Interim Financial Report Q2 2018/2019

HEIDELBERG Interim Financial Report Q2 2018/2019

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HEIDELBERG

INTERIM FINANCIAL REPORT Q2 2018/2019

- Sales grow by around 6 percent in the first half of 2018/2019 to € 1,114 million
- Incoming orders rise to € 1,306 million; order backlog up at around € 774 million
- EBITDA excluding restructuring result improves slightly to € 62 million in the first half of the year
- Result of operating activities excluding restructuring result (EBIT) at € 27 million
- Net result after taxes € – 6 million after six months

Key performance data

Figures in € millions		Q1 to Q2		Q2
	2017/2018	**2018/2019**	2017/2018	**2018/2019**
Incoming orders	1,234	1,306	605	641
Net sales	1,054	1,114	559	573
EBITDA excluding restructuring result [1]	60	62	46	43
in percent of net sales	5.7	5.6	8.2	7.4
Result of operating activities excluding restructuring result	27	27	30	26
Restructuring result	– 1	– 5	– 1	– 6
Financial result	– 24	– 28	– 11	– 12
Net result after taxes	0	– 6	16	8
Research and development costs	62	64	31	32
Investments	75	63	24	31
Equity	381	373	381	373
Net debt [2]	259	320	259	320
Leverage [3]	1.3	1.8	1.3	1.8
Free cash flow	– 32	– 86	– 19	– 42
Earnings per share in €	0.00	– 0.02	0.06	0.03
Number of employees at end of quarter (excluding trainees)	11,490	11,523	11,490	11,523

[1] Result of operating activities before interest and taxes and before depreciation and amortization, excluding restructuring result
[2] Net total of financial liabilities and cash and cash equivalents and current securities
[3] Ratio of net debt to EBITDA excluding restructuring result for the last four quarters

Notes
The segments were reorganized as of April 1, 2018 as part of the digital transformation of the Company. The figures for the 2017/2018 financial year were restated accordingly.

In individual cases, rounding could result in discrepancies concerning the totals and percentages contained in this interim financial report.

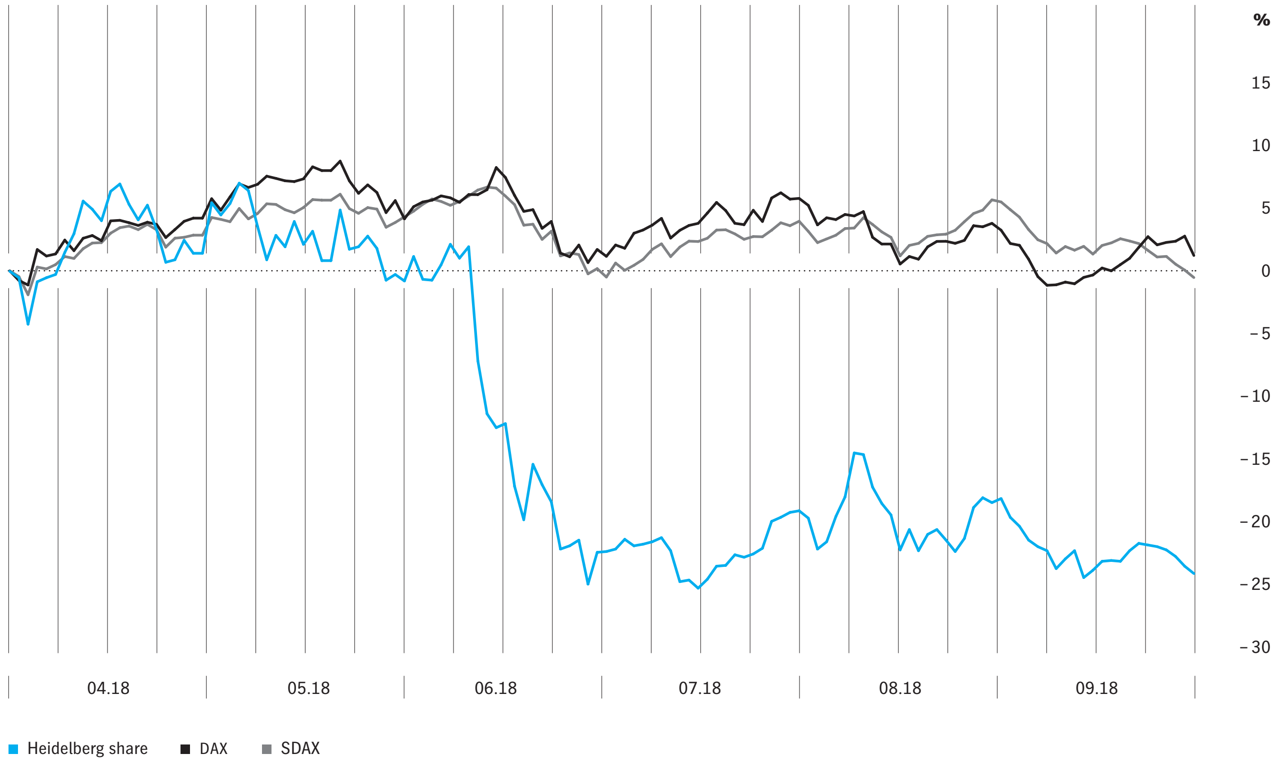
Interim consolidated financial report

Q2 2018/2019

Heidelberg on the capital markets

Performance of the Heidelberg share

Compared to the DAX and the SDAX (index: April 1, 2018 = 0 percent)



The Heidelberg share and the Heidelberg bonds

The Heidelberg share turned in a weak performance in the first half of the 2018/2019 financial year. A rise from the beginning to the middle of April 2018 was followed by the share price tracking sideways. The share price underwent a significant correction following the publication of the outlook for the current financial year in mid-June 2018, but recovered slightly by the time the quarterly figures were published at the beginning of August. This recovery was briefly reinforced by the figures for the first quarter of 2018/2019. In the weeks that followed – in line with the general trend on the stock markets – the share posted losses again that continued until the end of the first half of the year. The shares closed on September 28, 2018 at € 2.30, corresponding to a drop of around 24 percent over the first six months.

The price of the 2015 Heidelberg convertible bond developed in line with the share price, ending the first half of the year down around 14 percent at € 102.63. The Heidelberg bond traded at above 100 percent throughout the first half of the financial year.

DAX – German benchmark index

The DAX began the second quarter of the 2018 calendar year at just over 12,000 points. It rose steadily in the weeks that followed, reaching its high for the period at 13,169 points on May 22, 2018. As a result of the increasingly protectionist attitude coming from the US and the stark reduction in growth forecasts for the Federal Republic of Germany in June 2018, the DAX fell to 12,238 points by the beginning of July. The German benchmark index briefly rose again as time went on, but suffered further losses in early September, which at times brought it back below the important 12,000-point line. At 12,246 points on September 28, the DAX achieved marginal growth of around 1 percent in the second and third quarters of the 2018 calendar year.

Key performance data of the Heidelberg share

Figures in € ISIN: DE 0007314007	Q2 2017/2018	**Q2 2018/2019**
High	3.45	2.60
Low	2.64	2.27
Price at beginning of quarter [1]	2.71	2.36
Price at end of quarter [1]	3.45	2.30
Market capitalization at end of quarter in € millions	962	641
Outstanding shares in thousands (reporting date)	278,735	278,735

Key performance data of the Heidelberg 2015 corporate bond

Figures in percent RegS ISIN: DE 000A14J7A9	Q2 2017/2018	**Q2 2018/2019**
Nominal volume in € millions	205.4	150.0
High	109.3	105.5
Low	109.0	103.9
Price at beginning of quarter [2]	109.1	104.4
Price at end of quarter [2]	109.0	104.6

Key performance data of the Heidelberg 2015 convertible bond

Figures in percent ISIN: DE 000A14KEZ4	Q2 2017/2018	**Q2 2018/2019**
Nominal volume in € millions	58.6	58.6
High	129.3	106.5
Low	114.2	102.6
Price at beginning of quarter [2]	114.2	105.7
Price at end of quarter [2]	129.3	102.6

[1] Xetra closing price, source: Bloomberg
[2] Closing price, source: Bloomberg

ECONOMIC REPORT

Macroeconomic and industry-specific conditions

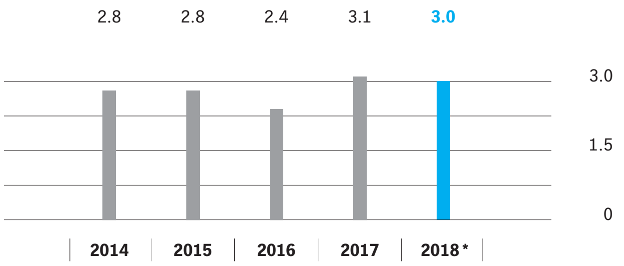
The upswing on the global economy was slightly below the level of growth seen in the previous year at 3.2 percent for the first half of 2018. While the situation did not pick up until the second quarter in the advanced economies, the emerging markets expanded strongly by 7.5 percent by the summer. However, the downside risks have increased significantly. The trade conflicts emanating from the US, the withdrawal of financial investors from the emerging markets and the UK's imminent exit from the EU are casting a long shadow on future economic development. In addition, the forthcoming implementation of the Iran sanctions could trigger further price rises on the oil market.

