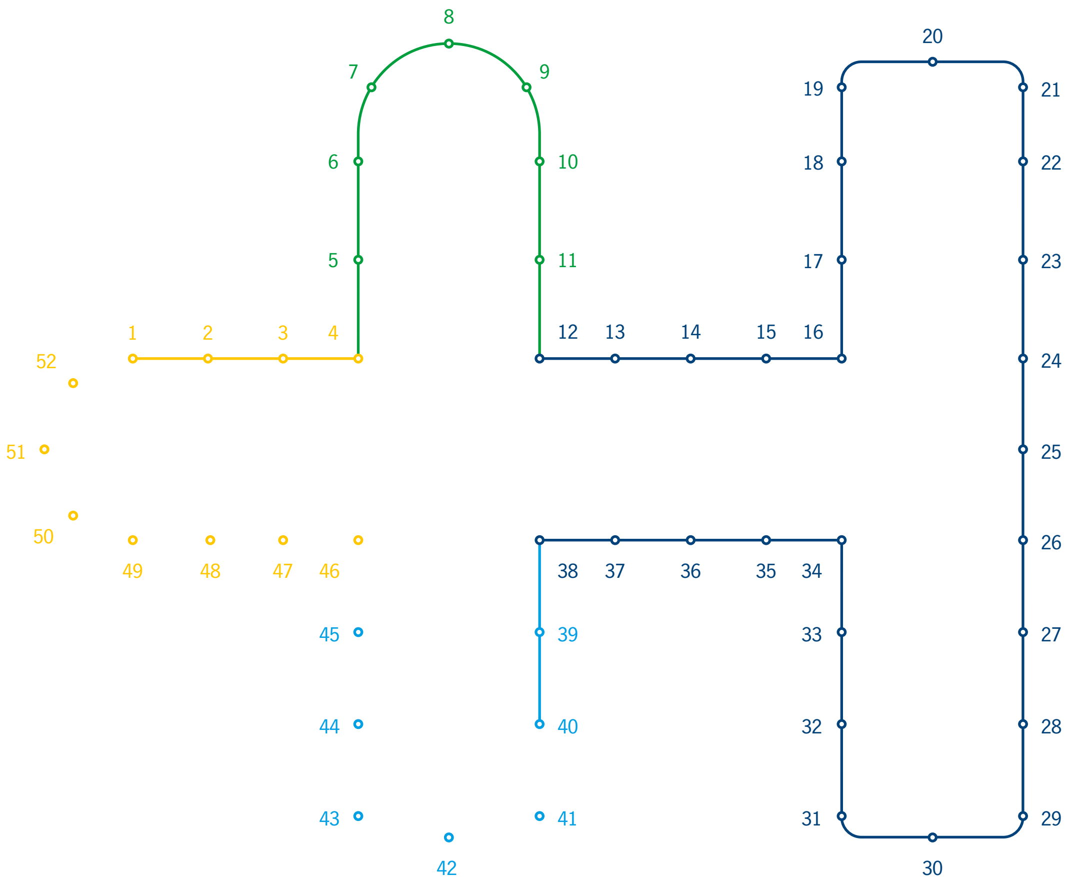
Annual Report
2019/2020



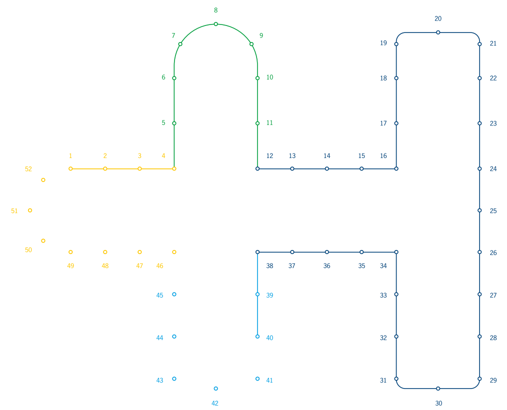
Point by Point.

