions	366	17.7	400	18.6
Liabilities [1]	940	45.4	982	45.5
Total equity and liabilities	**2,070**	**100.0**	**2,157**	**100.0**

[1] Including prepaid expenses/deferred income

Total assets increased by around 4 percent or € 87 million to € 2,157 million in the year under review. The increase in non-current assets to € 1,488 million is primarily attributable to property, plant and equipment, which rose following the addition of the World Logistics Center in Wiesloch-Walldorf and the Print Media Academy in Heidelberg. Current assets remained unchanged year-on-year at € 669 million. On the equity and liabilities side, equity increased by € 11 million as a result of the almost complete conversion of the convertible bond in the amount of around € 56 million, which was offset by the net loss for the year of € 45 million. Liabilities including deferred income increased by € 42 million year-on-year to € 982 million.

Additions to intangible assets in the amount of € 32 million were primarily attributable to capitalized development costs. Additions to property, plant and equipment amounted to € 89 million in the year under review. The increase in land and buildings was primarily attributable to the addition of the World Logistics Center in Wiesloch-Walldorf and the Print Media Academy in Heidelberg. We also reported additions to assets under construction within property, plant and equipment in conjunction with the ongoing construction of the innovation center at the Wiesloch-Walldorf site. The additions to financial assets primarily related to the acquisition of docufy GmbH, Bamberg, as well as capital increases at two subsidiaries.

Within current assets, inventories increased by around € 30 million year-on-year, largely as a result of work and services in progress. This was partially offset by the reduction in receivables and other assets (€ – 12 million) and cash and cash equivalents (€ – 15 million) at the reporting date. All in all, current assets including prepaid expenses were unchanged compared with the previous year.

The € 11 million increase in equity to € 774 million (previous year: € 763 million) was due to the almost complete conversion of a convertible bond (€ + 56 million), which was partially offset by the net loss for the year (€ – 45 million). The equity ratio amounted to a good 36 percent at the reporting date (previous year: 37 percent).

Provisions rose by € 34 million to € 400 million in the year under review. The increase in provisions is primarily attributable to increased pension obligations following the further reduction in the average discount rate. The positive change in the fair value of plan assets partially offset the effect of the falling discount rate. On a net basis, pension provisions increased by € 38 million to € 240 million (previous year: € 202 million).

Liabilities including deferred income increased by € 42 million to € 982 million in the year under review. The increase in liabilities to banks (€ + 23 million) was largely due to the addition of the World Logistics Center in Wiesloch-Walldorf and the Print Media Academy in Heidelberg, as well as the construction of the innovation center at the Wiesloch-Walldorf site. Furthermore, the increase in trade payables (€ + 37 million) and liabilities to affiliated companies (€ + 36 million) at the reporting date resulted in higher liabilities in the year under review. The almost complete conversion of a convertible bond in the year under review served to partially offset the higher level of liabilities.

Financing structure: Further optimization of financing sources and maturities

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

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

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

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

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

Employees

At the reporting date, Heidelberger Druckmaschinen Aktiengesellschaft had a total of 5,465 employees (excluding trainees) across its five production sites, 40 more than in the previous year.

Motivated and qualified employees are our greatest asset. In light of demographic change and growing digitization, it is important for us to ensure that our workforce is prepared for the future requirements of a rapidly changing work environment.

We opened our own health center (“WIEfit”) at the Wiesloch-Walldorf production site in April 2017. The health center is run by an external partner according to the latest physiotherapeutic insight. Around 400 employees are already using the center. The range of services is rounded off by prevention courses and health checks.

With the annual employee-supervisor dialog, we make the principle of listening, of promoting discussion, of formulating common goals and discussing supporting steps a fixed feature in the calendar. The focus here is jointly reflecting on cooperation, taking steps for the improved implementation of agreed goals and developing suitable concepts. Measurement against defined management criteria and the relationship to the individual value added is also an established practice for management.

HR management and HR development support the change process by offering specific concepts for implementing our strategy in day-to-day management, running and moderating departmental workshops, and defining and implementing qualification and strategy projects. The portfolio comprises management training such as employee qualification, training offers and seminars, in addition to individual coaching and external qualification modules.

Our training rate is around 4 percent. On September 1, 2017 and October 2, 2017, a total of 78 trainees started their professional career at Heidelberger Druckmaschinen Aktiengesellschaft. In Germany, we provide training in 11 occupations and offer eight study programs in the areas of technology, media and business.

Number of employees per site

	31-Mar-2017	**31-Mar-2018**
Wiesloch-Walldorf	3,764	3,816
Heidelberg	972	965
Brandenburg	427	427
Kiel	233	229
Neuss	29	28
	5,425	**5,465**
Trainees	208	205
	5,633	**5,670**

Further information on our activities in the area of employee issues can be found in our separate combined non-financial report, which is available on our website www.heidelberg.com under “Investor Relations”, “Reports and Presentations”.

Sustainability

For Heidelberger Druckmaschinen Aktiengesellschaft, sustainability means combining long-term business success with ecological and social responsibility. Attention to sustainability aspects forms part of our Company's environmental standards and 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 and is set out in the Company'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 Heidelberger Druckmaschinen Aktiengesellschaft's organization. Ecological goals and issues are defined for the Company by the Eco Council, which reports to the Management Board on sustainability and environmental issues, and whose members include a representative of the Eco Steering Committee and representatives from the areas of Production, Digital Technologies, Product Development and Product Safety, Lifecycle Solutions (Service, Consumables), Quality, Investor Relations/Communications and Legal. The interdisciplinary Eco Steering Committee advises the Eco Council, proposes an environmental strategy and program, and oversees their implementation in the individual areas. Other committees and working groups focus on key subjects.

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

Further information on our activities in the area of sustainability can be found in our separate combined non-financial report, which is available on our website www.heidelberg.com under "Investor Relations", "Reports and Presentations".

Risks and opportunities

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

Risk and opportunity management

Objectives and strategy

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

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

Structure and process

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

Risk and opportunity management is solidly integrated as part of corporate planning at Heidelberger Druckmaschinen Aktiengesellschaft. The Management Board is responsible for appropriate risk and opportunity management in the Company. Clear values, principles and guidelines help the Management Board and senior executives to manage the Company. The guidelines and organizational instructions stipulate a structured process with which individual risks in the Company, general risk and any opportunities are systematically tracked, assessed and quantified.

Heidelberger Druckmaschinen Aktiengesellschaft is incorporated into this process as an operating unit. Information on risks is collected at the level of the Company. The risk-significant areas of observation and the risk survey methodology are set out in the guidelines. The classification into risk categories is based on the potential impact on the net results and liquidity. Reporting thresholds are set on a uniform basis. For all key areas such as Procurement, Development, Production, Human Resources, IT, Legal and Finance there is a risk officer who reports risks to central Group Risk Management (GRM) in a standardized form. Each risk officer is responsible for the identification, assessment, control and monitoring of risks within his or her area.

GRM checks the completeness, identification and compilation of the top risks in cooperation with the Risk Committee and prepares the risk report.

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

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

The risk and opportunity management process of Heidelberger Druckmaschinen Aktiengesellschaft comprises the elements of risk identification, assessment, control and monitoring (see diagram below).

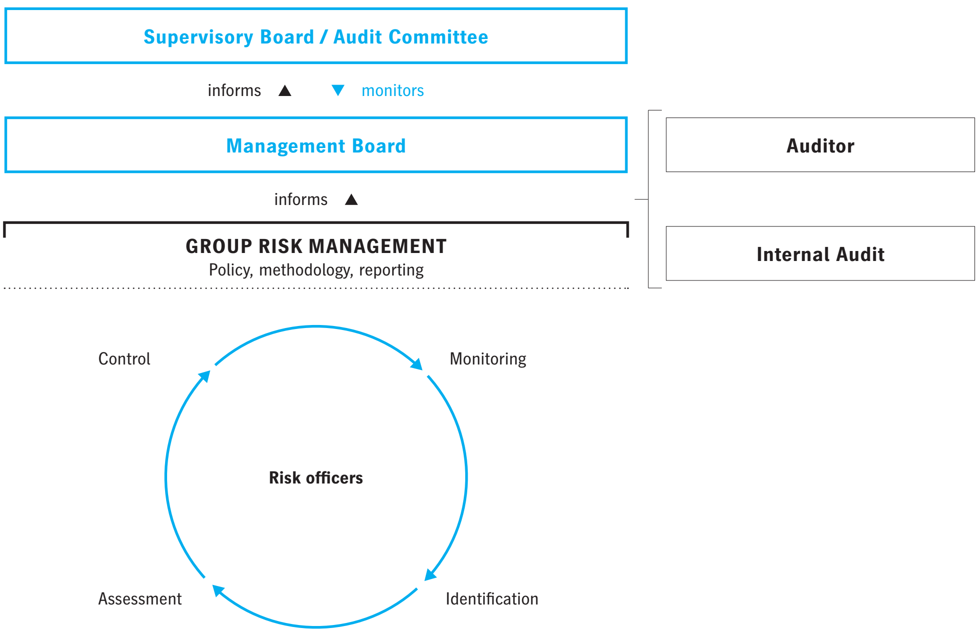
Identification of risks and opportunities

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

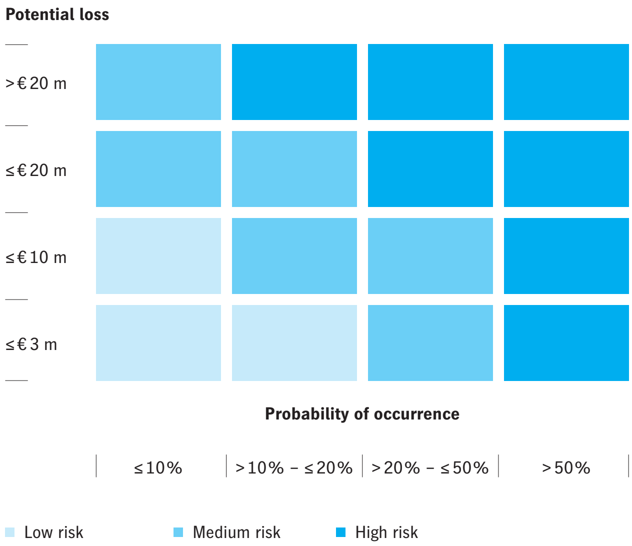
Assessment of risks and opportunities

After risks and opportunities have been identified, they are assessed. All individual risks ascertained are assessed qualitatively and quantitatively, taking risk-mitigating activities into account (net analysis). If possible, the assessment is based on objective criteria or empirical evidence. Similar individual risks are combined as an aggregated risk. The risk assessment is based on the dimensions “probability of occurrence”, “extent of damage” and “expected risk development in the planning period”.

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



Risk matrix



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

Controlling risks and opportunities

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

Monitoring of risks and opportunities

Regular risk monitoring allows the detection of changes in individual risks. Adjustments in risk management can therefore be promptly turned into the initiation of necessary measures. Within his or her own area, taking materiality limits into account, each risk manager is responsible for reporting all known risks to risk management periodically, or also to the 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. In this way, the developments in constantly changing risks and opportunities, and the adequacy and effectiveness of the current risk strategy, are continually examined and reviewed by risk officers.

Risk and opportunity report

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

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

Strategic risks and opportunities

Political risks

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

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

Political risks are currently regarded as high.

Industry-specific risks and opportunities

For the coming year, economists at the German Engineering Federation (VDMA) are forecasting that the general economic upswing from 2017 will continue at its current pace for mechanical engineering in 2018. For the print media industry, however, Heidelberger Druckmaschinen Aktiengesellschaft expects a similarly challenging environment as in the past financial year, on account of the sector's ongoing industrialization, with the result that larger, mostly international print media service providers are growing in the industrialized countries and the number of medium and smaller print shops is shrinking. On the emerging markets – particularly in the Asia/Pacific region – we anticipate further growth in the printing volume, whereas in the industrialized nations we generally see a growing need for individualized and elaborately processed printed products. In view of the changes in the printing industry, in calculating our sector risk assessment we have taken into account the risk that planned sales and margin targets will not be met.