The US economy is experiencing an upswing that has now been going on for nine years. Following the comprehensive tax reform, its gross domestic product grew by 2.7 percent year-on-year in the first six months. The economy in the euro zone has lost some momentum since the start of the year with an increase of 2.1 percent. In particular, the rate of expansion has slowed in the three largest member states – Germany, France and Italy. Italy is a major risk factor in this respect: If financial market pressure on public budgets keeps on rising but, at the same time, the new government proves uncooperative towards its European partners, doubts as to the future of the monetary union could rapidly proliferate once again. The growth of the Japanese economy was moderate in the first half of the year at 1.2 percent.

The rise in China's total economic output was again quite strong. Gross domestic product was up by 6.7 percent year-on-year in the first six months. Economic momentum on the emerging markets of Southeast Asia also remained high. However, economic expansion on the emerging markets of Latin America was merely weak in the face of the economic collapse in Venezuela, production in Brazil dropping to little more than stagnation and growing signs of a financial crunch in Argentina. The Russian economy is still moving onwards and upwards, but has not yet mustered much momentum.

Change in global GDP [1)]

Figures in percent



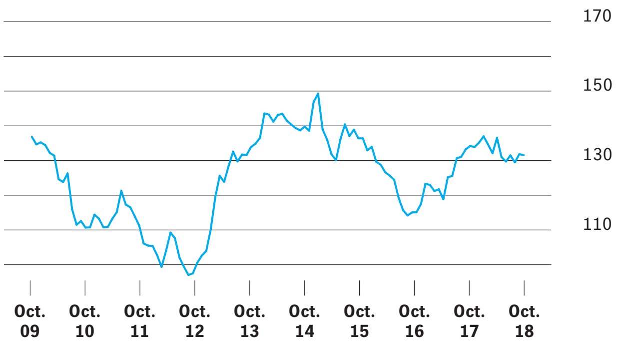
* Forecast
[1)] Data determined in accordance with the straight aggregate method

The chain-weighted method would deliver the following results:
2014: 2.9 %; 2015: 3.0 %; 2016: 2.6 %; 2017: 3.3 %; 2018: 3.2 %

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

Development of EUR / JPY

October 2009 until October 2018



Source: Global Insight

Development of EUR / USD

October 2009 until October 2018

Source: Global Insight

The strong depreciation of the euro in the first half of 2018 is explained by the high growth differential between the US and the euro zone, as well as the political uncertainty with regard to the Italian situation. The growing fear of a trade war between Japan's most important trading partners – China and the US – following the escalation of US tariff policy weighed heavily on the yen, leading to depreciation of 5 percent.

Owing to considerable political uncertainty, statistics published by the German Engineering Federation (VDMA) indicate that sales of printing presses by German manufacturers decreased by 12 percent in real terms in the period from January to July 2018. Incoming orders were down by 2 percent over the same period.

Business development

Heidelberger Druckmaschinen AG (Heidelberg) has successfully made further progress with the Company's digital transformation in the first half of the current 2018/2019 financial year, with 18 contracts having already been signed under the new subscription model as of the end of the reporting period. The goal is for around 30 contracts by the end of the financial year, which will mean sales potential of around € 150 million over the contract period. Under Heidelberg's pay-per-use model, the customer only pays for productive industrial performance, i. e. for the number of printed sheets. The price paid per sheet includes all the equipment, all necessary consumables, a comprehensive service geared to availability and consulting to further enhance performance. With this business model, Heidelberg is aiming to become more independent of growth by selling and installing printing capacity alone, and to benefit from recurring revenue in the field of consumables and services and increased customer productivity. A standard subscription model contract runs for five years and generates recurring revenue over the entire term. The customer pays a basic monthly price for an agreed printing volume plus an additional variable component if this is exceeded.

The first Primefire 106 series presses, the industrial digital printing press with inkjet technology for the packaging market, were delivered to customers in Switzerland and the US as planned and are already producing with high quality and productivity.

In St. Gallen, Switzerland, at the end of June 2018, more than 800 international visitors witnessed the benefits for themselves of Labelfire, the digital high-end label printing machine, which was presented with a digital finishing unit at Gallus Innovation Days 2018. The new Gallus Smartfire label printing system – the gateway to professional digital label printing – likewise debuted for the first time.

Also in June 2018, Heidelberg resolved a partial cash repayment of its corporate bond of around € 55 million. Repayment was effected as of July 18, 2018 and will ease the financial result from the next financial year. Heidelberg is planning to further reduce its financing interest to around € 20 million in the medium term. Thanks to the recently agreed new syndicated credit facility of around € 320 million maturing in 2023, even after the partial repayment of the corporate bond, Heidelberg still has a financial framework of around € 730 million for investment in its digital transformation and acquisition activities.

In founding the Heidelberg Digital Unit (HDU), Heidelberg has reorganized its e-commerce activities and its digital marketing, and intends to bundle and harmonize its different sales channels to increase its e-commerce sales substantially. The printing presses connected to the cloud and Heidelberg's data and software expertise are the foundation for continuous customer service and, above all, for true value-added.

With Heidelberg Wallbox, the high-performance charging system for electric cars, Heidelberg has a product for consumers in its portfolio for the first time. The target group consists of private individuals in addition to companies and local authorities. The product is now also being marketed via online retail platforms and electrical goods wholesalers.

The sale of the research and development building in Heidelberg, which was completed in the first quarter, brought the planned infrastructure projects at the Heidelberg and Wiesloch-Walldorf production sites to a successful conclusion. Thus, another key contribution was made to improving operational performance, in part by reducing process and structural costs as part of the operational excellence initiative.

In the context of Heidelberg's digital transformation, the segments, functional responsibilities and the regional market and service organization were restructured at the beginning of the 2018/2019 financial year. The businesses bundled in the previous segments Heidelberg Digital Technology and Digital Business & Services have been restructured into the Heidelberg Digital Technology and Heidelberg Lifecycle Solutions segments. The Heidelberg Financial Services segment will continue to exist unchanged.

INCOMING ORDERS amounted to around € 1,306 million as of September 30, 2018, and were therefore significantly higher than the prior-year figure of € 1,234 million. The highly negative currency effects of the first quarter of 2018/2019 diminished over the course of the second quarter, amounting to around € 17 million in total at the end of the first half of the year. Incoming orders were up on the figure for the previous year (€ 605 million) at € 641 million in the second quarter of 2018/2019.

The ORDER BACKLOG for the financial year rose to € 774 million in the second quarter, and was therefore 28 percent higher than the figure for March 31, 2018 (€ 604 million) and around 23 percent higher than the figure for the same quarter of the previous year (€ 627 million). The significant increase is also thanks to the new subscription contracts, which will be reflected in sales throughout the term of the respective contracts.

As forecast, NET SALES were up compared to the first quarter at € 573 million in the second quarter, and around six percent higher than in the previous year at € 1,114 million for the first six months (€ 1,054 million). The effect of negative currency developments on sales also lessened significantly, amounting to around € 15 million at the end of the first half of the year.

TOTAL OPERATING PERFORMANCE climbed to € 1,215 million in the first half of the year (previous year: € 1,172 million).

Business performance by quarter

Figures in € millions		**Q1 to Q2**		**Q2**
	2017/2018	**2018/2019**	2017/2018	**2018/2019**
Incoming orders	1,234	1,306	605	641
Sales	1,054	1,114	559	573

Results of operations, net assets and financial position

The result of operating activities before interest, taxes, depreciation and amortization excluding the restructuring result (EBITDA EXCLUDING RESTRUCTURING RESULT) improved slightly to € 62 million in the first half of the year (first half of 2017/2018 financial year: € 60 million) thanks to the higher volume and the efficiency enhancements already achieved under the operational excellence program; it amounted to € 43 million in the quarter under review (same quarter of previous year: € 46 million). In particular, negative factors included the additional staff costs resulting from the new collective bargaining agreement and higher development costs due to lower capitalization. The result of operating activities excluding the restructuring result (EBIT EXCLUDING RESTRUCTURING RESULT) was on a par with the previous year at € 27 million after six months (€ 27 million), and down on the same quarter of the previous year at € 26 million in the second quarter (€ 30 million). The restructuring result amounted to € – 5 million in the first half of the year (previous year: € – 1 million).

Owing to the non-recurring transaction and prepayment fees in connection with the partial repayment of the 2015 corporate bond of around € 4 million, the FINANCIAL RESULT deteriorated to € – 28 million in the first half of the year (first half of previous year: € – 24 million); it amounted to € – 12 million in the second quarter of 2018/2019 (same quarter of previous year: € – 11 million). The financial result will benefit from lower interest payments in the future.

The NET RESULT BEFORE TAXES was € – 5 million (previous year: € 2 million) for the first half of the year and € 8 million in the second quarter of 2018/2019 (previous year: € 17 million). The NET RESULT AFTER TAXES amounted to € – 6 million after the first six months (previous year: € 0 million). The net result after taxes for the second quarter was € 8 million (same quarter of previous year: € 16 million).

Income statement

Figures in € millions	Q1 to Q2		Q2	
	2017/2018	**2018/2019**	2017/2018	**2018/2019**
Net sales	**1,054**	**1,114**	**559**	**573**
Change in inventories/other own work capitalized	118	101	34	31
Total operating performance	**1,172**	**1,215**	**593**	**604**
EBITDA excluding restructuring result	**60**	**62**	**46**	**43**
Depreciation and amortization excluding restructuring-related depreciation and amortization	33	35	16	17
Result of operating activities (EBIT) excluding restructuring result	**27**	**27**	**30**	**26**
Restructuring result [2)]	– 1	– 5	– 1	– 6
Result of operating activities	**26**	**22**	**29**	**20**
Financial result	**– 24**	**– 28**	**– 11**	**– 12**
Net result before taxes	**2**	**– 5**	**17**	**8**
Taxes on income	2	1	2	0
Net result after taxes	**0**	**– 6**	**16**	**8**

TOTAL ASSETS declined slightly as against March 31, 2018 to € 2,190 million as of September 30, 2018, essentially as a result of the partial repayment of the corporate bond.