HEIDELBERG

#1
#We4You

#2
#PressingAhead

// **visit** our Investor Relations website
// **follow** our stories about:
#1 **#We4You**
#2 **#PressingAhead**
// **follow** us on Twitter, Instagram, Facebook and LinkedIn
// **download** Heidelberg news
// **listen to** the Heidelberg podcast
// **get informed** about the latest developments in the print media industry in the live dashboard



Point by point, we are taking the necessary steps to **achieve our goals:**

Profitability

Competitive-ness

Safeguarding the future

go to FINANCIAL SECTION

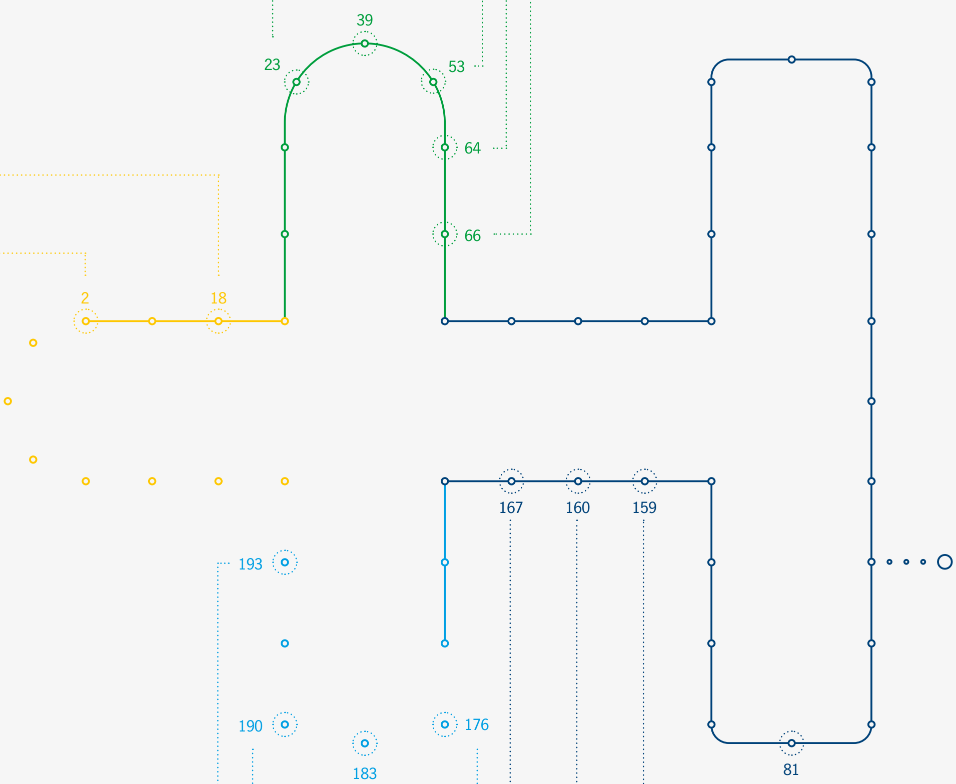
Two-year overview – Heidelberg Group

Figures in € millions	2018/2019	**2019/2020**
Incoming orders	2,559	2,362
Net sales	2,490	2,349
EBITDA [1]	180	102
in percent of sales	7.2	4.3
Result of operating activities excluding restructuring result	101	6
Net result after taxes	21	– 343
in percent of sales	0.8	– 14.6
Research and development costs	127	126
Investments	134	110
Equity	399	202
Net debt [2]	250	43
Free cash flow	– 93	225 [3]
Earnings per share in €	0.07	– 1.13
Number of employees at financial year-end [4]	11,522	11,316