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

As part of the strategic reorientation launched in the 2016/2017 financial year, we see digital business as a key growth market for Heidelberger Druckmaschinen Aktiengesellschaft. The Company will therefore also invest in new business applications in the future and cooperate with innovative partners who are the leaders in their respective segment.

However, Heidelberger Druckmaschinen Aktiengesellschaft sees itself not only as a provider of equipment, but also as a partner to its customers, offering a comprehensive service for effective and reliable production processes.

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

We then protect the results of our research and development work with our own property rights, thereby reducing risks in relation to research and development.

The development of key foreign currencies against the euro can also have a major impact on our competitive situation and thus directly on our sales volumes. For example, the current depreciation of the US dollar despite the Fed raising the interest rate leads to a competitive disadvantage for German companies. We are seeking to reduce the influence of exchange rate developments by establishing procurement and production activities outside the euro area as well.

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

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

Operational risks and opportunities

Economic and market development risks

In the business planning for the Digital Technology (HDT) and Lifecycle Solutions (HDLS) segments, we are assuming moderate growth in the global economy. Particular attention must be paid to the BRIC countries as the handling of the economic situation on these emerging markets constitutes a challenge. Above all, the economies of Brazil and Russia are recovering only at a slow rate. The economy in China rose faster than in the previous year, but the speed of expansion is expected to diminish moving ahead. The contribution to the expansion of the global economy is likely to increase considerably as a result of growth in the industrialized countries.

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

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

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

Sales financing

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

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

Sales financing commitments are regularly reviewed using internal rating processes. These comprise (like the Basel standards) both debtor-specific and transaction-specific components. Heidelberger Druckmaschinen Aktiengesellschaft operates a policy of risk provisioning that is appropriate for the business model in sales financing. Appropriate risk provisions are recognized early on for discernible risks.

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

Procurement risks

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

Wherever it benefits the Company, we pursue a dual vendor strategy in order to reduce unilateral dependencies. As part of the operational excellence strategy of Heidelberger Druckmaschinen Aktiengesellschaft, work began in the year under review to bundle our procurement and product management activities to guarantee a high level of transparency.

Procurement risks are considered to be low.

Production risks

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

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

Production risks are therefore considered to be low.

Sales partnership risks

Heidelberger Druckmaschinen Aktiengesellschaft relies on global strategic partnerships to offer its customers a broad range of solutions tailored to the performance of their own products. It is constantly working to intensify its cooperation with sales partners. There is a risk that sales partnerships could be terminated, thereby adversely affecting the Company's business performance.

This risk is considered to be low.

IT, information and data protection risks

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

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

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

HR risks and opportunities

The success of Heidelberger Druckmaschinen Aktiengesellschaft 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. Heidelberger Druckmaschinen Aktiengesellschaft has responded to the changes entailed by an aging workforce by improving its preventive healthcare and adapting its pension schemes. As a result of past challenges and those yet to come, it cannot be ruled out that negative financial or non-financial effects (loss of key personnel, image, attractiveness as an employer) could arise for Heidelberger Druckmaschinen Aktiengesellschaft.

This risk is considered to be medium.

Financial risks and opportunities

Currency and interest rate risks and opportunities

As an international company, Heidelberger Druckmaschinen Aktiengesellschaft conducts business in various currencies, which can lead to risks and opportunities due to exchange rate changes. The risks are identified centrally and suitable strategies and measures are derived to counteract them. Some of these measures include derivative financial instruments, specifically forward exchange transactions and currency options. Details of these instruments and the impact of hedging transactions can be found in note 26 of the notes to the financial statements. The functional separation of trading, settlement and risk controlling and compliance with the Minimum Requirements for Risk Management (MaRisk) formulated by the German Federal Financial Supervisory Authority (BaFin) are regularly reviewed by Internal Audit. Currency risks are managed in the medium and long term and operationally, whether through appropriate hedges or by increasing procurement volumes in foreign currency (natural hedging).

Changes in exchange rates can have a positive or negative effect on earnings.

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

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

Risks and opportunities from pension obligations

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

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

In the year under review, the lower interest rate (as against the previous year) used for the discounting of pension obligations led to an increase in pension obligations.

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

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

Risks and opportunities from taxation

Heidelberger Druckmaschinen Aktiengesellschaft 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 bilateral and multilateral tax agreements. Changes in the underlying legal provisions and the application of law can have consequences for Heidelberger Druckmaschinen Aktiengesellschaft's tax positions.

On the whole, the tax risk is considered to be medium.

Liquidity

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

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

Refinancing risk

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

The details of the financing structure are described on page 10. Note 22 to the financial statements explains in more detail that financing is linked to standard financial covenants. If the results of operations and financial position were to deteriorate to such a degree that it were no longer possible to guarantee compliance with these financial covenants and / or modify them, this would have an adverse financial impact on the Company. There are currently no indications of such a development.

The refinancing risk is considered to be low.

Rating

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

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

Legal and compliance risks

As part of its general business operations, Heidelberger Druckmaschinen Aktiengesellschaft is involved in judicial and extra-judicial legal disputes whose outcome cannot be predicted with certainty.

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. Heidelberger Druckmaschinen Aktiengesellschaft reduces legal risks from individual agreements by utilizing standardized master agreements wherever possible. The Company's interests in the area of patents and licenses are protected in a targeted manner. Risks will be reduced further by systematic controls of compliance with our comprehensive policies in all areas and the commitment of suppliers and service providers to the updated Code of Conduct, which also reflects the ten guiding principles of the UN Global Compact. The ombudsman system at the level of Heidelberger Druckmaschinen Aktiengesellschaft for the Heidelberg Group is being further established in the corporate culture through ongoing communication measures with employees and third parties. The entry into force of the new European General Data Protection Regulation (GDPR) on May 25, 2018 is of particular importance. Risks resulting from a violation of the GDPR are countered by a data protection organization that complies with the new requirements. This includes, for example, the implementation of a data protection management system and the establishment of various processes in line with the GDPR, e. g. to answer inquiries from data subjects or to comply with the reporting obligations for privacy violations. The risk is further reduced by fulfilling the necessary documentation obligations.

Legal and compliance risks are currently considered to be medium.

General statement on risks and opportunities

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

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

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

A high risk of failing to meet our earnings targets essentially lies in expectations for economic developments on key sales markets (Europe and particularly Germany, US, China) not, or not fully, materializing. A weaker than expected performance by these countries could have a negative impact on sales and margins in the HDT segment. Despite this risk assessment, it is assumed that the share of the print volume produced using the sheetfed offset printing method will remain stable globally. Additionally, the barriers to entry in sheetfed offset printing are high and therefore no significant competition from new providers is expected. Secondly, the precise transportation of paper sheets at high speeds remains a core competency of Heidelberger Druckmaschinen Aktiengesellschaft, making us an ideal partner for providers of new technologies. Partnerships allow Heidelberger Druckmaschinen Aktiengesellschaft to bundle the innovative strength of partners with its own in order to respond more quickly to current market conditions. Furthermore, the Company and its subsidiaries have a strong global sales and service network. Heidelberger Druckmaschinen Aktiengesellschaft is strategically well positioned not only for sheetfed offset printing processes, but also for digital printing processes, which are seeing global increases in the print volumes produced.

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

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

OPPORTUNITIES for Heidelberger Druckmaschinen Aktiengesellschaft result in particular from strategic measures. This includes the continued transformation from being a technology-oriented company to being a more customer-oriented one with a focus on expansion in the growth areas of digital, packaging, service and software with a continuous improvement in cost structures.

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

Above and beyond this, an opportunity for Heidelberger Druckmaschinen Aktiengesellschaft lies in the possibility of more positive economic performance in the print media industry than is currently forecast. In the BRIC nations there is a possibility that economic growth will be higher than anticipated. The economic recovery in the advanced economies could lead to a rise in the investment volume there as well. For example, the corporate tax reform in the US could trigger other knock-on effects as a result of the strong fiscal stimulus. A shift in exchange rates in our favor would also have a positive effect on

Heidelberger Druckmaschinen Aktiengesellschaft's sales and earnings planning. There are opportunities – and risks – that social and political changes, government intervention, customs regulations and changes in legislation could influence our business development in several countries.

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

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

The annual financial statements and the management report of Heidelberger Druckmaschinen Aktiengesellschaft are prepared by the central Accounting and Reporting department. This department also regularly monitors whether the books and records were correctly maintained, thereby ensuring that the financial information complies with regulatory requirements.

The Internal Audit team, which has access to all data, also examines individual areas of the Company on a test basis. In doing so, it examines, among other things, whether the internal control system has been implemented in this regard or whether transactions have been controlled, and whether the principles of the separation of functions and dual control are adhered to in all areas. The latter is mandatory, for example, for every order that is placed, for every invoice that is issued, and for every investment decision that is made. Compliance with all other internal guidelines and directives that have an impact on accounting operations is also monitored.

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

Collectively, these procedures ensure that reporting on the business activities of the Company is consistent and compliant with the approved accounting guidelines. The effectiveness of the internal accounting control system is also regularly monitored by our Internal Audit team.

Future prospects

The global economy is expected to expand rapidly in the 2018 calendar year at 3.2 percent. While the acceleration in the past year was roughly equally due to the economic development in the advanced economies and on the emerging markets, the contribution to expansion by the advanced economies is expected to rise noticeably this year.

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

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

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

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

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

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

The economic and political conditions presented on the markets relevant to Heidelberger Druckmaschinen Aktiengesellschaft, and the expected development of the printing industry, serve as premises for the forecast planning for the 2018/2019 financial year. The subscription models covering the entire printing press lifecycle, which were launched in 2017/2018, are meeting with strong customer demand. The first customers took advantage of this offer in the 2017/2018 financial year. The start of series production of digital packaging printing presses (Primefire) will increasingly have a positive effect on Heidelberger Druckmaschinen Aktiengesellschaft's sales performance. Accordingly, the Company is forecasting moderate sales growth for 2018/2019.

In connection with the measures aimed at optimizing our management and organizational structure, Heidelberger Druckmaschinen Aktiengesellschaft is anticipating further restructuring and non-recurring effects in the coming financial year. In the 2018/2019 financial year, we intend to keep EBITDA at the prior-year level on a like-for-like basis thanks to efficiency enhancement measures, among other things. The additional staff costs resulting from the new collective bargaining agreement have been taken into account.

We are anticipating a further deterioration in the financial result in the 2018/2019 financial result due to the continued reduction in the average pension discount rate.

As this will be offset by the ongoing optimization of our financing framework and hence lower financing costs in the 2018/2019 financial year, however, we expect the financial result to be unchanged as against the previous year.

Assuming that the efficiency improvement measures at the level of the Company and the Heidelberg Group have the desired effect in the current financial year, Heidelberger Druckmaschinen Aktiengesellschaft is aiming to achieve a moderate increase in its net result after taxes on a like-for-like basis.