On the ASSETS SIDE, INVENTORIES increased to € 727 million compared to March 31, 2018 (€ 622 million); this was in line with expectations and serves to cover the higher sales volumes and the ramp-up in the digital area that are anticipated in the coming quarters. As anticipated, the elevated level of trade receivables at the start of the financial year as a result of the high sales volume in the final quarter of 2017/2018 decreased after the first six months of the 2018/2019 financial year. NET WORKING CAPITAL rose slightly to € 636 million between the end of the financial year on March 31, 2018 and September 30, 2018.

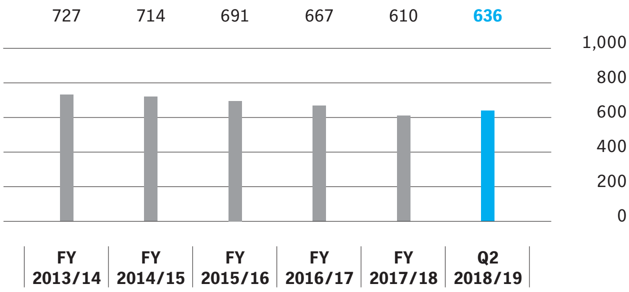
Our customers' financing requirements were covered largely externally in the reporting period, in some cases with the active mediation of the Heidelberg Financial Services segment; we therefore only provided customer financing directly to a limited extent. **RECEIVABLES FROM SALES FINANCING** declined to € 58 million as of September 30, 2018 on account of the repayments received and refinancing on the part of customers.

Assets

Figures in € millions	31-Mar-2018	**30-Sep-2018**
Non-current assets	810	829
Inventories	622	727
Trade receivables	370	276
Receivables from sales financing	66	58
Cash and cash equivalents	202	125
Other assets	186	175
	2,256	**2,190**

Development of net working capital [1]

Figures in € millions



[1] The total of inventories and trade receivables less trade payables and advance payments

Under **EQUITY AND LIABILITIES**, the Heidelberg Group's **EQUITY** climbed to € 373 million as of September 30, 2018 compared to the end of the financial year on March 31, 2018, essentially on account of the higher interest rate for German pensions. The equity ratio was thus around 17 percent as of the end of the reporting period.

Pension provisions declined from € 523 million at the start of the financial year to € 490 million as of September 30, 2018 in line with the rise in the interest rate for German pensions; **PROVISIONS** therefore fell to € 813 million in total.

NET DEBT increased to € 320 million as of the end of the first half of the year (March 31, 2018: € 236 million). **LEVERAGE** (the ratio of net debt to EBITDA excluding the restructuring result for the last four quarters) was kept below the target of 2. **FINANCIAL LIABILITIES** amounted to € 445 million in the quarter under review, up slightly on the figure as of March 31, 2018 (€ 438 million) as a result of financing activities in connection with the relocation of our innovation center.

Equity and liabilities

Figures in € millions	31-Mar-2018	**30-Sep-2018**
Equity	341	373
Provisions	878	813
of which: pension provisions	523	490
Financial liabilities	438	445
Trade payables	237	223
Other equity and liabilities	362	336
	2,256	**2,190**

Overview of net assets

Figures in € millions	31-Mar-2018	**30-Sep-2018**
Total assets	2,256	2,190
Net working capital	610	636
in percent of sales [1]	25.2	25.7
Equity	341	373
in percent of total equity and liabilities	15,1	17,0
Net debt [2]	236	320

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

The three pillars of our financing portfolio – capital market instruments (corporate bond and convertible bond), the syndicated credit line plus other instruments and promotional loans – are well balanced. Heidelberg currently has total credit facilities of around € 730 million with balanced diversification and a balanced maturity structure. Net debt is financed by basic funding until 2023. The corporate bond was reduced from € 205 million to around € 150 million as a result of its partial repayment as of July 18, 2018.

We supplement our financing with operating leases where economically appropriate. Other off-balance-sheet financing instruments do not have any significant influence on the economic position of the Group. Heidelberg still has stable liquidity. Our financial framework thus represents a solid foundation for the Company's continued strategic reorientation.

CASH FLOW amounted to € 27 million after the first six months of the current financial year (previous year: € 35 million). A net cash outflow of € –75 million was reported in **OTHER OPERATING CHANGES** in the first half of the year after an outflow of € –30 million in the same period of the previous year. The change essentially results from the increase in net working capital and in inventories in particular. Various other operational changes essentially related to payments for staff provisions and one-time increases in lease payments for buildings.

CASH USED IN INVESTING ACTIVITIES was stable year-on-year at € –38 million (previous year: € –37 million). This related essentially to the construction of the new innovation center at the Wiesloch-Walldorf production site and the capitalization of development costs. Overall, **FREE CASH FLOW** was negative after six months at € –86 million (previous year: € –32 million).

Statement of cash flows of the Heidelberg Group

Figures in € millions		**Q1 to Q2**		**Q2**
	2017/2018	**2018/2019**	2017/2018	**2018/2019**
Net result after taxes	0	– 6	16	8
Cash flow	35	27	34	24
Other operating changes	– 30	– 75	– 37	– 40
of which: net working capital	33	– 23	– 12	– 32
of which: receivables from sales financing	– 1	8	– 4	4
of which: other	– 62	– 60	– 22	– 12
Cash used in investing activities	– 37	– 38	– 16	– 25
Free cash flow	– 32	– 86	– 19	– 41
in percent of sales	– 3.0	– 7.7	– 3.4	– 7.3

Segment report

The segments were reorganized as of April 1, 2018 as part of the digital transformation of the Company. The figures for the 2017/2018 financial year were restated accordingly.

Sales in the HEIDELBERG DIGITAL TECHNOLOGY segment were up year-on-year at € 655 million after the first half of the year (€ 601 million), largely as a result of contributions from sheetfed business. The figure for the second quarter of the 2018/2019 financial year once again improved year-on-year, from € 329 million to € 341 million. The result of operating activities before interest, taxes, depreciation and amortization excluding restructuring result (EBITDA excluding restructuring result) for the first half of 2018/2019 was on a par with the comparable period of the previous year at € 6 million. EBITDA excluding restructuring result amounted to € 8 million in the second quarter of the current financial year after € 15 million in the same quarter of the previous year. This was caused by higher development costs due to lower capitalization and the product mix.

The Heidelberg Digital Technology segment had a total of 7,239 employees as of September 30, 2018.

Heidelberg Digital Technology [1]

Figures in € millions		Q1 to Q2		Q2
	2017/2018	**2018/2019**	2017/2018	**2018/2019**
Incoming orders	775	771	375	384
Net sales	601	655	329	341
Order backlog	603	642	603	642
EBITDA excluding restructuring result [2]	6	6	15	8
Result of operating activities excluding restructuring result	– 18	– 20	3	– 4
Employees [3]	7,243	7,239	7,243	7,239

[1] Until March 31, 2018: Heidelberg Digital Technology
[2] Result of operating activities before interest and taxes and before depreciation and amortization, excluding restructuring result
[3] At end of quarter (excluding trainees)

Sales in the HEIDELBERG LIFECYCLE SOLUTIONS segment were stable year-on-year, both for the first half of the year at € 457 million (previous year: € 451 million) and for the second quarter at € 231 million after € 230 million in the previous year. The result of operating activities before interest, taxes, depreciation and amortization excluding restructuring result (EBITDA excluding restructuring result) was € 55 million in the first half of the year after € 53 million in the same period of the previous year. The figure was € 34 million in the reporting quarter and therefore slightly higher than the prior-year quarter (€ 31 million).

The Heidelberg Lifecycle Solutions segment had a total of 4,245 employees as of September 30, 2018.

Heidelberg Lifecycle Solutions [1]

Figures in € millions	Q1 to Q2		Q2	
	2017/2018	**2018/2019**	2017/2018	**2018/2019**
Incoming orders	457	533	229	256
Net sales	451	457	230	231
Order backlog	23	132	23	132
EBITDA excluding restructuring result [2]	53	55	31	34
Result of operating activities excluding restructuring result	44	46	27	29
Employees [3]	4,207	4,245	4,207	4,245

[1] Until March 31, 2018: Heidelberg Digital Business & Services
[2] Result of operating activities before interest and taxes and before depreciation and amortization, excluding restructuring result
[3] At end of quarter (excluding trainees)

Our strategy of primarily mediating customer financing to our external partners is accompanied by a reduction in the volume we finance directly. Receivables from sales financing declined by € 8 million as against the start of the financial year to € 58 million as of September 30, 2018. The decrease in the customer financing portfolio is reflected in the HEIDELBERG FINANCIAL SERVICES segment's break-even EBITDA excluding restructuring result (€ 0 million) in the second quarter. EBITDA excluding restructuring result was € 1 million after the first six months.