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

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

Contents

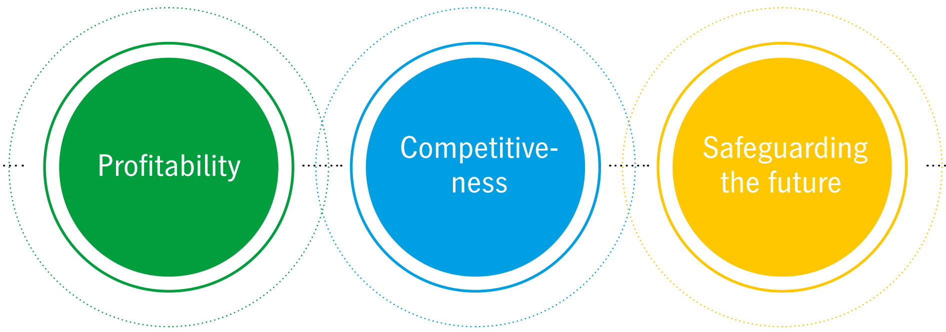


To the point.
Letter from the Management Board

Ladies and gentlemen,

The end of the financial year 2019/2020 was dominated by the worldwide turbulence resulting from the COVID-19 pandemic. As the real economy came to a standstill, the economic consequences for the printing industry – and, ultimately, for us – became all too apparent. Our incoming orders have since fallen sharply compared with the previous year. We expect the new financial year to be extremely volatile depending on how the economy develops as the pandemic progresses. Heidelberg has been and remains a partner to its customers and business partners during this time. With our tried-and-true global sales and service network, we are doing everything in our power to help our customers to keep their businesses going. Our well-established remote service and the Heidelberg Assistant are paying off in this respect, while digital interaction is working well to protect our customers and our employees. Customers can rely on Heidelberg. Including in the future. We are starting to see a light at the end of the tunnel in some markets, giving us hope that the world economy might recover soon.

The current situation serves to illustrate the importance of the program we announced in March 2020, with a focus on **PROFITABILITY, COMPETITIVENESS** and **SAFEGUARDING THE FUTURE,** in terms of also mitigating the effects resulting from the coronavirus. We are adjusting the right strategic levers to position Heidelberg for profitability.



CONTENTS

The program is founded on three pillars: Firstly, financial stability for Heidelberg by significantly reducing our net debt. Secondly, a systematic focus on our profitable core business and the accompanying divestment from substantially loss-making activities. And thirdly, the extensive adjustment of production and structural costs in order to ensure Heidelberg's sustained high profitability.

> "We are always at our customers' side and we are confident that our partnership will help us to overcome the current times together."
> #We4You

RAINER HUNDSDÖRFER

We have made the necessary breakthrough thanks to the retransfer to the Company of around € 380 million from trust assets that were created some years ago and that are not required on this scale. We are using these funds to finance the debt reduction as well as the restructuring expenses in connection with the package of measures. By the end of 2020, we will have discontinued our large-format printing press and production of the Primefire for digital printing. Although these activities have generated sales of around € 50 million in recent years, they have also resulted in losses in a similar amount and their growth prospects are limited. With the sustainable streamlining of our structures, our workforce will be adjusted to well below 10,000 staff worldwide. The associated measures will be implemented in close cooperation with employee representatives and with the greatest possible social responsibility. We are aiming for a sustainable improvement in operating earnings of around € 100 million as a result of the portfolio adjustment and cost reduction.

This reorientation represents a milestone for Heidelberg. The debt reduction means we finally have the financial scope to press ahead with the development of the Group once more. Our confidence for the coming years is built on the long-term stability of the global market for printed products. Our future success is based on our technology and market leadership in our core business of packaging, label and commercial printing. We intend to enhance our digital agenda and focus on digital value creation. As a provider of integrated system solutions comprising printing presses, consumables, software and services, our future investment activity will focus on the end-to-end digitization of customer value creation, from order acceptance and printing through to postpress activities. Customer demand for our usage-dependent contract models remains high. These contracts are generating a growing share of revenue streams that are constant and predictable over a long period and irrespective of the volatility of new machinery business. They can be concluded on a modular basis or as a complete package.