Important note

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

Legal disclosures

Remuneration report – Management Board and Supervisory Board[1]

- In the reporting year: Review and redesign of multi-year variable compensation and adjustment of the obligation for personal investment in shares
- Compensation structure for the Management Board will continue to comply with statutory requirements (German Stock Corporation Act) and requirements of the German Corporate Governance Code in the future

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

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

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

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

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

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

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

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

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

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

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

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

[1] In accordance with section 4.2.5 (3) of the German Corporate Governance Code (DCGK) in the version published on April 24, 2017
[2] Chief Executive Officer, member of the Management Board and Chief Human Resources Officer since November 14, 2016
[3] Member of the Management Board since November 14, 2016
[4] The monthly fixed compensation of Dirk Kaliebe and Stephan Plenz was each increased by 3 percentage points from October 1, 2016
[5] Term: 3 years
[6] In financial year 2017/2018, this includes the fair value as of the grant date of the multi-year share-based cash compensation from financial year 2017/2018 as follows: Rainer Hundsdörfer: € 234 thousand; Dirk Kaliebe: € 144 thousand; Prof. Dr. Ulrich Hermann: € 144 thousand; Stephan Plenz: € 144 thousand

Allocation [1]

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

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

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

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

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

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

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

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

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

[1] The monthly fixed compensation of Dirk Kaliebe and Stephan Plenz was each increased by 3 percentage points from October 1, 2016

[2] In financial year 2017/2018, this includes the fair value as of the grant date of the multi-year cash-settled share-based compensation from financial year 2017/2018 as follows: Rainer Hundsdörfer: € 234 thousand; Dirk Kaliebe: € 144 thousand; Prof. Dr. Ulrich Hermann: € 144 thousand; and Stephan Plenz: € 144 thousand; the expense of financial year 2017/2018 of € 437 thousand is allocated as follows: Rainer Hundsdörfer: € 153 thousand; Dirk Kaliebe: € 95 thousand; Prof. Dr. Ulrich Hermann: € 94 thousand; and Stephan Plenz: € 95 thousand

[3] Chief Executive Officer, member of the Management Board and Chief Human Resources Officer since November 14, 2016

[4] Member of the Management Board since November 14, 2016

The BENEFITS TO MEMBERS OF THE MANAGEMENT BOARD WHO LEFT are as follows: No members of the Management Board left in the reporting year. In the financial year 2016/2017, the term in office of Dr. Gerold Linzbach as Chief Executive Officer, member of the Management Board and Chief Human Resources Officer ended on November 13, 2016; his service agreement with Heidelberger Druckmaschinen Aktiengesellschaft ended on August 31, 2017. The term in office of Harald Weimer as a member of the Management Board ended on November 13, 2016; his service agreement with Heidelberger Druckmaschinen Aktiengesellschaft ended as agreed on March 31, 2017. Please see note 39 to the consolidated financial statements for further information on members of the Management Board who left in the past year.

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

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

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

In terms of **EARLY TERMINATION BENEFITS**, all service agreements provide for the following uniform regulations in the event of the effective revocation of a Management Board member's appointment or a justifiable resignation by a member of the Management Board: The service agreement ends after the statutory notice period in accordance with section 622 (1), (2) of the German Civil Code (BGB). In 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 payments received by a then former member of the Management Board, which this former member has agreed to disclose to the Company, must be offset in accordance with sections 326(2) sentence 2 and 615(2) BGB mutatis mutandis during the originally agreed residual term. If a member of the Management Board becomes unable to work due to disability, the benefits stipulated in the respective pension agreement will be paid. 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

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

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

[1] The pension entitlement that can be achieved by the age of 65 (Rainer Hundsdörfer; Dirk Kaliebe; Prof. Dr. Ulrich Hermann and Stephan Plenz) is dependent on personal compensation development, the respective EBIT and the return achieved, and hence cannot be determined precisely in advance. If the pension option is utilized and the current assumptions continue to apply, the retirement pension resulting from the accrued pension funds is expected to be as follows: Rainer Hundsdörfer: approx. 7 percent, Dirk Kaliebe: approx. 36 percent, Prof. Dr. Ulrich Hermann: approx. 21 percent and Stephan Plenz: approx. 34 percent of the respective last fixed compensation
[2] For Rainer Hundsdörfer, Dirk Kaliebe, Prof. Dr. Ulrich Hermann and Stephan Plenz, the pension contribution for the reporting year is calculated on the basis of the pensionable income on March 31, without taking into account the earnings-based contribution not yet determined
[3] Chief Executive Officer, member of the Management Board and Chief Human Resources Officer since November 14, 2016
[4] For the period November 14, 2016 to March 31, 2017
[5] As the service cost amounts to € 0 thousand, the addition to the defined benefit obligation for the period from November 14, 2016 to March 31, 2017, is shown here
[6] Member of the Management Board since November 14, 2016

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 accordingly to the payment and eligibility of other compensation.

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

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

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

Compensation of the Supervisory Board (excluding VAT)

Figures in €				2017/2018				2016/2017
	Fixed annual compensation	Attendance fees	Committee compensation	Total	Fixed annual compensation	Attendance fees	Committee compensation	Total
Dr. Siegfried Jaschinski 1)	120,000	5,000	7,500	132,500	120,000	6,500	8,000	134,500
Rainer Wagner 2)	80,000	5,000	12,000	97,000	80,000	6,500	10,500	97,000
Ralph Arns	40,000	2,000	0	42,000	40,000	3,000	0	43,000
Edwin Eichler 3)	0	0	0	0	13,333	1,000	0	14,333
Mirko Geiger	40,000	5,000	7,500	52,500	40,000	6,000	7,500	53,500
Karen Heumann	40,000	2,500	3,000	45,500	40,000	2,500	0	42,500
Oliver Jung 4)	36,666	2,500	0	39,166	0	0	0	0
Kirsten Lange	40,000	4,500	6,000	50,500	40,000	6,000	4,500	50,500
Dr. Herbert Meyer	40,000	5,000	22,500	67,500	40,000	6,000	22,500	68,500
Beate Schmitt	40,000	2,000	4,500	46,500	40,000	4,000	3,000	47,000
Prof. Dr.-Ing. Günther Schuh	40,000	2,500	1,500	44,000	40,000	4,500	3,000	47,500
Christoph Woesler	40,000	2,000	0	42,000	40,000	3,000	0	43,000
Roman Zitzelsberger	40,000	2,000	0	42,000	40,000	2,000	0	42,000
Total	596,666	40,000	64,500	701,166	573,333	51,000	59,000	683,333

1) Chairman of the Supervisory Board
2) Deputy Chairman of the Supervisory Board
3) Member of the Supervisory Board until July 31, 2016
4) Member of the Supervisory Board since May 23, 2017

Takeover disclosures in accordance with section 289a (1) HGB

In accordance with section 289a (1) sentence 1 nos. 1–9 of the German Commercial Code (HGB), we address all points that could be relevant in the event of a public takeover bid for Heidelberger Druckmaschinen Aktiengesellschaft in the management report:

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

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

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

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

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

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

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

On July 26, 2012, the Annual General Meeting authorized the Management Board, with the approval of the Supervisory Board, to issue bearer or registered warrants or convertible bonds, profit-sharing rights or participating bonds, or a combination of these instruments (collectively referred to as "bonds") up to a total nominal amount of € 150,000,000.00, dated or undated, on one or several occasions by July 25, 2017, and to grant or impose on the bearers or creditors of option warrants or option profit-sharing rights or option participating bonds, option rights or obligations, or to grant or impose on the bearers or creditors of convertible bonds, convertible profit-sharing rights or convertible participating bonds, conversion rights or obligations to bearer shares of the Company with a pro rata amount of share capital of originally up to € 119,934,433.28 in total, in accordance with the further conditions of these bonds. It was permitted to disapply shareholders' preemptive subscription rights in accordance with the further conditions of this authorization. For this purpose, the share capital was originally contingently increased by up to € 119,934,433.28, divided into 46,849,388 bearer shares. Due to the conversion of five partial debentures resulting from the convertible bond issued in July 2013, the share capital was increased by € 488,547.84 utilizing Contingent Capital 2012. The Contingent Capital 2012 available was therefore reduced to € 119,445,885.44, divided into 46,658,549 bearer shares. On July 24, 2015, the Annual General Meeting resolved the cancellation of Contingent Capital 2012 to the extent that it is not intended to serve rights under the 2013 convertible bond. For this purpose, the share capital of Heidelberger Druckmaschinen Aktiengesellschaft was now contingently increased by up to € 58,625,953.28, divided into 22,900,763 bearer shares (Contingent Capital 2012). In June 2017, 21,297,697 new shares were issued from Contingent Capital 2012 to serve rights under the 2013 convertible bond. This increased the share capital of Heidelberger Druckmaschinen Aktiengesellschaft from € 659,040,714.24 to € 713,562,818.56, now divided into 278,735,476 shares. The remaining issue volume of the 2013 convertible bond of € 3.7 million was fully repaid on maturity on July 10, 2017.

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

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

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

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

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

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

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

Non-financial report

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

Disclosures on treasury shares

The disclosures on treasury shares in accordance with section 160 (1) no. 2 AktG can be found in note 18 of the notes to the annual financial statements.

Corporate Governance Declaration

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

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Income statement 2017/2018

Figures in € thousands	Note	1-Apr-2016 to 31-Mar-2017	**1-Apr-2017 to 31-Mar-2018**
Net sales	4	1,177,749	1,159,879
Change in inventories		– 4,966	22,617
Other own work capitalized		56,528	41,951
Total operating performance		**1,229,311**	**1,224,447**
Other operating income	5	128,753	68,589
Cost of materials	6	563,492	559,583
Staff costs	7	418,306	438,971
Amortization and write-downs of intangible non-current assets and depreciation and write-downs of property, plant and equipment		34,694	39,363
Other operating expenses	8	252,825	234,996
Result of operating activities		**88,747**	**20,123**
Result from financial assets	9	32,892	12,863
Other interest and similar income	10	8,491	6,698
Interest and similar expenses	11	84,621	82,763
Financial result		**– 43,238**	**– 63,202**
Taxes on income	12	– 25,234	1,451
Net result after taxes		**70,743**	**– 44,530**
Net profit		**70,743**	**– 44,530**
Loss carryforward from the previous year	18	– 40,604	–
Withdrawals from retained earnings			
from other retained earnings		–	44,530
Transfers to retained earnings	18		
to the legal reserve		– 1,507	–
to other retained earnings		– 28,632	–
Net retained profit		**0**	**0**

Statement of financial position as of March 31, 2018

Assets

Figures in € thousands	Note	31-Mar-2017	31-Mar-2018
Non-current assets	13		
Intangible assets		71,789	97,016
Property, plant and equipment		451,606	505,026
Financial assets		877,594	885,426
		1,400,989	1,487,468
Current assets			
Inventories	14	329,116	358,706
Receivables and other assets	15	201,119	189,268
Cash and cash equivalents	16	127,778	113,016
		658,013	660,990
Prepaid expenses	17	11,319	8,189
		2,070,321	**2,156,647**

Equity and liabilities

Figures in € thousands	Note	31-Mar-2017	31-Mar-2018
Equity	18		
Issued capital [1)]		659,041	713,563
Treasury shares		– 366	– 366
Issued capital		658,675	713,197
Capital reserves		52,937	54,207
Retained earnings		51,482	6,952
		763,094	774,356
Special reserves	19	770	452
Provisions			
Provisions for pensions and similar obligations	20	201,836	239,518
Other provisions	21	163,898	160,852
		365,734	400,370
Liabilities	22	935,442	979,427
Deferred income		5,281	2,042
		2,070,321	**2,156,647**

[1)] Contingent capital as of March 31, 2018 in the amount of € 180,039 thousand (previous year: € 238,665 thousand)