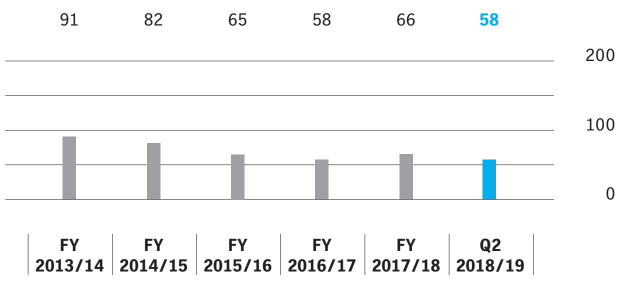
Heidelberg Financial Services

Figures in € millions	Q1 to Q2		Q2	
	2017/2018	**2018/2019**	2017/2018	**2018/2019**
Net sales	2	2	1	1
EBITDA excluding restructuring result [1]	1	1	0	0
Result of operating activities excluding restructuring result	1	1	0	0
Employees [2]	40	39	40	39

[1] Result of operating activities before interest and taxes and before depreciation and amortization, excluding restructuring result
[2] At end of quarter (excluding trainees)

Receivables from sales financing

Figures in € millions



Report on the regions

At the end of the first half of the year, incoming orders in the EMEA (Europe, Middle East and Africa) region were up year-on-year at € 562 million (€ 522 million). They also improved to € 255 million in the second quarter of the 2018/2019 financial year after € 245 million in the same quarter of the previous year. In particular, increases were reported in Germany, Belgium and Switzerland. Sales were stable year-on-year at € 473 million after the first six months (first half of previous year: € 476 million), and up quarter-on-quarter at € 262 million for the second quarter (€ 244 million). Driven by a government investment program, there were significant increases in Italy, with sales also up appreciably in Switzerland in the second quarter.

In the ASIA/PACIFIC region, incoming orders matched the previous year's level at € 344 million after the first half of the year (€ 340 million), and the figures for the second quarter alone were also similar to the same quarter of the previous year at € 178 million (€ 180 million). In particular, China saw significant increases in the second quarter. Orders in Japan were stable at the level of the previous quarters, although they were down on the previous year's quarter, which had been boosted by a major order. At € 326 million after two quarters, the region's sales were clearly higher than the prior-year figure of € 288 million, with key contributions coming from China and Japan. Sales were on a par with the previous year (€ 155 million) at € 154 million in the second quarter of the current financial year.

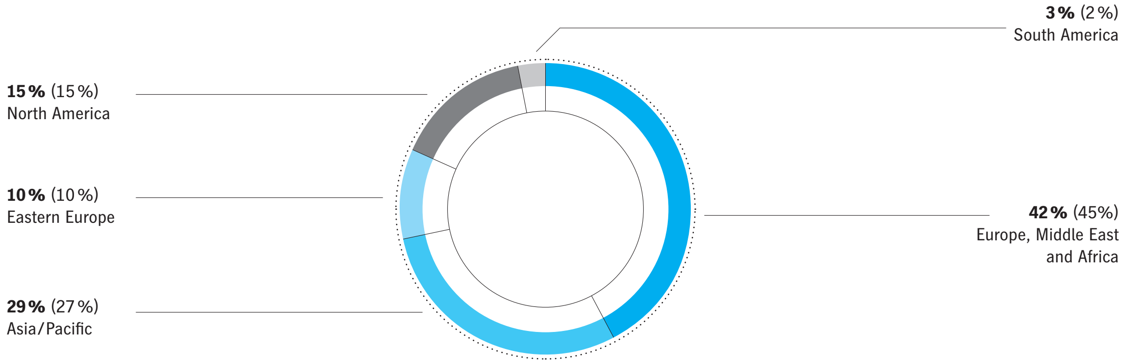
Incoming orders in the EASTERN EUROPE region outperformed the figure for the previous year (€ 130 million) at € 147 million for the first half of the year and, at € 74 million, were also slightly higher year-on-year in the second quarter of 2018/2019 (€ 72 million). Poland and Austria were the main countries contributing. Sales rose to € 108 million year-on-year in the first half of the year (previous year: € 102 million) and € 59 million in the second quarter of the financial year (previous year: € 56 million).

At € 209 million, incoming orders in the NORTH AMERICA region matched the previous year's level after the first half of the year (€ 208 million), but increased significantly to € 114 million for the second quarter of 2018/2019 after € 91 million in the same quarter of the previous year. In particular, orders in the US picked up significantly in the reporting quarter following a weaker first quarter. Sales rose to € 171 million in the first half of the year after € 163 million in the previous year, but were down slightly in the second quarter of 2018/2019 at € 82 million (same quarter of the previous year: € 87 million).

In the SOUTH AMERICA region, the recovery of the key Brazilian market led to an increase in incoming orders and sales in the first half of the year. Incoming orders rose to € 44 million in the first half of 2018/2019 from € 34 million in the same period of the previous year and to € 20 million in the current reporting quarter after € 17 million in the second quarter of the previous year. The region's sales amounted to € 36 million (previous year: € 25 million) in the first half of the year and € 16 million (previous year: € 17 million) in the second quarter of 2018/2019.

Sales by region (Q1 to Q2)

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



Incoming orders by region

Figures in € millions		Q1 to Q2		Q2
	2017/2018	**2018/2019**	2017/2018	**2018/2019**
EMEA	522	562	245	255
Asia/Pacific	340	344	180	178
Eastern Europe	130	147	72	74
North America	208	209	91	114
South America	34	44	17	20
Heidelberg Group	**1,234**	**1,306**	**605**	**641**

Sales by region

Figures in € millions		Q1 to Q2		Q2
	2017/2018	**2018/2019**	2017/2018	**2018/2019**
EMEA	476	473	244	262
Asia/Pacific	288	326	155	154
Eastern Europe	102	108	56	59
North America	163	171	87	82
South America	25	36	17	16
Heidelberg Group	**1,054**	**1,114**	**559**	**573**

Employees

There were 11,523 employees in the Heidelberg Group in the second quarter of the 2018/2019 financial year (plus 372 trainees). The Group had 11,490 employees as of September 30, 2017 in the previous year.

Employees by region

Number of employees [1]	31-Mar-2018	**30-Sep-2018**
EMEA	8,585	8,576
Asia/Pacific	1,677	1,660
Eastern Europe	491	478
North America	712	708
South America	98	101
Heidelberg Group	**11,563**	**11,523**

[1] Excluding trainees

Risk and opportunity report

As of September 30, 2018, there were no fundamental changes in the assessment of the risks and opportunities of the Heidelberg Group compared to the presentation in the 2017/2018 Annual Report. The economic risks resulting from the dependency on central bank policy in the face of the euro and national debt crises are still a factor. There is also still uncertainty due to the political and economic developments in Eastern Europe and the Middle East in addition to Brexit. Our assessment of the risks and opportunities in China remains unchanged. There is still the risk of the widening international trade conflict due to the protectionist measures by the US and the associated negative effects on the global economy. Risks and opportunities still arise from changes in the discount rates for pension obligations with corresponding negative or positive effects on equity. No risks that could jeopardize the Heidelberg Group’s continued existence, either individually or together with other risk factors, are discernible at present or for the foreseeable future.

Future prospects

The economic and political conditions on the markets relevant to Heidelberg as presented in the 2017/2018 Annual Report, and the expected development of the printing industry, serve as premises for the forecast planning for financial year 2018/2019. Digital transformation, the expansion of technology leadership and greater value-added in new high-tech applications and digital platforms should contribute to sales growth of up to € 3 billion in the medium term.

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

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

Potential margin upside in both segments thanks to ongoing strategic development

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

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

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

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

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

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

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

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

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

Interim consolidated financial statements

for the period April 1, 2018 to September 30, 2018

Interim consolidated income statement – April 1, 2018 to September 30, 2018

Figures in € thousands	Note	1-Apr-2017 to 30-Sep-2017	**1-Apr-2018 to 30-Sep-2018**
Net sales	3	1,054,143	1,114,306
Change in inventories		96,659	83,935
Other own work capitalized		21,219	16,983
Total operating performance		**1,172,021**	**1,215,224**
Other operating income	4	43,422	38,380
Cost of materials	5	525,802	554,753
Staff costs		426,635	445,797
Depreciation and amortization		33,374	35,025
Other operating expenses	6	203,343	195,948
Result of operating activities[1]		**26,289**	**22,081**
Financial income	7	1,930	3,261
Financial expenses	8	26,171	30,817
Financial result		**–24,241**	**–27,556**
Net result before taxes		**2,048**	**–5,475**
Taxes on income		1,777	894
Net result after taxes		**271**	**–6,369**
Basic earnings per share according to IAS 33 (in € per share)	9	**0.00**	**–0.02**
Diluted earnings per share according to IAS 33 (in € per share)	9	**0.00**	**–0.02**

[1] Result of operating activities excluding restructuring result: € 27,344 thousand (April 1, 2016 to September 30, 2016: € 26,942 thousand)

Restructuring result (€ –5,263 thousand; April 1, 2017 to September 30, 2017: € –653 thousand) = restructuring income (€ 5,749 thousand; April 1, 2017 to September 30, 2017: € 1,282 thousand) less restructuring expenses (€ 11,012 thousand; April 1, 2017 to September 30, 2017: € 1,935 thousand)

Interim consolidated statement of comprehensive income – April 1, 2018 to September 30, 2018

Figures in € thousands	1-Apr-2017 to 30-Sep-2017	**1-Apr-2018 to 30-Sep-2018**
Net result after taxes	**271**	**–6,369**
Other comprehensive income not reclassified to the income statement		
Remeasurement of defined benefit pension plans and similar obligations	14,236	35,584
Deferred income taxes	–699	–1,881
	13,537	**33,703**
Other comprehensive income which may subsequently be reclassified to the income statement		
Currency translation	–30,854	3,692
Available-for-sale financial assets	372	551
Cash flow hedges	294	2,284
Deferred income taxes	198	–205
	–29,990	**6,322**
Total other comprehensive income	–16,453	40,025
Total comprehensive income	**–16,182**	**33,656**