We are confident that Heidelberg will emerge from its reorientation in a stronger position. We are the number one in terms of installed sheetfed offset printing presses. We are the technology leader and we have the ability to digitally connect and network the huge data volumes delivered by our printing presses. Harnessing the operating data from the world's largest installed printing press base will enable us to increase our customers' efficiency, profitability and success, particularly in the extremely dynamic and challenging environment at present.

> "With our measures, we are applying the right strategic levers to ensure profitability and competitiveness and safeguard the future for Heidelberg."

#PressingAhead

MARCUS A. WASSENBERG

The financial year 2019/2020 was characterized by a reluctance to invest in the face of economic uncertainty and, in the final quarter, the global slump in demand as a result of the COVID-19 pandemic. Earnings were also impacted by expenses of € 300 million in connection with the strategic reorientation. The majority of the measures forming part of this reorientation will be implemented in the new financial year 2020/2021, meaning that another substantial net loss is anticipated in this transitional year depending on the as yet unquantifiable consequences of the pandemic. We all hope that the world economy will recover quickly from the recession triggered by COVID-19 and that our business will pick up again as a result. Unfortunately, it is not currently possible to say when and to what extent this will be the case. We expect to see substantial positive effects from our reorientation starting from the financial year 2021/2022.

We would like to express our deep gratitude to you, dear shareholders and bondholders, for the confidence you have shown in us in these difficult times. Our particular thanks are also due to our employees, whose outstanding commitment and loyalty is vital if we are to realize the necessary transformation of Heidelberg. We would also like to thank our customers, suppliers and other business partners for their close and trusting cooperation. Creating value for all of the Company's stakeholders remains our motivation and our objective.

We will do everything in our power to bring the measures initiated to a successful conclusion in a way that pays off for all of us, and we would be delighted if you would continue to accompany us on this path.

Sincerely,

RAINER HUNDSDÖRFER

MARCUS A. WASSENBERG

RAINER HUNDSDÖRFER

CEO
Heidelberger
Druckmaschinen AG

Born: 1957 in Tübingen

1982
Degree in engineering from
Esslingen University of Applied Sciences
(Diplom-Ingenieur)

1984
Degree in business and engineering from
Esslingen University of Applied Sciences
(Diplom-Wirtschaftsingenieur)

1988
Headed a technology group at Trumpf
Systemtechnik GmbH, Ditzingen

1991
Vice President Marketing & Sales,
Trumpf Inc., United States

1996
Managing Director of
Trumpf Laser, Schramberg

1999
Group Managing Director Sales and Marketing at
Trumpf GmbH & Co. KG, Ditzingen

2004
CEO of Weinig AG, Tauberbischofsheim

2008
Chairman of the Industry Division and
member of the Executive Board at
Schaeffler AG, Herzogenaurach

2012
Chairman of the Management Board
ebm-papst GmbH, Mulfingen

SINCE NOVEMBER 2016
Chairman of the Management Board
Heidelberger Druckmaschinen AG

MARCUS A. WASSENBERG

CFO
Heidelberger
Druckmaschinen AG

Born: 1966 in Grevenbroich

1993
Degree in economics from the Ruhr-University
in Bochum (Diplom-Ökonom)

1998
Senior Associate
BDO Deutsche Warentreuhand AG,
Düsseldorf

1999
Managing Director
of the PR agency Kohtes Klewes GmbH,
Düsseldorf

2006
Managing Director
Aviation Group
Cirrus Group Holding, Munich

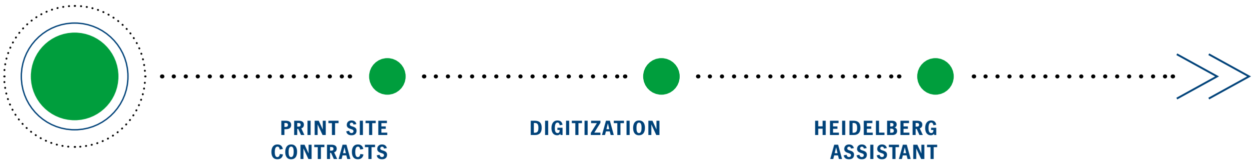
2012
Chief Financial Officer of
Senvion SE, Hamburg