Financial section 2017/2018

Statement of changes in non-current assets

Figures in € thousands					Cost
	1-Apr-2017	Additions	Disposals	Reclassifications	**31-Mar-2018**
Intangible assets					
Internally generated rights, similar rights and assets	60,823	26,880	–	–	87,703
Purchased software, rights of use and other rights	47,586	5,146	– 1,032	–	51,700
	108,409	**32,026**	**– 1,032**	**–**	**139,403**
Property, plant and equipment					
Land and buildings	411,103	28,350	–	2,496	441,949
Technical equipment and machinery	310,846	1,463	– 12,567	444	300,186
Other equipment, operating and office equipment	438,338	24,707	– 18,416	– 728	443,901
Advance payments and assets under construction	7,361	34,843	– 9	– 2,212	39,983
	1,167,648	**89,363**	**– 30,992**	**0**	**1,226,019**
Financial assets					
Shares in affiliated companies	1,703,047	11,516	– 4,700	–	1,709,863
Loans to affiliated companies	11,957	8,329	– 6,110	–	14,176
Equity investments	3,928	–	–	–	3,928
Securities classified as non-current assets	2	–	–	–	2
Other loans	29,853	286	– 2,739	–	27,400
	1,748,787	**20,131**	**– 13,549**	**–**	**1,755,369**
	3,024,844	**141,520**	**– 45,573**	**–**	**3,120,791**

Cumulative depreciation and amortization						Carrying amounts	
1-Apr-2017	Additions	Changes in connection with additions [1]	Disposals	Reclassifications	**31-Mar-2018**	31-Mar-2017	**31-Mar-2018**
956	2,998	–	–	–	3,954	59,867	83,749
35,664	2,353	1,444	– 1,028	–	38,433	11,922	13,267
36,620	**5,351**	**1,444**	**– 1,028**	**–**	**42,387**	**71,789**	**97,016**
128,090	12,629	–	–	1,490	142,209	283,013	299,740
246,764	5,975	–	– 11,974	228	240,993	64,082	59,193
341,188	15,408	18	– 17,105	– 1,718	337,791	97,150	106,110
–	–	–	–	–	–	7,361	39,983
716,042	**34,012**	**18**	**– 29,079**	**0**	**720,993**	**451,606**	**505,026**
870,646	140	–	– 4,700	–	866,086	832,401	843,777
–	–	–	–	–	–	11,957	14,176
542	–	–	–	–	542	3,386	3,386
–	–	–	–	–	–	2	2
5	3,313	–	– 3	–	3,315	29,848	24,085
871,193	**3,453**	**–**	**– 4,703**	**–**	**869,943**	**877,594**	**885,426**
1,623,855	**42,816**	**1,462**	**– 34,810**	**–**	**1,633,323**	**1,400,989**	**1,487,468**

[1] Changes in connection with additions relate to the merger of a subsidiary into Heidelberger Druckmaschinen Aktiengesellschaft

General notes

1 Preliminary remarks

Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg, is entered in the commercial register of the Mannheim Local Court under HRB 330004.

The annual financial statements of Heidelberger Druckmaschinen Aktiengesellschaft are prepared in accordance with the provisions of the German Commercial Code (HGB) and the German Stock Corporation Act (AktG).

The classification of the income statement is based on the total cost (nature of expense) method. Certain items of the income statement and the statement of financial position have been combined to improve the clarity of presentation. In these cases, a breakdown of the individual items with additional information and notes is presented below.

The figures shown in the tables are presented in thousands of euros (€ thousands).

2 Currency translation

Business transactions in foreign currencies are generally measured at the exchange rate at the time of first-time recognition and at the hedge rate in the cases of hedges. At the reporting date, assets and liabilities denominated in foreign currencies are translated at the currently applicable average spot exchange rate. Unrealized gains resulting from changes in exchange rates are recognized only if the underlying asset or liability has a remaining term of one year or less. Information on derivative financial instruments for hedging currency risks is presented under note 26.

For the list of shareholdings, the assets and liabilities in financial statements prepared in foreign currency are translated at the year-end exchange rates, while expenses and income are translated at the average exchange rates for the year.

3 General accounting principles

The cost of acquisition also includes additional costs of acquisition that can be directly allocated. In addition to direct costs and overhead costs for materials and production, the cost of production also includes special costs of production, production-related depreciation of non-current assets and an appropriate share of the costs for general administration and social security.

Impairment losses recognized on current and non-current assets in previous years are retained if the reasons for their recognition still apply.

Exercising the option of section 248 (2) HGB, internally generated intangible assets are capitalized at production cost and amortized on a straight-line basis over their expected useful life.

Purchased intangible assets are capitalized at acquisition cost and amortized on a straight-line basis over their expected useful life.

Property, plant and equipment is carried at acquisition or production cost less depreciation and impairment losses (if permanent). Depreciation is recognized solely in line with the straight-line method on the basis of the individual technical and economic useful lives. Additions during a financial year are depreciated pro rata temporis on the basis of the number of months for which they have been held. In accordance with section 6 (2a) of the German Income Tax Act (EStG), omnibus items are recognized for acquired or manufactured depreciable movable non-current assets with an acquisition cost of more than € 250 (until December 31, 2017: € 150) and up to € 1,000. These items are depreciated on a straight-line basis over a period of five years.

Exercising the option provided by section 255 (3) sentence 2 HGB, borrowing costs are reported as a component of the cost of the respective asset.

Amortization of intangible assets and depreciation of property, plant and equipment is calculated primarily on the basis of the following useful lives (in years):

	2016/2017	**2017/2018**
Development costs	3	3 to 10
Software/other rights	3 to 9	3 to 9
Buildings	25 to 50	25 to 50
Technical equipment and machinery	12 to 31	12 to 31
Other equipment, operating and office equipment	4 to 26	4 to 26

Under financial assets, shares in affiliated enterprises, equity investments, securities and loans are carried at acquisition cost or, if permanently impaired, at the lower fair value. Interest-bearing loans are carried at their nominal value. Interest-free loans are discounted at net present value. Inventories are carried at cost.

The carrying amounts for all asset groups are based on the weighted average cost method. The cost of production is measured at full cost, meaning that those costs eligible for recognition as assets in accordance with section 255 (2) sentences 2 to 3 HGB are included. If lower replacement prices or net values are applicable at the end of the reporting period, these are taken into account. Sufficient account is taken of the risks of holding inventory that result from prolonged storage and reduced saleability through reductions in value.

Receivables and other assets are carried at their nominal amount (acquisition cost). All discernible individual risks and the general credit risk are taken into account by appropriate valuation allowances. Low-interest-bearing receivables with a remaining term of more than one year are discounted to their present value.

Cash and cash equivalents are carried at their nominal amount.

Tax-exempt allowances and taxable subsidies for investments are recognized as a special reserve for investment grants. Tax-exempt allowances and taxable subsidies are offset in line with the pattern of depreciation.

In addition to pension benefits, various pension commitments and general works council agreements, provisions for pensions and similar obligations also include temporary financial assistance in the event of death, as guaranteed under labor law. By way of agreement with the Group Works Council of February 27, 2015, Heidelberger Druckmaschinen Aktiengesellschaft introduced a new pension system effective from January 1, 2015 with greater incentives for private retirement provision. This agreement changed the defined benefit plan to a defined contribution plan. The new general works agreement applies to future pensions for active employees at Heidelberger Druckmaschinen Aktiengesellschaft. The pension credit is paid out in 12 annual installments, or optionally the employee can choose 14 annual installments with an increased initial installment. Alternatively, the employee can access his/her pension credit as a pension for life and, under certain conditions, have this paid out as a one-time capital payment. The installment/annuity payment option of 60 percent/40 percent constitutes a further actuarial assumption for the calculation of the pension provision. Provisions are measured on the basis of actuarial calculations, using the 2005G Prof. Dr. Heubeck mortality tables as the biometric basis for calculation. The measurement method used for active employees is the proportionally declining projected unit credit method, which also takes into account forecast increases in salaries and pensions. For pensioners and former employees with vested rights, the present value of future pension benefits is recognized as the settlement amount. Beneficiaries who have already passed the actuarial retirement age are treated as pensioners. If the conditions for full pension vesting are met, pension calculations are based on the date at which employees began work for employees who joined before their 30th birthday. The option provided under section 253 (2) sentence 2 HGB was exercised in determining the discount rate. This means that provisions for pensions or similar long-term obligations can be discounted at a flat rate using an average market interest rate for the past ten financial years assuming a remaining term of 15 years. Obligations are measured using the discount rate of 3.57 percent calculated and published by Deutsche Bundesbank as of March 31, 2018 (previous year: 3.94 percent).

Obligations under pension commitments are predominantly covered by assets that are intended solely to serve pension obligations and that cannot be accessed by other creditors (plan assets). The plan assets measured at fair value are offset against pension obligations in line with section 246 (2) sentence 2 HGB. The fair value of the net assets covering pension liabilities is equal to the amortized cost (plan assets plus profit participation) according to the notifications of the insurance company. Income from plan assets is netted against interest expenses from the interest on pension obligations and the expenses or income from the change in the discount rate and reported under net interest income.

Provisions for obligations under partial retirement relate to employees who are either already in partial retirement as of the end of the reporting period, have concluded a partial retirement contract, or can make use of the partial retirement regulation in the future. Provisions are measured in accordance with actuarial principles on the basis of a matched-term discount rate. This is calculated as the average market interest rate for the past seven financial years and was 1.16 percent as of March 31, 2018 (previous year: 1.52 percent). Provisions for partial retirement obligations are still based on 2005G Prof. Dr. Heubeck mortality tables. The provision includes step-up amounts and settlement obligations of the Company incurred by the end of the reporting period.

Other provisions are measured taking into account all discernible reportable risks and uncertain liabilities. They are measured at the settlement amount that is deemed necessary based on prudent business judgment. Provisions with a remaining term of more than one year are discounted at the average market interest rate for the past seven financial years corresponding to their remaining term. Provisions are also recognized for warranties without legal liability.

Liabilities are recognized at their settlement amount.

Prepaid expenses and deferred income are recognized for expenditures and revenues that represent expenses and income for a certain period after the end of the reporting period.

The carrying amounts of contingent liabilities match the extent of liability as of the end of the reporting period.

Derivative financial instruments are used to hedge currency risks. The hedges for the receivables and liabilities recognized at the reporting date take the form of a portfolio hedge. The effective portion of the valuation units recognized is measured using the gross hedge presentation method.

Notes to the income statement

4 Net sales

	2016/2017	**2017/2018**
Europe, Middle East and Africa	553,349	533,298
Asia/Pacific	311,704	325,272
Eastern Europe	107,571	112,884
North America	153,807	150,106
South America	51,318	38,319
	1,177,749	**1,159,879**

€ 940 million or around 81 percent of total sales were generated outside Germany.

	2016/2017 [3]	**2017/2018**
Heidelberg Digital Technology [1]	894,235	888,329
Heidelberg Digital Business and Services [2]	283,514	271,550
	1,177,749	**1,159,879**

[1] Until March 31, 2017: Heidelberg Equipment
[2] Until March 31, 2017: Heidelberg Services
[3] Prior-year figures restated

As part of the adjustment of the corporate strategy, the segments were reorganized as of April 1, 2017. The Heidelberg Digital Technology segment primarily comprises sheetfed offset business, print processing and label printing. Services, consumables and remarketed equipment business and digital printing technologies and solutions along the value chain are bundled in the Heidelberg Digital Business and Services segment. The prior-year figures have been restated accordingly.

5 Other operating income

	2016/2017	**2017/2018**
Income from currency translation	39,637	45,138
Reversal of provisions	25,629	15,155
Increases in value of shares in affiliated companies	14,111	–
Income from affiliated companies	2,483	1,833
Income from operating facilities	1,369	57
Income from the reversal of special reserves for investment grants	419	332
Other income	45,105	6,074
	128,753	**68,589**

The increase in income from currency translation of € 5.5 million is offset by an increase in expenses of € 1.0 million (see note 8).

Other operating income includes prior-period income of € 16.1 million primarily from the reversal of provisions and book gains from the sale of property, plant and equipment.