Interim consolidated income statement – July 1, 2018 to September 30, 2018

Figures in € thousands	1-Jul-2017 to 30-Sep-2017	**1-Jul-2018 to 30-Sep-2018**
Net sales	559,267	572,913
Change in inventories	22,609	21,914
Other own work capitalized	11,222	9,592
Total operating performance	**593,098**	**604,419**
Other operating income	18,202	19,479
Cost of materials	259,744	272,854
Staff costs	203,964	212,389
Depreciation and amortization	16,823	17,145
Other operating expenses	101,879	101,585
Result of operating activities [1]	**28,890**	**19,925**
Financial income	1,141	1,036
Financial expenses	12,672	12,698
Financial result	**– 11,531**	**– 11,662**
Net result before taxes	**17,359**	**8,263**
Taxes on income	1,355	– 29
Net result after taxes	**16,004**	**8,292**
Basic earnings per share according to IAS 33 (in € per share)	**0.06**	**0.03**
Diluted earnings per share according to IAS 33 (in € per share)	**0.06**	**0.03**

[1] Result of operating activities excluding restructuring result: € 25,510 thousand (July 1, 2017 to September 30, 2017: € 29,550 thousand)

Restructuring result (€ – 5,585 thousand; July 1, 2017 to September 30, 2017: € – 660 thousand) = restructuring income (€ 3,040 thousand; July 1, 2017 to September 30, 2017: € 129 thousand) less restructuring expenses (€ 8,625 thousand; July 1, 2017 to September 30, 2017: € 789 thousand)

Interim consolidated statement of comprehensive income – July 1, 2018 to September 30, 2018

Figures in € thousands	1-Jul-2017 to 30-Sep-2017	**1-Jul-2018 to 30-Sep-2018**
Net result after taxes	**16,004**	**8,292**
Other comprehensive income not reclassified to the income statement		
Remeasurement of defined benefit pension plans and similar obligations	– 4,837	34,010
Deferred income taxes	286	– 1,387
	– 4,551	**32,623**
Other comprehensive income which may subsequently be reclassified to the income statement		
Currency translation	– 11,351	– 634
Available-for-sale financial assets	154	129
Cash flow hedges	– 697	– 191
Deferred income taxes	– 99	– 10
	– 11,993	**– 706**
Total other comprehensive income	– 16,544	31,917
Total comprehensive income	**– 540**	**40,209**

Interim consolidated statement of financial position as of September 30, 2018

Assets

Figures in € thousands	Note	31-Mar-2018	**30-Sep-2018**
Non-current assets			
Intangible assets	10	263,158	275,836
Property, plant and equipment	10	525,926	537,142
Investment property		9,216	9,130
Financial assets		12,186	7,401
Receivables from sales financing		37,621	33,160
Other receivables and other assets	12	25,324	14,578
Income tax assets		79	83
Deferred tax assets		65,736	67,229
		939,246	944,559
Current assets			
Inventories	11	622,434	726,668
Receivables from sales financing		27,990	24,864
Trade receivables		369,808	276,011
Other receivables and other assets	12	87,162	84,744
Income tax assets		7,418	8,259
Cash and cash equivalents	13	201,607	124,896
		1,316,419	1,245,442
Total assets		**2,255,665**	**2,190,001**

Interim consolidated statement of financial position as of September 30, 2018

Equity and liabilities

Figures in € thousands	Note	31-Mar-2018	**30-Sep-2018**
Equity	14		
Issued capital		713,198	713,198
Capital reserves, retained earnings and other reserves		– 385,849	– 334,051
Net result after taxes		13,565	– 6,369
		340,914	372,778
Non-current liabilities			
Provisions for pensions and similar obligations	15	523,445	490,219
Other provisions	16	141,744	143,345
Financial liabilities	17	402,989	410,385
Other liabilities	18	31,752	34,106
Deferred tax liabilities		5,817	4,424
		1,105,747	1,082,479
Current liabilities			
Other provisions	16	212,388	179,917
Financial liabilities	17	35,031	34,723
Trade payables		237,454	222,777
Income tax liabilities		3,320	2,701
Other liabilities	18	320,811	294,626
		809,004	734,744
Total equity and liabilities		**2,255,665**	**2,190,001**

Statement of changes in consolidated equity as of September 30, 2018 [1)]

Figures in € thousands	Issued capital	Capital reserves	Retained earnings
April 1, 2017	658,676	29,411	– 270,745
Capital increase (partial conversion of convertible bond)	54,522	1,257	–
Profit carryforward (+)	–	–	36,236
Total comprehensive income	–	–	13,537
Consolidation adjustments / other changes	–	–	1,147
September 30, 2017	**713,198**	**30,668**	**– 219,825**
April 1, 2018	713,198	30,668	– 265,470
Changes in accounting and valuation methods [2)]	–	–	– 2,339
April 1, 2018 – adjusted [2)]	713,198	30,668	– 267,809
Profit carryforward	–	–	13,565
Total comprehensive income	–	–	33,703
Consolidation adjustments / other changes	–	–	206
September 30, 2018	**713,198**	**30,668**	**– 220,335**

[1)] For further details please refer to note 14
[2)] First-time adoption of IFRS 9 and IFRS 15; previous year's figures have not been restated (see note 1)

	Other retained earnings		Total other retained earnings	Total capital reserves, retained earnings and other retained earnings	Net result after taxes	Total
Currency translation	Fair value of other financial assets	Fair value of cash flow hedges				
– 112,289	1,101	– 2,303	– 113,491	– 354,825	36,236	340,087
–	–	–	–	1,257	–	55,779
–	–	–	–	36,236	– 36,236	0
– 30,854	291	573	– 29,990	– 16,453	271	– 16,182
–	–	–	–	1,147	–	1,147
– 143,143	**1,392**	**– 1,730**	**– 143,481**	**– 332,638**	**271**	**380,831**
– 148,633	– 463	– 1,952	– 151,047	– 385,849	13,565	340,914
–	341	–	341	– 1,998	–	– 1,998
– 148,633	– 122	– 1,952	– 150,706	– 387,847	13,565	338,916
–	–	–	–	13,565	– 13,565	0
3,692	487	2,143	6,322	40,025	– 6,369	33,656
–	–	–	–	206	–	206
– 144,941	**365**	**191**	**– 144,384**	**– 334,051**	**– 6,369**	**372,778**

Interim consolidated statement of cash flows – April 1, 2018 to September 30, 2018

Figures in € thousands	1-Apr-2017 to 30-Sep-2017	**1-Apr-2018 to 30-Sep-2018**
Net result after taxes	271	– 6,369
Depreciation, amortization, write-downs and write-ups [1]	33,333	35,020
Change in pension provisions	4,681	3,259
Change in deferred tax assets / deferred tax liabilities / tax provisions	– 3,051	– 4,701
Result from disposals	– 194	– 352
Cash flow	**35,040**	**26,857**
Change in inventories	– 104,624	– 102,998
Change in sales financing	– 1,336	7,591
Change in trade receivables / payables	95,740	82,367
Change in other provisions	– 32,331	– 34,096
Change in other items of the statement of financial position	12,433	– 28,312
Other operating changes	**– 30,118**	**– 75,448**
Cash generated by / used in operating activities	**4,922**	**– 48,591**
Intangible assets / property, plant and equipment / investment property		
Investments	– 48,681	– 55,052
Income from disposals	2,577	7,296
Financial assets / company acquisitions		
Investments	– 14,015	– 11
Income from disposals	523	–
Cash investments	22,674	10,084
Cash used in investing activities	**– 36,922**	**– 37,683**
Change in financial liabilities	– 5,793	9,564
Cash used in / generated by financing activities	**– 5,793**	**9,564**
Net change in cash and cash equivalents	**– 37,793**	**– 76,710**
Cash and cash equivalents at the beginning of the reporting period	**217,660**	**201,607**
Changes in the scope of consolidation	1,399	926
Currency adjustments	– 5,752	– 927
Net change in cash and cash equivalents	– 37,793	– 76,710
Cash and cash equivalents at the end of the reporting period	**175,514**	**124,896**
Cash generated by / used in operating activities	4,922	– 48,591
Cash used in investing activities	– 36,922	– 37,683
Free cash flow	**– 32,000**	**– 86,274**

[1] Relates to intangible assets, property, plant and equipment, investment property and financial assets

Notes

1 Accounting policies

The interim consolidated financial statements as of September 30, 2018 are consistent with and were prepared in line with the regulations of IAS 34 (Interim Financial Reporting). They should be read in conjunction with the consolidated financial statements as of March 31, 2018, which were prepared in line with the International Financial Reporting Standards (IFRS) as endorsed in the EU.

The interim consolidated financial statements were generally prepared using the same accounting policies as the consolidated financial statements for the 2017/2018 financial year. In accordance with the regulations of IAS 34, a condensed scope of reporting was chosen as against the consolidated financial statements as of March 31, 2018. All amounts are generally stated in € thousands.

The International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRS IC) have approved the following new standards and changes to existing standards, which are to be applied for the first time in financial year 2017/2018.