2015
Chief Financial Officer of
Rolls-Royce Power Systems AG,
Friedrichshafen

SINCE SEPTEMBER 2019

Member of the Management Board
Heidelberger Druckmaschinen AG

Our measures get **to the point:**

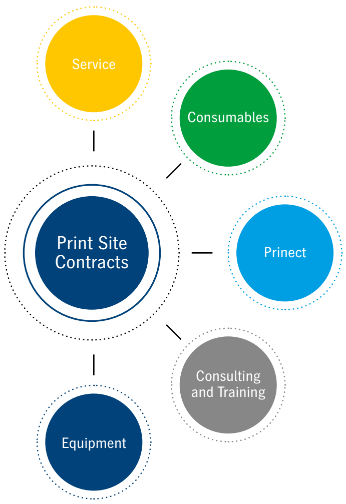


With its integrated range of solutions and new digital business models such as subscriptions and the Heidelberg Assistant, Heidelberg will continue to expand its leading technological role in order to provide even better support for its customers' success in future with a view to returning the Company to sustainable growth.

What are Print Site Contracts?

Print Site Contracts can be divided into two areas: lifecycle agreements and subscriptions. But what is the difference?

The difference lies in the content of the contracts and the payment method. Lifecycle contracts are billed at fixed monthly rates plus a consumption-based fee. In contrast, subscription contracts are billed per printed sheet based on the actual output.



For our customers,

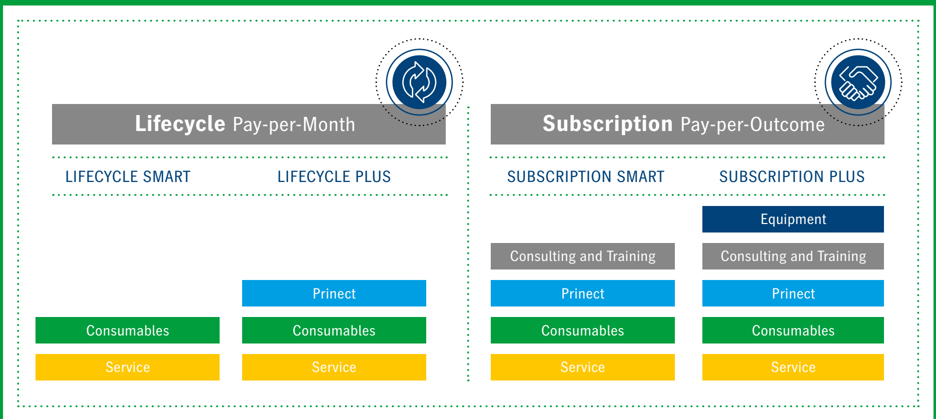
digitization is the key.

This applies to all areas of commercial, packaging and label printing and the digitization of all value-added processes in order to enable new business models and improve overall efficiency with a view to maintaining and expanding competitiveness. The Heidelberg Digital Unit is also developing exactly the right range of integrated solutions for these challenges – in line with the motto "Sophistication made simple".

CONTENTS

Profitability.

Our customers are facing many challenges. It is time for a change. We call this change:
Print Site Contracts



Print Site Contracts:
more than 300 contracts worldwide.

Our measures get **to the point:**

Sophistication made simple.

Over 2,200 users from more than 1,200 print shops already use

Heidelberg Assistant,

which was launched at the end of 2017. And with good reason, as the digital customer portal simplifies and speeds up workflows in administration, production, management and procurement. Managers and staff enjoy dedicated online access 24/7 on their PC, smartphone or tablet to all the information and services they need to ensure efficient operations.