Income of € 40.9 million resulting from the transfer of assets and liabilities at fair value in connection with the accrual of Heidelberger Druckmaschinen Real Estate GmbH & Co. KG, Walldorf, with effect from April 1, 2016 was reported in other income in the previous year.

6 Cost of materials

	2016/2017	**2017/2018**
Cost of raw materials, consumables and supplies, and of goods purchased	500,791	499,587
Cost of purchased services	62,701	59,996
	563,492	**559,583**

7 Staff costs and employees

	2016/2017	2017/2018
Wages and salaries	355,831	374,564
Social security costs and expenses for pensions and support	62,475	64,407
of which: for pensions	(1,531)	(1,021)
	418,306	**438,971**

Wages and salaries also include restructuring expenses in connection with the adjustment of personnel capacities in the amount of € 9.8 million (previous year: € 0.6 million).

The interest component of the pension entitlements is reported in the financial result (see note 11).

The average number of employees was:

	2016/2017	2017/2018
Wiesloch-Walldorf	3,715	3,784
Heidelberg	983	974
Brandenburg	422	424
Kiel	232	230
Neuss	30	28
	5,382	5,440
Trainees	240	227
	5,622	**5,667**

The number of employees does not include interns, graduating students, dormant employees or employees in the non-work phase of partial retirement.

8 Other operating expenses

	2016/2017	2017/2018
Expenses for other external services	49,852	56,398
Expenses from currency translation	38,769	39,749
Special direct selling expenses	36,321	31,223
Maintenance	24,549	23,661
Rental and leasing	18,557	12,358
Net amount from additions to and utilization of provisions, relating to several types of expense	15,941	8,753
Non-manufacturing overhead costs	6,681	7,683
Travel costs	5,063	5,118
Insurance expense	4,438	4,053
Other taxes	1,069	1,139
Advertising costs	8,678	906
Write-downs on receivables and other assets	51	405
Other costs	42,856	43,550
	252,825	**234,996**

Rental and leasing expenses were reduced further in the year under review with the addition of the Print Media Academy, Heidelberg, and the World Logistics Center, Wiesloch-Walldorf, in June 2017.

The € 1.0 million increase in expenses from currency translation is offset by a € 5.5 million increase in income from currency translation (see note 5).

In the previous year, there were additions to staff provisions as a result of partial retirement agreements concluded in connection with the adjustment of personnel capacities.

The reduction in advertising costs is due to the fact that the prior-year figure contained expenses for the industry trade fair drupa in 2016.

9 Result from financial assets

	2016/2017	2017/2018
Income from investments		
Income from profit transfer agreements	28,851	18,049
Income from other investments	8,430	1,060
	37,281	19,109
of which: from affiliated companies	(37,281)	(19,109)
Income from other securities and long-term loans	964	3,463
of which: from affiliated companies	(964)	(669)
Write-downs on financial assets and on securities classified as current assets	– 2,992	– 3,453
Expenses from profit transfer agreements	– 2,361	– 6,256
of which: from affiliated companies	(– 2,361)	(– 6,256)
	32,892	**12,863**

Expenses from profit transfer agreements include € 12.4 million (previous year: € 15.3 million) in indirect distributions from foreign Group companies to German Group companies.

Income from other securities and long-term loans relates to interest on a long-term loan in connection with a leasing agreement of a foreign subsidiary and interest on five long-term loans extended to a German subsidiary, among other things.

Write-downs on financial assets and on securities classified as current assets relate exclusively to financial assets (see note 13).

10 Other interest and similar income

	2016/2017	2017/2018
Other interest and similar income	8,491	6,698
of which: from affiliated companies	(5,920)	(5,910)
	8,491	**6,698**

11 Interest and similar expenses

	2016/2017	2017/2018
Interest and similar expenses	84,621	82,763
of which: due to affiliated companies	(1,796)	(1,960)
of which: due to accrued interest	(55,173)	(59,394)
	84,621	**82,763**

Interest and similar expenses include expenses in connection with the 2015 convertible bond, the 2015 corporate bond, the credit facility and the development loan (see note 22). Expenses due to the interest cost of discounting provisions for pensions are offset against income from plan assets measured at fair value (see note 20).

12 Taxes on income

	2016/2017	2017/2018
Current income tax expense	1,162	1,451
Deferred taxes	– 26,396	–
	– 25,234	**1,451**

Taxes on income in the previous year included income of € 26.4 million from the realization of previously unrecognized deferred taxes on temporary differences and tax loss carryforwards resulting from netting against deferred tax liabilities recognized in connection with the accrual of Heidelberger Druckmaschinen Real Estate GmbH & Co. KG, Walldorf, with effect from April 1, 2016.

Notes to the statement of financial position

13 Non-current assets

The carrying amounts of intangible assets increased by € 25.2 million in net terms in the year under review, largely as a result of the development costs capitalized in accordance with section 248 (2) HGB.

The carrying amounts of property, plant and equipment increased by € 53.4 million in the year under review. This was mainly due to the addition of the Print Media Academy, Heidelberg, and the World Logistics Center, Wiesloch-Walldorf, as well as the recognition of advance payments already made and assets under construction in conjunction with the ongoing construction of the innovation center at the Wiesloch-Walldorf site.

Exercising the option provided by section 255 (3) sentence 2 HGB, borrowing costs are recognized in land and buildings in the amount of € 0.1 million.

There were no write-downs on account of presumed permanent impairment in the year under review (previous year: € 0.2 million).

Financial assets increased by € 7.8 million. This development was primarily due to the capital increases for two subsidiaries and the acquisition of docufy GmbH, Bamberg, in the total amount of € 11.5 million. Loans decreased by € 3.5 million overall. In the context of the regular review of the carrying amounts of equity investments, the carrying amount of a subsidiary was written down by € 0.1 million on account of presumed permanent impairment.

14 Inventories

	31-Mar-2017	**31-Mar-2018**
Raw materials, consumables and supplies	62,345	69,604
Work and services in progress	174,091	202,834
Finished goods and goods held for resale	92,672	85,100
Advance payments	8	1,168
	329,116	**358,706**

15 Receivables and other assets

	31-Mar-2017	of which with a remaining term of more than 1 year	**31-Mar-2018**	of which with a remaining term of more than 1 year
Trade receivables	25,854	–	24,327	–
Receivables from affiliated companies	114,063	–	112,636	–
Other assets	61,202	–	52,305	57
	201,119	**–**	**189,268**	**57**

Receivables from affiliated companies include short-term loans of € 112.2 million (previous year: € 113.8 million).

Other assets primarily include tax refund claims, option premiums paid, receivables from employees and receivables from Heidelberg Pension Trust e. V. Some € 2.2 million of the tax refund claims arose only after the end of the financial year (previous year: € 2.3 million).

16 Cash and cash equivalents

Cash and cash equivalents in the amount of € 113.0 million (previous year: € 127.8 million) primarily relate to short-term cash investments with a term of up to three months and bank balances. Bank balances are exclusively held for short-term cash management purposes.

17 Prepaid expenses

In accordance with section 250 (3) HGB, prepaid expenses include the difference between the issue and settlement amount of liabilities in the amount of € 5.2 million (previous year: € 7.0 million).

18 Equity

	1-Apr-2017	Net loss for the year	Change in reserves	Conversion of convertible bond 2013	**31-Mar-2018**
Subscribed capital	659,041	–	–	54,522	713,563
Treasury shares	– 366	–	–	–	– 366
Issued capital	658,675	–	–	54,522	713,197
Capital reserves	52,937	–	–	1,270	54,207
Retained earnings					
Legal reserve	1,507	–	–	–	1,507
Other retained earnings	49,975	–	– 44,530	–	5,445
	51,482	–	– 44,530	–	6,952
Net accumulated losses	0	– 44,530	44,530	–	0
Equity	**763,094**	**– 44,530**	**0**	**55,792**	**774,356**

Share capital/number of shares outstanding/treasury stock

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

The share capital of Heidelberger Druckmaschinen Aktiengesellschaft amounts to € 713,562,818.56 and is divided into 278,735,476 shares. Information on the issue of new shares from Contingent Capital 2012 in the year under review to service rights under the 2013 convertible bond can be found under “Contingent capital”.

As of March 31, 2018, the Company held 142,919 treasury shares, the same number as in the previous year. The amount of these shares allocated to share capital is € 366 thousand, as in the previous year, with a notional share of share capital of 0.05 percent as of March 31, 2018 (previous year: 0.06 percent).

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

Contingent capital

Contingent Capital 2012

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

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

From July 30, 2014, Heidelberger Druckmaschinen Aktiengesellschaft had been entitled to repay the 2013 convertible bond in full ahead of schedule at the nominal value plus accrued interest. This required that the share price multiplied by the applicable conversion ratio on 20 of the 30 consecutive trading days on the Frankfurt Stock Exchange before the announcement of the date of the early repayment exceeds 130 percent of the nominal value as of each of these 20 trading days.

On July 24, 2015, the Annual General Meeting resolved the cancellation of Contingent Capital 2012 to the extent that it is not intended to serve rights under the 2013 convertible bond. The share capital of Heidelberger Druckmaschinen Aktiengesellschaft was contingently increased by up to € 58,625,953.28, divided into 22,900,763 shares, through Contingent Capital 2012. The resolution became effective on entry in the commercial register of the Mannheim Local Court on October 2, 2015.

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

Contingent Capital 2014

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

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

From April 20, 2018, Heidelberger Druckmaschinen Aktiengesellschaft is entitled to repay the 2015 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 2015 convertible bond is entitled to demand the repayment of all or some of his/her bonds for which the conversion right was not exercised and for which 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 2015 convertible bond. The share capital of Heidelberger Druckmaschinen Aktiengesellschaft has now been contingently increased by up to € 48,230,453.76, divided into 18,840,021 shares, through Contingent Capital 2014; details on Contingent Capital 2014 can be found in Article 3(3) of the Articles of Association. The resolution became effective on entry in the commercial register of the Mannheim Local Court on October 2, 2015.

Contingent Capital 2015

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

Authorized capital

In accordance with the resolution of the Annual General Meeting on July 24, 2015, the Management Board was authorized, with the approval of the Supervisory Board, to increase the share capital of the Company by up to € 131,808,140.80 on one or more occasions by issuing up to 51,487,555 new shares against cash or non-cash contributions by July 23, 2020 (AUTHORIZED CAPITAL 2015). The Management Board was authorized, with the approval of the Supervisory Board, to determine the further content of share rights and the conditions for the issue of shares. Details on Authorized Capital 2015 can be found in Article 3(5) of the Articles of Association. The authorization became effective on entry of the amendment in the commercial register of the Mannheim Local Court on October 2, 2015.

Capital reserves, appropriation of profits and disclosures on amounts blocked from distribution of Heidelberger Druckmaschinen Aktiengesellschaft

The capital reserves in the amount of € 54,207 thousand were recognized in accordance with section 272(2) nos. 1 and 2 HGB and section 237 (5) AktG.

The HGB net loss for the 2017/2018 financial year in the amount of € 44,530 thousand was fully offset by way of a withdrawal from other retained earnings.

As of March 31, 2018, Heidelberger Druckmaschinen Aktiengesellschaft had reserves blocked from distribution in the amount of € 176,021 thousand.

An amount of € 83,748 thousand is blocked from distribution for capitalized internally generated intangible assets. The difference between the carrying amount of provisions for pensions using an average market interest rate for the past ten financial years and the carrying amount of provisions for pensions using an average market interest rate for the past seven financial years in the amount of € 92,273 thousand is also blocked from distribution.