As a result of the mandatory introduction of IFRS 9: Financial Instruments, new provisions apply to the classification and measurement of financial assets, there is a new impairment model for financial assets and revised regulations for hedge accounting in particular. The new classification requirements result in the recognition of financial assets predominantly in the "at amortized cost" category at Heidelberg. On the basis of the new impairment model (expected loss model), expected losses from financial assets are expensed earlier than before. Furthermore, the notes to the consolidated financial statements as of March 31, 2019 will contain extensive new disclosures, including in particular on expected credit losses and hedge accounting. Heidelberg applies the modified retrospective method as a transitional method for first-time adoption. Accordingly, the previous year's figures will not be adjusted; the effects of first-time adoption were recognized cumulatively in retained earnings as of April 1, 2018.

As of April 1, 2018, the new classification and measurement provisions resulted in the transition of a financial asset from the IAS 39 category "Financial assets available

Standards	Publication by the IASB / IFRS IC	Date of adoption [1]	Published in Official Journal of the EU	Effects
Amendments to standards				
Amendments to IAS 40: Transfers of Investment Property	8-Dec-2016	1-Jan-2018	15-Mar-2018	None
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	20-Jun-2016	1-Jan-2018	27-Feb-2018	None
Amendments to IFRS 4: Applying IFRS 9 ›Financial Instruments‹ with IFRS 4 ›Insurance Contracts‹	12-Sep-2016	1-Jan-2018	9-Nov-2017	None
Annual Improvements to IFRS Standards 2014–2016 Cycle	8-Dec-2016	1-Jan-2017 and 1-Jan-2018	8-Feb-2018	No material effects
New standards				
IFRS 9: ›Financial Instruments‹	24-Jul-2014	1-Jan-2018	29-Nov-2016	Please refer to remarks above this table and on page 28
IFRS 15: ›Revenue from Contracts with Customers‹	28-May-2014, 11-Sep-2015 and 12-Apr-2016	1-Jan-2018	29-Oct-2016	Please refer to remarks below this table
New interpretations				
IFRIC Interpretation 22: ›Foreign Currency Transactions and Advance Consideration‹	8-Dec-2016	1-Jan-2018	3-Apr-2018	None

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

for sale" to the IFRS 9 category "financial assets at fair value through profit or loss" in the amount of € 20,644 thousand and an increase in the carrying amount of other receivables and other assets of € 1,444 thousand. The application of the simplified approach to the determination of impairment losses reduced the carrying amount of trade receivables by € 3,474 thousand and that of receivables from sales financing by € 593 thousand and increased the carrying amount of deferred tax assets by € 625 thousand. There are no transition effects with regard to hedge accounting.

The reconciliation of the closing balance of impairment losses in accordance with IAS 39 to the opening balance of impairment losses in accordance with IFRS 9 is as follows:

	Cumulative impairment losses in accordance with IAS 39 as of March 31, 2018	Change in impairment losses as a result of the first-time adoption of IFRS 9	Cumulative impairment losses in accordance with IFRS 9 as of April 1, 2018
Trade receivables	14,049	3,474	17,523
Receivables from sales financing	6,698	593	7,291
	20,747	**4,067**	**24,814**

As a result of the mandatory introduction of IFRS 15: "Revenue from Contracts with Customers", deferred revenue from contracts with customers, which essentially relates to advance payments for future maintenance and services and was previously recognized as prepaid expenses, is reported separately as contract liabilities under other liabilities. Furthermore, the notes to the consolidated financial statements as of March 31, 2019 will contain additional qualitative and quantitative disclosures, such as the cumulative amount of the performance obligations of all relevant contracts with customers not yet fulfilled at the end of the reporting period. Overall, however, the first-time adoption of IFRS 15 will not have any material impact on the financial position or financial performance of the Heidelberg Group. Heidelberg applies the modified retrospective method as a transitional method for the first-time adoption of IFRS 15; the comparative figures for prior-year periods were therefore not restated. The introduction of the new standard also did not result in any adjustment to retained earnings.

Traditionally, Heidelberg generates more sales in the second half of the financial year than in the first. Income that is generated due to seasonal reasons, economic reasons, or only occasionally within the financial year is not brought forward or deferred in the interim consolidated financial statements. Expenses that are incurred irregularly during the financial year are deferred in cases in which they would also be deferred at the end of the financial year.

This interim financial report has neither been audited in accordance with Section 317 of the German Commercial Code (HGB) nor reviewed by the auditors.

2 Scope of consolidation

The interim consolidated financial statements of Heidelberger Druckmaschinen Aktiengesellschaft include a total of 73 (March 31, 2018: 72) domestic and foreign companies in which Heidelberger Druckmaschinen Aktiengesellschaft has a controlling influence as defined by IFRS 10. Of these, 62 (March 31, 2018: 61) are located outside Germany. Subsidiaries that are of minor importance are not included.

3 Net sales

Net sales of € 1,114,306 thousand (April 1, 2017 to September 30, 2017: € 1,054,143 thousand) comprise net sales from contracts with customers of € 1,109,226 thousand (April 1, 2017 to September 30, 2017: € 1,049,406 thousand) and other net sales of € 5,080 thousand (April 1, 2017 to September 30, 2017: € 4,737 thousand).

The breakdown of sales by segment and by region is shown in note 21.

4 Other operating income

	1-Apr-2017 to 30-Sep-2017	**1-Apr-2018 to 30-Sep-2018**
Reversal of other provisions/deferred liabilities	9,969	15,646
Hedging/exchange rate gains	10,781	4,348
Income from operating facilities	4,815	3,008
Recoveries on loans and other assets previously written down	1,635	2,316
Income from disposals of intangible assets, property, plant and equipment and investment property	346	729
Other income	15,876	12,333
	43,422	**38,380**

The items “Reversal of other provisions/deferred liabilities” and “Other income” also include restructuring income totaling € 3,184 thousand (April 1, 2017 to September 30, 2017: € 1,282 thousand) and/or € 2,565 thousand (April 1, 2017 to September 30, 2017: € 0 thousand).

Income from hedging/exchange rate gains is offset by expenses for hedging/exchange rate losses reported under other operating expenses (see note 6).

5 Cost of materials

The cost of materials includes the pro rata interest expense in connection with the Heidelberg Financial Services segment of € 546 thousand (April 1, 2017 to September 30, 2017: € 467 thousand); interest income from sales financing of € 2,159 thousand (April 1, 2017 to September 30, 2017: € 2,064 thousand) is reported in sales.

6 Other operating expenses

	1-Apr-2017 to 30-Sep-2017	**1-Apr-2018 to 30-Sep-2018**
Other deliveries and services not included in the cost of materials	65,146	68,282
Special direct sales expenses including freight charges	37,325	39,137
Travel expenses	19,600	20,266
Rent and leases	20,974	15,402
Insurance expense	5,259	5,097
Hedging/exchange rate losses	9,722	4,820
Bad debt allowances and impairment on other assets	4,724	4,565
Costs of car fleet (excluding leases)	2,913	3,035
Additions to provisions and accruals relating to several types of expense	1,212	2,701
Other overheads	36,468	32,643
	203,343	**195,948**

The item “Other deliveries and services not included in the cost of materials” also includes restructuring expenses totaling € 314 thousand (April 1, 2017 to September 30, 2017: € 0 thousand).

The expenses for hedging/exchange rate losses are offset by income from hedging/exchange rate gains reported under other operating income (see note 4).

7 Financial income

	1-Apr-2017 to 30-Sep-2017	**1-Apr-2018 to 30-Sep-2018**
Interest and similar income	1,628	2,756
Income from financial assets/loans/securities	302	505
Financial income	**1,930**	**3,261**

8 Financial expenses

	1-Apr-2017 to 30-Sep-2017	**1-Apr-2018 to 30-Sep-2018**
Interest and similar expenses	25,080	29,298
Expenses for financial assets/loans/securities	1,091	1,519
Financial expenses	**26,171**	**30,817**

9 Earnings per share

Earnings per share are calculated by dividing the net result after taxes attributable to shareholders by the weighted number of shares outstanding in the period. The weighted number of shares outstanding in the period under review was 278,592,557 (April 1, 2017 to September 30, 2017: 268,292,851). The weighted number of shares outstanding was influenced by the holdings of treasury shares. As of September 30, 2018, the Company held 142,919 (March 31, 2018: 142,919) treasury shares.

The calculation of diluted earnings per share assumes conversion of outstanding debt securities (convertible bond) to shares. Due to the fact that the net result for the period is concurrently adjusted for the interest expense recognized for the convertible bond in the financial result, taking into account the respective number of shares from the convertible bonds issued on March 30, 2015 did not have a dilutive effect on earnings per share during the period from April 1, 2018 to September 30, 2018. In the future, this instrument may have a fully dilutive effect.

10 Intangible assets, property, plant and equipment

In the period from April 1, 2018 to September 30, 2018, there were additions to intangible assets of € 19,682 thousand (April 1, 2017 to September 30, 2017: € 17,558 thousand) and to property, plant and equipment of € 43,128 thousand (April 1, 2017 to September 30, 2017: € 57,624 thousand). In the same period, the carrying amount of disposals from intangible assets was € 45 thousand (April 1, 2017 to September 30, 2017: € 45 thousand) and € 6,888 thousand (April 1, 2017 to September 30, 2017: € 2,491 thousand) for property, plant and equipment.

11 Inventories

Inventories include raw materials and supplies totaling € 118,217 thousand (March 31, 2018: € 108,276 thousand), work and services in progress amounting to € 337,557 thousand (March 31, 2018: € 285,471 thousand), finished goods and goods for resale of € 267,357 thousand (March 31, 2018: € 225,552 thousand), and advance payments of € 3,537 thousand (March 31, 2017: € 3,135 thousand).