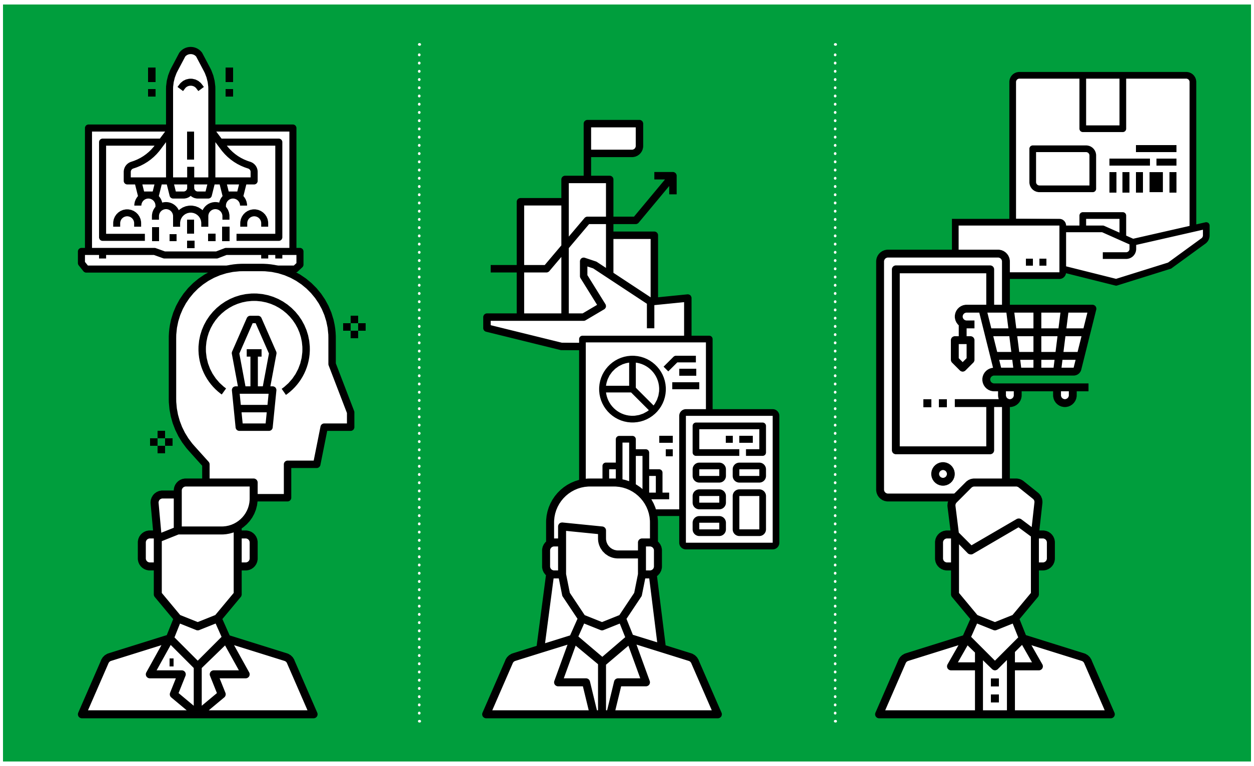
Take **accounts staff,** for example. They can get an instant overview of all contracts with Heidelberg, the services used and the associated invoices. And while the Heidelberg Assistant ensures that **purchasing staff** find the right parts and consumables in the eShop straight away, machine availability and performance are increased for the **production team** thanks to rapid access to expert knowledge, up-to-date service notifications, training materials and predictive maintenance messages.

The Heidelberg Assistant is also a valuable strategic sparring partner for **management,** as it always contains up-to-date key figures for corporate controlling. The software offers quick and uncomplicated answers to questions such as: Which service engineer is coming, and when? Or: What is the capacity utilization of my machines? Users can see all processes in real time and track them seamlessly around the globe across departments, shifts and production sites. This creates transparency and simplifies communication, both internally and with Heidelberg.

CONTENTS

Profitability.