Heidelberger Druckmaschinen Aktiengesellschaft has received the following notifications from shareholders exceeding or falling below voting right thresholds in accordance with section 21(1) or (1a) and section 25 or 25a(1) of the German Securities Trading Act (WpHG) and, from January 3, 2018, in accordance with section 33(1) sentence 1, (2) and section 38(1) sentence 1 and section 39 (1) sentence 1 WpHG. The list contains the most recent shareholder notifications in each case:

1. BrightSphere Investment Group plc

DGAP voting right notification: Heidelberger Druckmaschinen AG: Publication in accordance with section 40(1) WpHG with the intention of dissemination throughout Europe; May 9, 2018. 1. Information on issuer: Heidelberger Druckmaschinen AG, Kurfürsten-Anlage 52 – 60, 69115 Heidelberg, Germany. 2. Reason for notification: Publication of statement of independence in accordance with section 35 WpHG. 3. Information on reporting entity: Name: BrightSphere Investment Group plc; Registered office and country: London, United Kingdom. 5. Date of threshold event: May 3, 2018. 6. Total voting rights: Voting rights (total 7.a.) new: 0.00 %; instruments (total 7.b.1. + 7.b.2.) new: 0 %; shares (total 7.a. + 7.b.) new: 0.00 %; total voting rights of issuer new: 278735476; last notification: voting rights (total 7.a.): 4.98 %; instruments (total 7.b.1. + 7.b.2.): 0 %; shares (total 7.a. + 7.b.): 4.98 %. 7. Details of voting right holdings: a. Voting rights (sections 33, 34 WpHG): ISIN: DE0007314007; absolute: direct (section 33 WpHG): 0; attributed (section 34 WpHG): 0; total: 0; in %: direct (section 33 WpHG): 0 %; attributed (section 34 WpHG): 0 %; total: 0 %. 8. Information in relation to reporting entity: Reporting entity (3.) is neither controlled nor does reporting entity control other entities with voting rights of the issuer (1.) relevant to reporting.

2. Dimensional Holdings Inc.

DGAP voting right notification: Heidelberger Druckmaschinen AG: Publication in accordance with section 26(1) WpHG with the intention of dissemination throughout Europe; November 22, 2017. 1. Information on issuer: Heidelberger Druckmaschinen AG, Kurfürsten-Anlage 52 – 60, 69115 Heidelberg, Germany. 2. Reason for notification: Acquisition/disposal of shares with voting rights. 3. Information on reporting entity: Name: Dimensional Holdings Inc.; Registered office and country: Austin, Texas, United States of America. 5. Date of threshold event: November 20, 2017. 6. Total voting rights: Voting rights (total 7.a.) new: 3.01 %; instruments (total 7.b.1. + 7.b.2.) new: 0.15 %; shares (total 7.a. + 7.b.) new: 3.16 %; total voting rights of issuer new: 278735476; last notification: voting rights (total 7.a.): 2.99 %; instruments (total 7.b.1. + 7.b.2.): 0.14 %; shares (total 7.a. + 7.b.): 3.13 %. 7. Details of voting right holdings: a. Voting rights (sections 21, 22 WpHG): ISIN: DE0007314007; absolute: direct (section 21 WpHG): –; attributed (section 22 WpHG): 8388404; total: 8388404; in %: direct (section 21 WpHG): – %; attributed (section 22 WpHG): 3.01 %; total: 3.01 %. b.1. Instruments within the meaning of section 25(1) no. 1 WpHG: Type of instrument: Claim for reassignment (securities lending transaction); voting rights absolute: 410377; voting rights in %: 0.15 %; total voting rights absolute: 410377; total voting rights in %: 0.15 %; 8. Information in relation to reporting entity: Complete chain of subsidiaries beginning with the ultimate controlling person or the ultimate controlling company: Companies: Dimensional Holdings Inc.; Dimensional Fund Advisors LP; Dimensional Holdings Inc.; Dimensional Fund Advisors LP; Dimensional Fund Advisors Ltd.; Dimensional Holdings Inc.; Dimensional Fund Advisors LP; DFA Canada LLC; Dimensional Fund Advisors Canada ULC; Dimensional Holdings Inc.; Dimensional Fund Advisors LP; DFA Australia Limited.

3. Universal-Investment-Gesellschaft mit beschränkter Haftung

DGAP voting right notification: Heidelberger Druckmaschinen AG: Publication in accordance with section 26(1) WpHG with the intention of dissemination throughout Europe; August 24, 2017. 1. Information on issuer: Heidelberger Druckmaschinen AG, Kurfürsten-Anlage 52 – 60, 69115 Heidelberg, Germany. 2. Reason for notification: Acquisition/disposal of shares with voting rights. 3. Information on reporting entity: Name: Universal-Investment-Gesellschaft mit beschränkter Haftung; Registered office and country: Frankfurt am Main, Germany. 5. Date of threshold event: August 18, 2017. 6. Total voting rights: Voting rights (total 7.a.) new: 3.13 %; instruments (total 7.b.1. + 7.b.2.) new: 0.10 %; shares (total 7.a. + 7.b.) new: 3.23 %; total voting rights of issuer new: 278735476; last notification: voting rights (total 7.a.): 2.99 %; instruments (total

7.b.1. + 7.b.2.): 0.10 %; shares (total 7.a. + 7.b.): 3.09 %. 7. Details of voting right holdings: a. Voting rights (sections 21, 22 WpHG): ISIN: DE0007314007; absolute: direct (section 21 WpHG): –; attributed (section 22 WpHG): 8720900; total: 8720900; in %: direct (section 21 WpHG): – %; attributed (section 22 WpHG): 3.13 %; total: 3.13 %. b.1. Instruments within the meaning of section 25 (1) no. 1 WpHG: Type of instrument: Convertible bond ISIN DE000A14KEZ4; expiry: March 30, 2022; exercise period/term: May 11, 2015 to May 20, 2022; voting rights absolute: 289352; voting rights in %: 0.10 %; total voting rights absolute: 289352; total voting rights in %: 0.10 %; 8. Information in relation to reporting entity: Complete chain of subsidiaries beginning with the ultimate controlling person or the ultimate controlling company: Companies: Universal-Investment-Gesellschaft mit beschränkter Haftung; Universal-Investment-Luxembourg S.A.

4. Société Générale S.A.

DGAP voting right notification: Heidelberger Druckmaschinen AG: Publication in accordance with section 26 (1) WpHG with the intention of dissemination throughout Europe; August 4, 2017. 1. Information on issuer: Heidelberger Druckmaschinen AG, Kurfürsten-Anlage 52 – 60, 69115 Heidelberg, Germany. 2. Reason for notification: Acquisition/disposal of shares with voting rights. 3. Information on reporting entity: Name: Société Générale S.A.; Registered office and country: Paris, France. 5. Date of threshold event: July 31, 2017. 6. Total voting rights: Voting rights (total 7.a.) new: 0 %; instruments (total 7.b.1. + 7.b.2.) new: 0 %; shares (total 7.a. + 7.b.) new: 0 %; total voting rights of issuer new: 278735476; last notification: voting rights (total 7.a.): 3.54 %; instruments (total 7.b.1. + 7.b.2.): 2.94 %; shares (total 7.a. + 7.b.): 6.48 %. 8. Information in relation to reporting entity: Reporting entity (3.) is neither controlled nor does reporting entity control other entities with voting rights of the issuer (1.) relevant to reporting.

5. Deutsche Bank Aktiengesellschaft

DGAP voting right notification: Heidelberger Druckmaschinen AG: Publication in accordance with section 26 (1) WpHG with the intention of dissemination throughout Europe; July 11, 2017. 1. Information on issuer: Heidelberger Druckmaschinen AG, Kurfürsten-Anlage 52 – 60, 69115 Heidelberg, Germany. 2. Reason for notification: Change in total number of voting rights. 3. Information on reporting entity: Name: Deutsche Bank Aktiengesellschaft; Registered office and country: Frankfurt am Main, Germany. 5. Date of threshold event: June 30, 2017. 6. Total voting rights: Voting rights (total 7.a.) new: 0 %; instruments (total 7.b.1. + 7.b.2.) new: 0 %; shares (total 7.a. + 7.b.) new: 0 %; total voting rights of issuer new: 278735476; last notification: voting rights (total 7.a.): 2.28 %; instruments (total 7.b.1. + 7.b.2.): 2.72 %; shares (total 7.a. + 7.b.): 5.005 %. 8. Information in relation to reporting entity: Reporting entity (3.) is neither controlled nor does reporting entity control other entities with voting rights of the issuer (1.) relevant to reporting.

6. Union Investment Privatfonds GmbH

DGAP voting right notification: Heidelberger Druckmaschinen AG: Publication in accordance with section 26 (1) WpHG with the intention of dissemination throughout Europe; December 5, 2016. 1. Information on issuer: Heidelberger Druckmaschinen AG, Kurfürsten-Anlage 52 – 60, 69115 Heidelberg, Germany. 2. Reason for notification: Other reason: Disposal of voting rights through fund assets under management. 3. Information on reporting entity: Name: Union Investment Privatfonds GmbH; Registered office and country: Frankfurt am Main, Germany. 5. Date of threshold event: December 1, 2016. 6. Total voting rights: Voting rights (total 7.a.) new: 2.90 %; instruments (total 7.b.1. + 7.b.2.) new: 1.77 %; shares (total 7.a. + 7.b.) new: 4.67 %; voting rights of issuer: 257437779. Voting rights (total 7.a.) last notification: 3.09 %; instruments (total 7.b.1. + 7.b.2.) last notification: 1.77 %; shares (total 7.a. + 7.b.) last notification: 4.86 %. 7. Details of voting right holdings: a. Voting rights (sections 21, 22 WpHG): ISIN: DE0007314007; absolute, attributed (section 22 WpHG): 7469894; in %, allocated (section 22 WpHG): 2.90 %; total: absolute: 7469894; in %: 2.90 %. b.1. Instruments within the meaning of section 25 (1) no. 1 WpHG: Type of instrument: Securities lending transaction; voting rights absolute: 4565952; voting rights in %: 1.77 %. 8. Information in relation to reporting entity: Reporting entity (3.) is neither controlled nor does reporting entity control other entities with voting rights of the issuer (1.) relevant to reporting.

7. Mr. Ferdinand Rüesch, Switzerland/Ferd. Rüesch AG, St. Gallen, Switzerland

Correction of a publication in accordance with section 26 (1) WpHG: Mr. Ferdinand Rüesch, Switzerland, informed us in accordance with section 21 (1) WpHG and section 22 (1) sentence 1 no. 1 WpHG on August 25, 2014 that on August 14, 2014 the share in the voting rights of Heidelberger Druckmaschinen AG, Kurfürsten-Anlage 52 – 60, 69115 Heidelberg, Germany, held by Mr. Ferdinand Rüesch, Switzerland, rose above the reporting thresholds of 3 % and 5 % and amounted to 9.02 % (23,210,000 voting rights).

Mr. Ferdinand Rüesch also informed us that 9.02 % (23,210,000 voting rights) of the total voting rights in Heidelberger Druckmaschinen AG were allocated to him in accordance with section 22 (1) sentence 1 no. 1 WpHG. Names of the controlled entities whose own share in the voting rights amount to more than 3 % and from which 3 % or more are attributed: Ferd. Rüesch AG. Ferd. Rüesch AG, St. Gallen, Switzerland, informed us in accordance with section 21 (1) WpHG on August 25, 2014 that on August 14, 2014 the share in the voting rights of Heidelberger Druckmaschinen AG, Kurfürsten-Anlage 52 – 60, 69115 Heidelberg, Germany, held by Ferd. Rüesch AG, St. Gallen, Switzerland, rose above the reporting thresholds of 3 % and 5 % and amounted to 9.02 % (23,210,000 voting rights).

19 Special reserves

	31-Mar-2017	**31-Mar-2018**
Special reserves for investment grants for non-current assets		
Taxable subsidies	88	26
Tax-exempt allowances	682	426
	770	**452**

Taxable subsidies are funds under the economic promotion program for investing at the Brandenburg production site.