12 Other receivables and other assets

The Other receivables and other assets item includes, among others, receivables from derivative financial instruments of € 4,293 thousand (March 31, 2018: € 2,885 thousand) and prepaid expenses of € 21,827 thousand (March 31, 2018: € 12,335 thousand).

13 Cash and cash equivalents

Restrictions on disposal of cash and cash equivalents due to foreign exchange restrictions amount to € 45,467 thousand (March 31, 2018: € 32,810 thousand).

14 Equity

The same as at March 31, 2018, the Company still held 142,919 treasury shares on September 30, 2018. The repurchased 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.

Please see note 25 in the notes to the consolidated financial statements as of March 31, 2018 for information on the contingent capital and the authorized capital as of March 31, 2018. No significant resolutions resulting in changes of the contingent and the authorized capital were passed at the Annual General Meeting of July 25, 2018.

15 Provisions for pensions and similar obligations

A discount rate of 2.30 percent (March 31, 2018: 2.10 percent) was applied as of September 30, 2018 as an assumption for the calculation of the actuarial gains and losses of German companies.

Assuming a domestic discount rate of 2.10 percent, the present value of the pension entitlements of the employees would have increased by € 28,835 thousand.

If the 2018G mortality tables of Prof. Dr. Heubeck had been used for the actuarial calculations in Germany, the present value of the pension entitlements of the employees would have increased by € 5,310 thousand.

16 Other provisions

Other provisions relate to tax provisions of € 56,968 thousand (March 31, 2018: € 58,972 thousand) and other provisions of € 266,294 thousand (March 31, 2018: € 295,160 thousand). Other provisions include staff obligations of € 68,931 thousand (March 31, 2018: € 83,997 thousand), sales obligations of € 68,409 thousand (March 31, 2018: € 71,109 thousand) and miscellaneous other provisions of € 128,954 thousand (March 31, 2018: € 140,054 thousand). The latter also include, among others, provisions in connection with our portfolio and capacity adjustments and measures to optimize our management and organizational structure.

17 Financial liabilities

			31-Mar-2018			**30-Sep-2018**
	Current	Non-current	Total	Current	Non-current	**Total**
Amounts due to banks	22,563	147,328	169,891	23,581	207,516	231,097
Corporate bonds	6,208	198,112	204,320	4,533	145,244	149,777
Convertible bonds	786	55,104	55,890	778	55,932	56,710
From finance leases	2,203	2,445	4,648	2,235	1,693	3,928
Other	3,271	–	3,271	3,596	–	3,596
	35,031	402,989	**438,020**	34,723	410,385	**445,108**

In connection with the sale of the research and development center in Heidelberg in the first quarter of financial year 2018/2019, a loan of around € 32.5 million was taken over, which will be amortized over the term until March 2022.

In July 2018, around € 55 million of the initial € 205 million corporate bond with a term until 2022 was redeemed from cash.

With regard to our financing, please refer to note 28 in the notes to the consolidated financial statements as of March 31, 2018.

18 Other liabilities

Other liabilities include advance payments on orders of € 143,439 thousand (March 31, 2018: € 144,725 thousand), liabilities from derivative financial instruments of € 7,382 thousand (March 31, 2018: € 3,465 thousand), contractual obligations of € 56,080 thousand (March 31, 2018: € 59,027 thousand) and deferred income of € 4,586 thousand (March 31, 2018: €4,422 thousand).

19 Additional information on financial instruments

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

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

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

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

The Heidelberg Group is exposed to market price risks in the form of interest rate and exchange rate fluctuations. In general, derivative financial instruments are used to limit these risks. Their fair values correspond to changes in value arising from a notional revaluation taking into account the market parameters applicable at the end of the reporting period. The fair values are calculated using standardized measurement procedures (discounted cash flow and option pricing models). This corresponds to LEVEL 2 of the fair value hierarchy set out in IFRS 13, as only input data observable on the market, such as exchange rates, exchange rate volatilities and interest rates, is used.

Securities are classified as financial assets available for sale. In line with IAS 39, these financial instruments are also carried at fair value. The underlying quoted prices for the measurement of the vast majority of securities correspond to LEVEL 1 of the fair value hierarchy set out in IFRS 13, as only quoted prices observed on active markets are used in measurement. If the fair value of securities cannot be reliably determined, they are carried at cost.

The loans allocated to LEVEL 3 of the measurement hierarchy, reported under Other receivables and other assets, relate to a fixed-income cash investment classified as a financial asset measured at fair value through profit or loss that was made by Heidelberger Druckmaschinen Aktiengesellschaft in August 2016. The fair value is calculated using a standardized valuation method (discounted cash flow method). One of the key input parameters for calculating the fair value is the discount rate, which amounted to 14.1 percent as of September 30, 2018. If this had been 0.5 percentage points higher (lower), the fair value would have been € 76 thousand lower (€ 77 thousand higher) provided all other assumptions were unchanged.

The table below provides an overview of financial assets and financial liabilities measured at fair value in accordance with the IFRS 13 fair value hierarchy.

The fair value of receivables from sales financing essentially corresponds to the reported carrying amount. This fair value is based upon expected cash flows and interest rates with matching maturities taking into account the customer-specific credit rating.

The carrying amount of trade receivables, other financial receivables reported in other receivables and other assets, and cash and cash equivalents is generally assumed as an appropriate estimate of the fair value.

The fair value of the 2015 corporate bond – which is reported under financial liabilities – as calculated on the basis of the quoted price is € 156,928 thousand (March 31, 2018: € 214,503 thousand), compared to the carrying

	31-Mar-2018				30-Sep-2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	**Total**
Securities	3,412	–	–	3,412	2,675	–	–	2,675
Loans	–	–	20,644	20,644	–	–	11,216	11,216
Derivative financial assets	–	2,885	–	2,885	–	4,293	–	4,293
Financial assets measured at fair value	**3,412**	**2,885**	**20,644**	**26,941**	**2,675**	**4,293**	**11,216**	**18,184**
Derivative financial liabilities	–	3,465	–	3,465	–	7,382	–	7,382
Financial liabilities measured at fair value	**–**	3,465	**–**	3,465	**–**	**7,382**	**–**	**7,382**

amount of € 149,777 thousand (March 31, 2018: € 204,320 thousand). The fair value of the 2015 convertible bond determined on the basis of the stock exchange listing, which is also reported under financial liabilities, amounts to € 63,071 thousand (March 31, 2018: € 69,833 thousand), compared to the carrying amount of € 56,710 thousand (March 31, 2018: € 55,890 thousand). The fair value of the corporate bonds and the convertible bonds corresponds to the first level in the fair value hierarchy according to IFRS 13.

The fair value of the amortizing loan funded by the KfW issued in April 2014 is € 2,133 thousand (March 31, 2018: € 4,264 thousand) compared to the carrying amount of € 2,105 thousand (March 31, 2018: € 4,211 thousand).

The fair value of the other amortizing loan funded by the KfW issued in December 2015 is € 2,268 thousand (March 31, 2018: € 2,769 thousand) compared to the carrying amount of € 2,250 thousand (March 31, 2018: € 2,750 thousand).

The fair value of the development loan agreed with the European Investment Bank in March 2016 is € 92,201 thousand (March 31, 2018: € 90,388 thousand) compared to the carrying amount of € 101,173 thousand (March 31, 2018: € 100,739 thousand).

The fair value of the promotional loan for the financing of our investments to relocate our research and development activities to our Wiesloch production site, agreed upon with a syndicate of banks with refinancing by KfW (Energy Efficiency Program – “Energy-efficient Construction and Refurbishment”), is € 39,722 thousand (March 31, 2018: € 24,658 thousand), compared to the carrying amount of € 42,100 thousand (March 31, 2018: € 25,798 thousand).

The fair value of the loan taken up in May 2017 is € 21,191 thousand (March 31, 2018: € 22,242 thousand), compared to the carrying amount of € 23,345 thousand (March 31, 2018: € 24,637 thousand).

The fair value of the loan taken over in connection with the sale of the research and development center in Heidelberg in the first quarter of financial year 2018/2019 is € 27,262 thousand, compared to the carrying amount of € 27,852 thousand.

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

The carrying amount of other financial liabilities, trade payables and other liabilities is generally assumed as an appropriate estimate of the fair value.

The carrying amount of the financial asset allocated to LEVEL 3 of the measurement hierarchy in accordance with IFRS 13 as of September 30, 2018 (€ 11,216 thousand) is reconciled as follows:

Carrying amount as of April 1, 2018 (€ 20,644 thousand), disposal (€ 10,084 thousand), other changes recognized in profit or loss (€ 657 thousand).

20 Contingent liabilities and other financial liabilities

As of September 30, 2018, the contingent liabilities for warranties and guarantees amounted to € 11,887 thousand (March 31, 2018: € 6,726 thousand).

Other financial liabilities amounted to € 114,197 thousand as of September 30, 2018 (March 31, 2018: € 142,337 thousand). Of this amount, € 75,972 thousand (March 31, 2018: € 96,854 thousand) related to lease and rental obligations and € 38,225 thousand (March 31, 2018: €45,483 thousand) related to investments and other purchase commitments.

21 Group segment reporting

Segment reporting is based on the management approach.