Digitized customers need a digital interface to Heidelberg. **This task is taken care of by the Heidelberg Assistant.** **In a few simple clicks.**



Identifying and harnessing potential >> Boosting productivity >> Smarter shopping

SAFEGUARDING THE FUTURE
COMPETITIVENESS
PROFITABILITY
FINANCIAL SECTION
go to

Our measures get **to the point:**

END-TO-END DIGITIZATION

HEIDELBERG USER EXPERIENCE

ARTIFICIAL INTELLIGENCE

Our future investments will focus on the systematic end-to-end digitization of customer value creation, with a particular view to integrated system solutions for machines, software, consumables and performance services.

Printing has never been so easy.
The new Heidelberg User Experience (UX).

Heidelberg UX is the holistic and intuitive operation of all Heidelberg touchpoints. Intelligent assistants and a uniform user interface reduce complexity and simplify production processes. Completely rethought and clearer than ever before, it sets new standards for the user experience on the Speedmaster.

Push-to-Stop on a new level

for optimized overall equipment effectiveness (OEE).

Improvements that act on the yellow bar, i.e. that are focused on processes and operators, have a direct influence on the OEE. This is where the greatest potential lies. With Push-to-Stop, extensive process automation, and intelligent assistance systems, the Speedmaster presses from the 2020 generation enable even more comprehensive guided and autonomous printing. The intelligence of the machine minimizes the user's influence on performance. Productivity is increased and processes are accelerated and made plannable and reproducible. Operators are guided through the processes at a modern and attractive workstation, giving them what they need to handle the greatly increased day-to-day requirements.

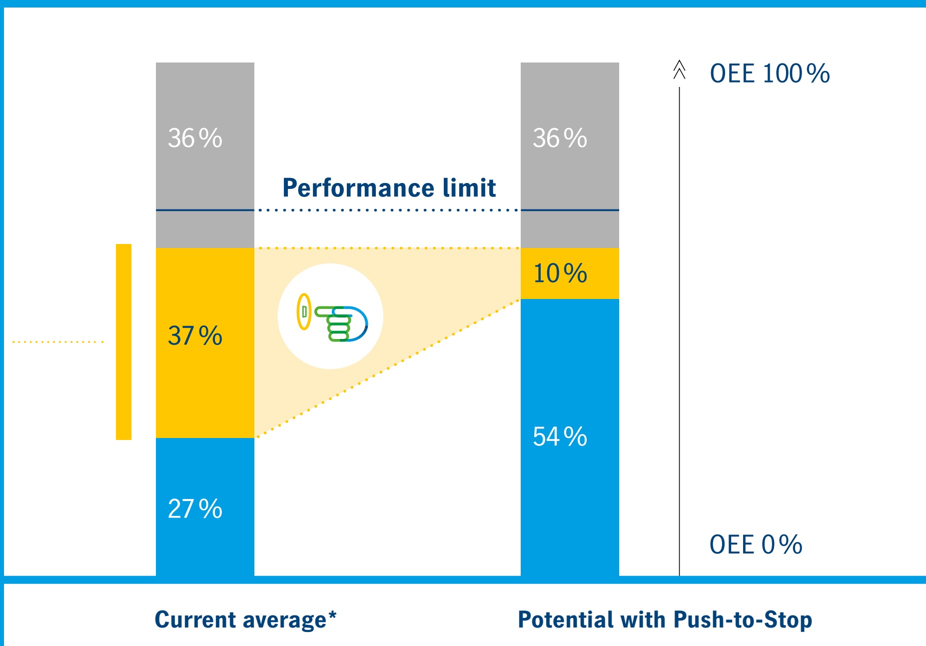
Discover Push-to-Stop for the folding machine. Autonomous signature production on the Stahlfolder TH/KH 82-P.

CONTENTS

Competitiveness.