Tax-exempt allowances are composed of allowances in accordance with the German Investment Allowance Act of 1999/2005/2007/2010 relating to the Brandenburg production site.

20 Provisions for pensions and similar obligations

Pension provisions are calculated on the basis of the following actuarial premises:

Discount rate:	3.57 %
Salary increase rate:	2.75 %
Pension increase rate:	1.60 %
Fluctuation:	1.00 %

In the 2005/2006 financial year, Heidelberger Druckmaschinen Aktiengesellschaft established a contractual trust arrangement (CTA) with the trustee Heidelberg Pension-Trust e. V., Heidelberg, to secure external financing and insolvency insurance for its pension obligations. The assets transferred cannot be accessed by any creditors and serve solely to fulfill the pension obligations. They are invested in a special fund. The fund assets primarily consist of fund units, bonds, equities, discount/index certificates, and cash and cash equivalents. The plan assets were measured at fair value and offset against the pension provisions.

In addition to the CTA, there are insurance policies covering pension liabilities that also qualify as plan assets. These were also measured at fair value and offset against the pension provisions.

The fair value of the offset assets was € 437.4 million as of the end of the reporting period at an acquisition cost of € 601.8 million. The settlement amount of the offset liabilities was € 675.1 million as of the end of the reporting period.

The plan assets measured at fair value resulted in income of € 11.7 million in the year under review (previous year: income of € 13.1 million). Expenses due to the interest cost of discounting provisions for pensions amounted to € 58.3 million in the year under review (previous year: € 53.6 million) (see note 11).

21 Other provisions

	31-Mar-2017	**31-Mar-2018**
Other provisions		
Sales obligations	16,899	16,230
Staff obligations	126,612	123,841
Miscellaneous	20,387	20,781
	163,898	**160,852**

Sales obligations primarily relate to guarantees. Staff obligations mainly exist in connection with vacation and working time credit, partial retirement programs and bonuses. Furthermore, there are provisions of € 46.9 million (previous year: € 47.1 million) for portfolio and capacity adjustments and measures to optimize our management and organizational structure.

22 Liabilities

	31-Mar-2017	of which with a remaining term of			**31-Mar-2018**	of which with a remaining term of		
		up to 1 year	between 1 and 5 years	more than 5 years		up to 1 year	between 1 and 5 years	more than 5 years
Bonds	323,500	59,500	58,600	205,400	264,000	–	264,000	–
of which convertible	(118,100)	(59,500)	(58,600)	(–)	(58,600)	(–)	(58,600)	(–)
Amounts due to banks	135,433	17,710	71,918	45,805	158,274	10,945	111,465	35,864
Advance payments on orders	6,551	6,551	–	–	11,166	11,166	–	–
Trade payables	48,995	48,995	–	–	86,153	86,153	–	–
Liabilities to affiliated companies	389,345	389,345	–	–	425,230	425,230	–	–
Other liabilities								
In respect of taxes	5,773	5,773	–	–	6,179	6,179	–	–
In respect of social security contributions	1,314	692	622	–	1,354	931	423	–
Miscellaneous	24,531	24,531	–	–	27,071	26,713	358	–
	31,618	30,996	622	–	34,604	33,823	781	–
	935,442	**553,097**	**131,140**	**251,205**	**979,427**	**567,317**	**376,246**	**35,864**

Liabilities to affiliated companies include short-term loans of € 425.1 million (previous year: € 388.9 million) and trade payables of € 0.1 million (previous year: € 0.4 million).

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

On July 10, 2013, Heidelberger Druckmaschinen Aktiengesellschaft issued an unsecured, unsubordinated convertible bond with an option for conversion into shares in Heidelberger Druckmaschinen Aktiengesellschaft (2013 convertible bond). This convertible bond had an original issue volume of € 60 million and a term of four years. As a result of the conversion of five partial bonds on November 18, 2013 (see note 18), the original total nominal amount of the convertible bond decreased by € 0.5 million from € 60 million to € 59.5 million. In June 2017, 21,297,697 new shares were issued from Contingent Capital 2012 to serve rights under the 2013 convertible bond. This increased the share capital of Heidelberger Druckmaschinen Aktiengesellschaft from € 659,040,714.24 to € 713,562,818.56, now divided into 278,735,476 shares.

The remaining issue volume of the 2013 convertible bond of € 3.7 million was fully repaid on maturity on July 10, 2017.

On March 30, 2015, Heidelberger Druckmaschinen Aktiengesellschaft issued an unsecured, unsubordinated convertible bond with an option for conversion into shares in Heidelberger Druckmaschinen Aktiengesellschaft (2015 convertible bond). This convertible bond has a volume of € 58.6 million and is convertible into approximately 18.84 million no-par-value 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.

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 further extended 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.

An amortizing loan funded by the KfW in the amount of € 20 million maturing in December 2018 was issued in April 2014.

A further amortizing loan funded by the KfW in the amount of € 5 million maturing in September 2020 was issued in December 2015.

On March 31, 2016, a loan of € 100 million with a staggered term until March 2024 was agreed with the European Investment Bank to support Heidelberg's research and development activities, especially with regard to digitalization, and the expansion of the digital printing portfolio. The development loan is available in callable tranches, each with a term of seven years. In April 2016, Heidelberger Druckmaschinen Aktiengesellschaft called an initial tranche of € 50 million from this loan; this will amortize by April 2023. The remainder was called in January and March 2017 via further tranches of € 20 million and € 30 million respectively; these will amortize accordingly over terms until January 2024 and March 2024 respectively.

To finance the investment in relocating our research and development activities to our Wiesloch-Walldorf site, a development loan of € 42.1 million maturing in September 2024 was arranged with a syndicate of banks refinanced by KfW ("Energy Efficiency Program – Energy Efficient Construction and Renovation"). The funding will be disbursed over the course of construction. Heidelberger Druckmaschinen Aktiengesellschaft called an initial tranche of € 5.1 million from this development loan in March 2017 and a second tranche of € 20.7 million in March 2018.

In May 2017, a loan with a volume of € 25.7 million was entered into that will amortize over a term to the end of June 2027. It is secured by way of the equal participation of the lender in the existing collateral concept.

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 generated in recent financial years.

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

Collateral in connection with the revolving credit facility, the European Investment Bank loan and other significant loans was provided by us and by certain Group companies as part of a collateral concept. The following types of collateral are attributable to Heidelberger Druckmaschinen Aktiengesellschaft:

- provision of land charges without certificate
- pledging of industrial property rights
- transfer of current and non-current assets
- global assignment of certain receivables

23 Deferred taxes

There was an excess of assets in deferred taxes in the year under review. The option provided by section 274(1) HGB to recognize the resulting tax relief as deferred tax assets was not exercised.

The tax relief primarily results from temporary differences in the statement of financial position items provisions for pensions and similar obligations and other provisions. There was also tax relief resulting from temporary differences at companies included in the tax entity and from financial assets. Deferred tax liabilities primarily resulted from temporary differences in the statement of financial position items intangible assets, property, plant and equipment, inventories, other assets and other liabilities. An effective tax rate of 28.15 percent was applied for corporation tax plus solidarity surcharge and trade tax in the calculation of deferred taxes.

24 Research and development costs

Research and development costs of € 104.9 million were incurred for the year under review. This includes development costs capitalized in the year under review in the amount of € 26.9 million.

25 Contingent liabilities

	31-Mar-2017	31-Mar-2018
Liabilities from the issuance and transfer of bills of exchange	22,272	16,592
of which: to affiliated companies	(22,272)	(16,592)
Liabilities from warranties and guarantees	134,319	121,235
of which: to affiliated companies	(–)	(–)
Contingent liabilities from the provision of collateral for third-party liabilities	6,613	8,669
of which: to affiliated companies	(–)	(–)
	163,204	**146,496**

Some of the revolving credit facility in place as of March 31, 2018 (see note 22) can be passed on locally to Group companies via the syndicate banks. The credit lines actually utilized by our Group companies as of the end of the reporting period of € 15.9 million are reported under contingent liabilities. In addition, there were credit lines of € 19.7 million available to the Group companies under the revolving credit facility as of the end of the reporting period that were not utilized. As part of the collateral concept, which also forms the basis for the revolving credit facility in place as of March 31, 2018, the European Investment Bank loan and other significant loans, Heidelberger Druckmaschinen Aktiengesellschaft and some Group companies are jointly and severally liable for the liabilities assumed with the collateral contributed. In addition to the liability on the basis of the individual collateral listed under note 22, we are also liable as guarantor.

The other obligations from warranties and guarantees predominantly relate to rent obligations for subsidiaries and warranties for third parties for advance payments and assumed customer finance. The risk of utilization of contingent liabilities is considered low as there are no indications of corresponding credit problems.

26 Derivative financial instruments

Heidelberger Druckmaschinen Aktiengesellschaft centrally manages and controls the Heidelberg Group's interest rate and foreign currency risk. Generally speaking, derivative financial instruments are used to hedge the currency and interest rate risks from business operations and from financing transactions. The aim of this is to reduce the fluctuations in earnings and cash flows relating to changes in exchange and interest rates.

The partners in the external contracts for the derivative financial instruments are all banks of excellent credit standing. The internal contracts are concluded with our Group companies.

These transactions related solely to currencies in the year under review. They are concluded largely on behalf of our foreign subsidiaries in connection with the purchase of German products. In order to quantify the effects of currency and interest rate risks on the income statement, the impact of hypothetical changes in exchange and interest rates is calculated regularly in the form of sensitivity analyses and corresponding measures are derived from this.

The nominal volumes and market values of foreign currency derivatives were as follows as of the end of the reporting period:

Figures in € thousands	Nominal volumes		Fair values	
	31-Mar-2017	**31-Mar-2018**	31-Mar-2017	**31-Mar-2018**
Forward exchange transactions	695,240	638,552	510	– 204

The nominal volumes result from the total of all the purchase and sale amounts of the underlying hedged items.

The fair values were calculated using standardized measurement methods (discounted cash flow method) that use the relevant market data as input parameters for calculation at the end of the reporting period.

Derivative financial instruments for hedging currency risks

Forward exchange transactions with a nominal volume of € 240.4 million (previous year: € 263.9 million) were concluded with external partners to hedge currency risks from the receivables and liabilities of Heidelberger Druckmaschinen Aktiengesellschaft recognized at the end of the reporting period. The hedges were portfolio hedges in the amount of the net total per currency of receivables and liabilities (net positions) with terms of up to one year. At the end of the reporting period, the nominal volumes of net receivable currency-related positions hedged thereunder were € 6.7 million (previous year: € 4.3 million) while the net liability positions amounted to € 153.9 million (previous year: € 185.6 million). In line with the gross hedge presentation method, the offsetting changes in value of both the hedged items and the hedge instrument were recognized. The foreign currency receivables and liabilities were translated at the rates as of the end of the reporting period. Forward exchange transactions are measured using the appropriate forward rates. At the end of the reporting period, other assets with a total amount of € 1.5 million (previous year: € 1.7 million) were capitalized for forward exchange transactions with positive fair values and other liabilities of € 1.4 million (previous year: € 0.8 million) were expensed for forward exchange transactions with negative fair values.

To hedge purchases of products in euros, foreign Group companies conclude internal forward exchange transactions with Heidelberger Druckmaschinen Aktiengesellschaft for periods of up to one year. At the end of the reporting period, internal currency hedges with a nominal volume of € 159.4 million (previous year: € 174.2 million) were offset by external currency hedges with a nominal volume of € 238.8 million (previous year: € 257.2 million). Other provisions of € 0.5 million (previous year: € 0.5 million) were recognized for anticipated losses. The recognized anticipated losses are largely offset by the opposing effects arising from operating hedged items.