As part of the digital transformation process, the Company’s segments were reorganized as of April 1, 2018. The previous Heidelberg Digital Technology and Heidelberg Digital Business and Services segments were restructured; the Heidelberg Financial Services segment remains unchanged. Since then, the Heidelberg Group consists of the business segments Heidelberg Digital Technology, Heidelberg Lifecycle Solutions and Heidelberg Financial

Services. Heidelberg Digital Technology comprises the sheetfed offset, the label printing, the postpress and the digital printing business. The Lifecycle business (services, consumables), Software Solutions and Heidelberg Platforms (offerings outside the print media industry) are bundled in the Heidelberg Lifecycle Solutions segment. The Heidelberg Financial Services segment continues to comprise sales financing business. The figures of the previous year were adjusted accordingly. Further information on the business activities, products and services of the individual segments can be found in the "Strategy" section of the Group management report as of March 31, 2018.

Segment information April 1, 2018 to September 30, 2018:

	Heidelberg Digital Technology		Heidelberg Lifecycle Solutions [1]		Heidelberg Financial Services		**Heidelberg Group**	
	1-Apr-2017 to 30-Sep-2017 [2]	**1-Apr-2018 to 30-Sep-2018**	1-Apr-2017 to 30-Sep-2017 [2]	**1-Apr-2018 to 30-Sep-2018**	1-Apr-2017 to 30-Sep-2017	**1-Apr-2018 to 30-Sep-2018**	1-Apr-2017 to 30-Sep-2017	**1-Apr-2018 to 30-Sep-2018**
External sales	600,885	655,005	451,006	457,142	2,252	2,159	1,054,143	1,114,306
EBITDA excluding restructuring result [3] (segment result)	6,119	5,520	52,821	54,894	949	1,294	59,889	61,708
EBIT excluding restructuring result	– 18,056	– 20,012	44,444	46,375	554	981	26,942	27,344

[1] Until March 31, 2018: Heidelberg Digital Business and Services
[2] Figures for the previous year were adjusted
[3] Result of operating activities before interest, taxes, depreciation and amortization, excluding restructuring result

External sales relate to the segments and regions as follows:

	Heidelberg Digital Technology		Heidelberg Lifecycle Solutions [1]		Heidelberg Financial Services		**Heidelberg Group**	
	1-Apr-2017 to 30-Sep-2017	**1-Apr-2018 to 30-Sep-2018**	1-Apr-2017 to 30-Sep-2017	**1-Apr-2018 to 30-Sep-2018**	1-Apr-2017 to 30-Sep-2017	**1-Apr-2018 to 30-Sep-2018**	1-Apr-2017 to 30-Sep-2017	**1-Apr-2018 to 30-Sep-2018**
Europe, Middle East and Africa								
Germany	118,635	107,697	56,551	60,274	1,411	1,224	176,597	169,195
Other Europe, Middle East and Africa region	161,738	161,738	137,225	141,502	86	127	299,049	303,367
	280,373	269,435	193,776	201,776	1,497	1,351	475,646	472,562
Asia/Pacific								
China	110,136	152,650	24,471	24,804	0	18	134,607	177,472
Other Asia/Pacific region	77,570	75,546	75,209	72,204	716	750	153,495	148,500
	187,706	228,196	99,680	97,008	716	768	288,102	325,972
Eastern Europe	51,505	58,889	50,300	49,713	16	26	101,821	108,628
North America								
USA	52,377	62,597	68,056	69,601	8	5	120,441	132,203
Other North America region	16,616	13,788	25,996	25,228	0	0	42,612	39,016
	68,993	76,385	94,052	94,829	8	5	163,053	171,219
South America	12,308	22,100	13,198	13,816	15	9	25,521	35,925
	600,885	**655,005**	**451,006**	**457,142**	**2,252**	**2,159**	**1,054,143**	**1,114,306**

[1] Until March 31, 2018: Heidelberg Digital Business and Services

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

	1-Apr-2017 to 30-Sep-2017	**1-Apr-2018 to 30-Sep-2018**
EBITDA excluding restructuring result (segment result)	59,889	61,708
Depreciation and amortization excluding restructuring-related depreciation and amortization	32,947	34,364
EBIT excluding restructuring result	26,942	27,344
Restructuring result	– 653	– 5,263
Result of operating activities	**26,289**	**22,081**
Financial income	1,930	3,261
Financial expenses	26,171	30,817
Financial result	**– 24,241**	**– 27,556**
Net result before taxes	**2,048**	**– 5,475**

22 Supervisory Board / Management Board

The composition of the Supervisory Board and the Management Board as at March 31, 2018 is presented on pages 148 to 150 of the consolidated financial statements as per March 31, 2017.

The following changes in the Supervisory Board and in the Management Board took place in the first six months of financial year 2018/2019:

The term in office of three Supervisory Board members elected by the shareholders, Dr. Siegfried Jaschinski, Dr. Herbert Meyer and Prof. Dr.-Ing. Günter Schuh, ended at the close of the Annual General Meeting on July 25, 2018.

On July 25, 2018, with effect from the end of the Annual General Meeting on July 25, 2018, the Annual General Meeting reelected Dr. Siegfried Jaschinski and Prof. Dr.-Ing. Günter Schuh to the Supervisory Board as shareholder representatives. As a new shareholder representative to the Supervisory Board, the Annual General Meeting elected Ferdinand Rüesch, St. Gallen, Switzerland. The term in office of the three aforementioned Supervisory Board members will end at the end of the Annual General Meeting that resolves discharges for the 2022/2023 financial year.

23 Related party transactions

As described in note 40 of the notes to the consolidated financial statements as of March 31, 2018, business relationships exist between numerous companies and Heidelberger Druckmaschinen Aktiengesellschaft and its subsidiaries in the course of ordinary business. This also includes a joint venture, which is regarded as a related company of the Heidelberg Group.

In the reporting period, transactions were performed with related parties that resulted in liabilities of € 3,721 thousand (March 31, 2018: € 3,436 thousand), receivables of € 3,459 thousand (March 31, 2018: € 4,397 thousand), expenses of € 1,284 thousand (April 1, 2017 to September 30, 2017: € 2,120 thousand) and income of € 2,026 thousand (April 1, 2017 to September 30, 2017: € 1,395 thousand), which essentially comprises sales. All transactions were again conducted as at arm's length and did not differ from relationships with other companies.

Members of the Supervisory Board, who are also employed by a company of the Heidelberg Group, have received a customary remuneration from Heidelberger Druckmaschinen Aktiengesellschaft and a fully consolidated company in line with consulting and employment contracts in the reporting period.

24 Significant events after the end of the reporting period

At the beginning of October 2018, Heidelberg announced the planned takeover of the international MBO Group with a total of approximately 450 staff, and locations, among others, in Oppenweiler and Bielefeld, Germany, and a production site in Perifita, Portugal. With this takeover, Heidelberg intends to further expand its offerings in the growing market of postpress operations for digitally printed products. The move will also see the Company gain access to new customers in the pharmaceutical industry and add mailing system offerings to its offset portfolio. Subject to antitrust approval, the takeover is expected to be completed by the end of 2018 or the beginning of 2019.

Heidelberg, November 8, 2018

HEIDELBERGER DRUCKMASCHINEN AKTIENGESELLSCHAFT
The Management Board

Responsibility statement

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

Heidelberg, November 8, 2018

HEIDELBERGER DRUCKMASCHINEN
AKTIENGESELLSCHAFT
The Management Board

Rainer Hundsdörfer

Dirk Kaliebe

Prof. Dr. Ulrich Hermann

Stephan Plenz

Financial calendar

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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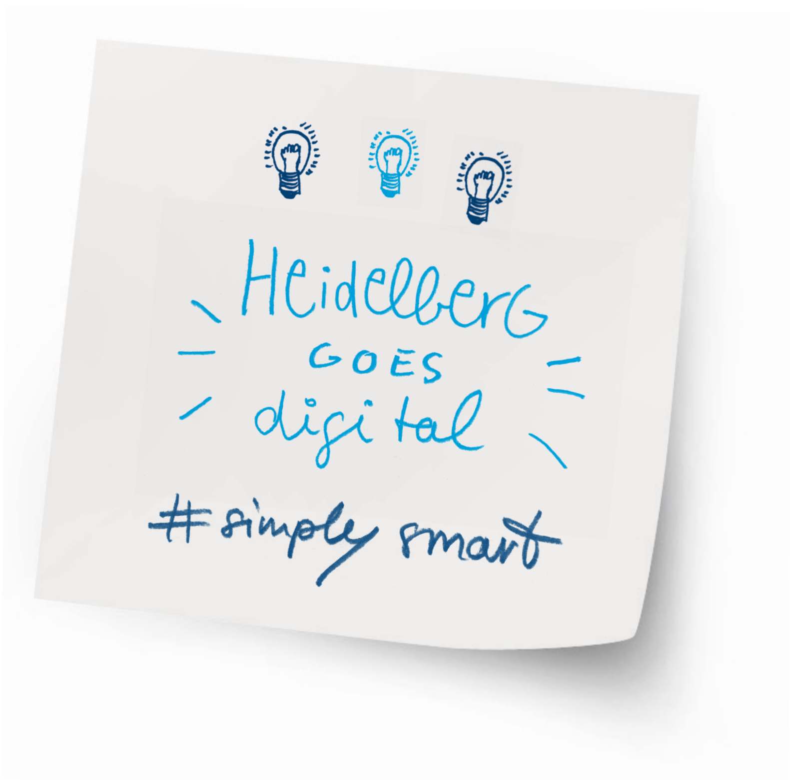

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