The effectiveness of hedge accounting is reviewed prospectively using the critical terms match method.

27 Off-balance-sheet transactions / other financial obligations

	2016/2017	**2017/2018**
Obligations for rental and lease payments	48,974	25,206
of which: to affiliated companies	(–)	(–)
Long-term purchase commitments for raw materials, consumables and supplies	4,903	5,117
of which: to affiliated companies	(–)	(–)
Purchase commitments from capital investment orders	8,331	30,598
of which: to affiliated companies	(60)	(–)
	62,208	**60,921**

Obligations from rental and lease payments contain € 15.2 million (previous year: € 37.8 million) from sale and leaseback agreements. The sale and leaseback agreements relate to the research and development center in Heidelberg (2006/2007 financial year) and our Kiel site (2010/2011 financial year). The other rental and lease payment obligations predominantly relate to other real estate and operating and office equipment.

Obligations from rental and lease payments were reduced with the addition of the Print Media Academy, Heidelberg, and the World Logistics Center, Wiesloch-Walldorf, in June 2017.

The increase in purchase commitments is primarily attributable to the construction of the innovation center at the Wiesloch-Walldorf site.

Additional information

28 Declaration of compliance in accordance with section 161 AktG

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

29 Executive bodies of the Company

Disclosures on the members of the Supervisory Board and the Management Board in accordance with section 285 no. 10 HGB are made in an appendix to the notes.

The basic characteristics of the compensation system and the individual compensation for the members of the Management Board and Supervisory Board are presented in the management report.

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

The total cash compensation (= total compensation) for former members of the Management Board and their surviving dependents amounts to € 3,574 thousand (previous year: € 5,811 thousand), comprising € 903 thousand (previous year: € 911 thousand) in obligations to former members of the Management Board of Linotype-Hell Aktiengesellschaft and their surviving dependents, which were assumed in the financial year 1997/1998 under the provisions of universal succession, and € 0 thousand (previous year: € 2,420 thousand) in benefits to the two Management Board members who left the Company in the 2016/2017 financial year, which were recognized as expenses.

A provision of € 43,639 thousand (previous year: € 45,858 thousand) has been recognized for pension obligations to former members of the Management Board and their surviving dependents, € 7,379 thousand (previous year: € 7,693 thousand) of which relating to pension obligations of the former Linotype-Hell Aktiengesellschaft, which were assumed in the 1997/1998 financial year under the provisions of universal succession.

As in the previous year, former members of the Management Board held no share options as of the end of the reporting period.

No loans or advances were granted to members of the Management Board or Supervisory Board in the reporting period; no contingent liabilities were undertaken for Management Board or Supervisory Board members.

For the year under review, the members of the Supervisory Board were granted 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, totaling € 701 thousand (previous year: € 683 thousand); this compensation does not include VAT.

30 Auditors’ fees

As details of the full auditors’ fees can be found in the consolidated financial statements of Heidelberger Druckmaschinen Aktiengesellschaft, we have exercised the exemption options provided by section 285 no. 17 HGB.

31 List of shareholdings

The full list of shareholdings of Heidelberger Druckmaschinen Aktiengesellschaft in accordance with section 285 no. 11 HGB, which forms part of the notes to the annual financial statements, is included as an annex.

32 Events after the end of the reporting period

No significant events occurred after the balance sheet date.

Heidelberg, May 23, 2018

HEIDELBERGER DRUCKMASCHINEN
AKTIENGESELLSCHAFT
The Management Board

Rainer Hundsdörfer   Dirk Kaliebe

Prof. Dr. Ulrich Hermann   Stephan Plenz

Responsibility statement

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

Heidelberg, May 23, 2018

HEIDELBERGER DRUCKMASCHINEN
AKTIENGESELLSCHAFT
The Management Board

Rainer Hundsdörfer   Dirk Kaliebe

Prof. Dr. Ulrich Hermann   Stephan Plenz

Independent auditor's report

To Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg

Report on the audit of the annual financial statements and of the management report

Audit Opinions

We have audited the annual financial statements of Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg, which comprise the balance sheet as at March 31, 2018, and the statement of profit and loss for the financial year from April 1, 2017 to March 31, 2018, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of Heidelberger Druckmaschinen Aktiengesellschaft for the financial year from April 1, 2017 to March 31, 2018. We have not audited the content of those parts of the management report listed in the „Other information" section of our auditor's report in accordance with the German legal requirements.

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

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at March 31, 2018 and of its financial performance for the financial year from April 1, 2017 to March 31, 2018 in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the management report does not cover the content of those parts of the management report listed in the "Other information" section of our auditor's report.

Pursuant to § [Article] 322 Abs. [paragraph] 3 Satz [sentence] 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Audit Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the „Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company 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 annual financial statements and on the management report.

Key Audit Matters in the Audit of the Annual Financial Statements

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

In our view, the matter of most significance in our audit was as follows:

1 Recoverability of shares in affiliated companies

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 shares in affiliated companies

1 In the annual financial statements of the Company shares in affiliated companies amounting to EUR 843.8 million (39.1 % of total assets) are reported under the "Financial assets" balance sheet item.

Shares in affiliated companies are measured in accordance with German commercial law at the lower of cost and fair value. If there are indications of impairment, the fair values of the respective equity investments are determined using the standardized German income approach (Ertragswertverfahren) as the present value of net cash flows associated with the object of the investment. The future net cash flows are taken from the planning projections prepared by the executive directors of the respective affiliated company. Expectations relating to future market developments and assumptions about the development of macroeconomic factors are also taken into account. The net cash flows are capitalized using the discount rate calculated individually for the respective financial investment. On the basis of the values determined and/or supplementary documentation, it was necessary to recognize write-downs in the total amount of EUR 0.1 million through profit or loss for the financial year.

The outcome of the valuations is dependent to a large extent on the estimates made by the executive directors of the future net cash flows and on the respective discount rates used. The valuation is therefore subject to corresponding uncertainties. 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, among other things we verified and assessed the Company's methodology used to test shares in affiliated companies for impairment. We used the financial statement documents of the affiliated companies and interviewed employees of the Company to verify whether there are indications of impairment. If there were indications of impairment, we assessed in particular whether the fair values of the respective equity investments had been appropriately determined using the standardized German income approach in compliance with the relevant measurement standards. We based our assessment, among other things, on a comparison with general and sector-specific market expectations as well as on the detailed explanations given by the executive directors of the respective affiliated company regarding the key value drivers underlying the expected net cash flows. In the knowledge that these measurement models are highly sensitive, we focused our testing in particular on the parameters used to determine the discount rate applied, and assessed the calculation model.

In our view, taking into consideration the information available, the procedure used by the executive directors to test shares in affiliated companies for impairment, and the valuation parameters and underlying assumptions used, are appropriate overall for the purposes of appropriately measuring the shares in affiliated companies.

3 The Company's disclosures relating to financial assets are contained in numbers 3 and 13 of the notes to the financial statements.

Other Information

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

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

Our audit opinions on the annual financial statements and on the 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 annual financial statements, with the 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 Annual Financial Statements and the Management Report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company'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, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual 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 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 management report.

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

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

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual 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 annual financial statements and on the 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 annual financial statements and this 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 annual financial statements and of the 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 annual financial statements and of arrangements and measures (systems) relevant to the audit of the 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 of the Company.
- 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 Company'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 annual financial statements and in the 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 Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the 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 annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

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

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

German public auditor responsible for the engagement

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

Mannheim, May 24, 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Martin Theben	Stefan Hartwig
Wirtschaftsprüfer	Wirtschaftsprüfer

Financial section 2017/2018

List of shareholdings

List of shareholdings in accordance with section 285 no. 11 of the German Commercial Code
(part of the notes to the non-consolidated financial statements)
(Figures in € thousands)

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

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

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

Name	Country/Domicile		Shareholding in percent	Equity	Net result after taxes
Joint venture not accounted for using the equity method owing to immateriality for the net assets, financial position and results of operations					
Outside Germany [2]					
Heidelberg Middle East FZ Co.	AE	Dubai	50	609	0
Other shareholdings (>5%)					
Germany					
InnovationLab GmbH [3]	D	Heidelberg	5	2,743	765
SABAL GmbH & Co. Objekt FEZ Heidelberg KG	D	Munich	99.90	–5,871	–285

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

The Supervisory Board (as of March 31, 2018)

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

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

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

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

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

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

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

Dr. Herbert Meyer
Independent business consultant, Königstein/Taunus and Member of the Consulting Board of the Auditor Oversight Body (AOB), Berlin
a) profine GmbH
d. i. i. Investment GmbH
b) Verlag Europa Lehrmittel GmbH & Co. KG (Member of the Advisory Board)

Beate Schmitt*
Full-time member of the Works Council, Heidelberg/Wiesloch-Walldorf

Prof. Dr.-Ing. Günther Schuh
Professor and holder of the chair in production engineering at RWTH Aachen University, Aachen; Chairman of the Management Board of e.GO Mobile AG
a) KEX Knowledge Exchange AG (Chairman)
b) Gallus Holding AG, Switzerland (Member of the Administration Board)
Phoenix Contact GmbH & Co. KG (Member of the Advisory Board)

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

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

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

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

MANAGEMENT COMMITTEE

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

MEDIATION COMMITTEE UNDER ARTICLE 27 PARAGRAPH 3 OF THE CODETERMINATION ACT

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

COMMITTEE ON ARRANGING PERSONNEL MATTERS OF THE MANAGEMENT BOARD

Dr. Siegfried Jaschinski (Chairman)
Rainer Wagner
Karen Heumann (since June 1, 2017)
Beate Schmitt
Prof. Dr.-Ing. Günther Schuh
(until June 1, 2017)

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

Dr. Siegfried Jaschinski (Chairman)
Dr. Herbert Meyer

STRATEGY COMMITTEE

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

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

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

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

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

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

Financial calendar 2018/2019

June 12, 2018	Press Conference, Annual Analysts' and Investors' Conference
July 25, 2018	Annual General Meeting
August 7, 2018	Publication of First Quarter Figures 2018/2019
November 8, 2018	Publication of Half-Year Figures 2018/2019
February 7, 2019	Publication of Third Quarter Figures 2018/2019
June 6, 2019	Press Conference, Annual Analysts' and Investors' Conference
July 25, 2019	Annual General Meeting

Subject to change

Publishing information

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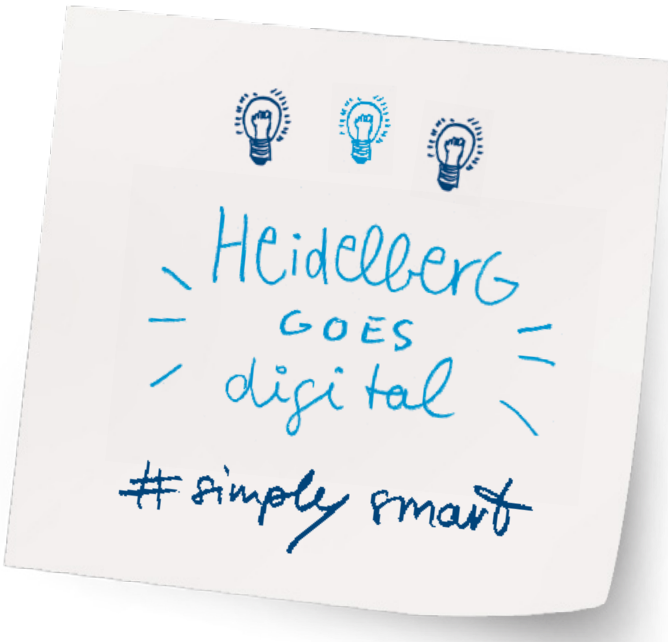

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