Focus on the “yellow bar”

Increasing overall equipment effectiveness (OEE). Significant reduction in process-dependent and operator-dependent downtimes through Push-to-Stop



- Losses due to technical/mechanical factors, such as minimum set-up time, maintenance and repair, loss of speed, etc.
- Overall equipment effectiveness (OEE)
- Process-dependent and operator-dependent losses
- Realistic performance limit of the machine

*Productivity analysis Speedmaster XL 106

Automation
Digitization
AI

Our measures get **to the point:**

Continuous process optimization. **Artificial intelligence and the Speedmaster.**

The artificial intelligence features embedded in the new generation of Speedmaster presses are based on intelligent, self-improving algorithms that can automatically configure complex production parameters which previously had to be defined manually by operators. How the AI features work: During production, all settings and quality measurements are first collected and then automatically evaluated. Regular patterns within this data are identified and their effect on the production result is learned. The insights are used to optimize the efficiency and quality of upcoming production.

// Autonomous process optimization: **Preset 2.0. //**

// Self-learning color setting: **Color Assistant Pro. //**

// Optimal powder setting: **Powder Assistant. //**

// Intelligent washup programming: **Wash Assistant. //**

CONTENTS

Competitiveness.

Series production **of the most intelligent and most automated Speedmaster of all time** from April 2020.

Artificial intelligence (AI)

simplifies workflows, allows more accurate forecasts and creates new, data-driven business models. It enables quicker decisions based on a broad data pool and real-time information and predictions that go beyond human capabilities. When it comes to configuring ink curves, washup programs, dryer settings, powder quantities or other complex dynamic parameters, an algorithm with artificial intelligence will always be more effective, more efficient and faster than a human.

SAFEGUARDING THE FUTURE
COMPETITIVENESS
PROFITABILITY
FINANCIAL SECTION
go to

Our measures get **to the point:**

PRINT MEDIA INDUSTRY CLIMATE REPORT

HEIDELBERG CLOUD

#WE4YOU

Heidelberg is a partner to its customers. In times of crisis and beyond. Digital interfaces are helping us to process all customer relationships automatically and will continue to do so in the future. For our shared future.

Since late April 2020, we have provided the Print Media Industry Climate Report as value added for our partners. Heidelberg provides weekly updates on the development of print volumes in the packaging and label printing and commercial printing market segments. The representative basis of the anonymized data is formed by around 5,000 selected offset presses of all format classes at customers worldwide who are connected to the

Heidelberg Cloud.

The current data for around 50 countries per segment is determined on this basis and displayed on a world map. The colors shown on the country map indicate the estimated current production at print shops compared with the previous year.

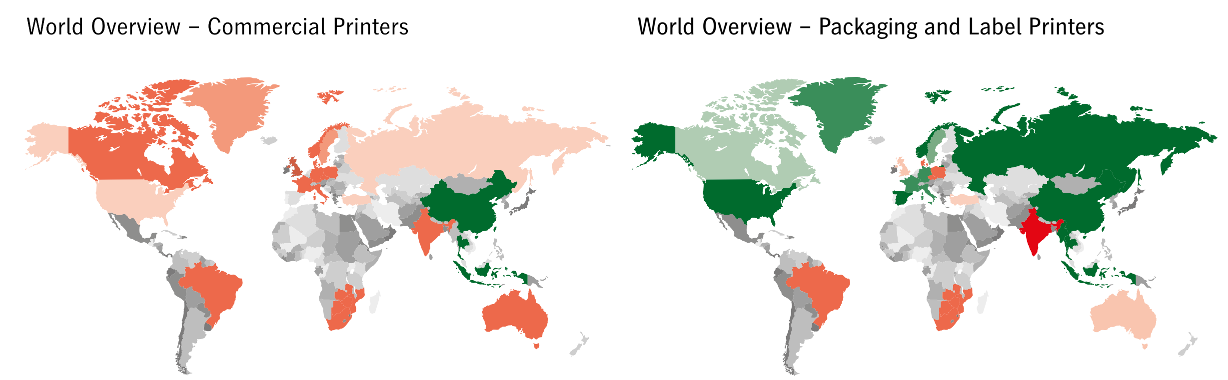
CONTENTS

// **4,000 remote sessions** used on machines every month to resolve service issues.

// More than **4 million data records** are transferred as readings from machines and Prinect every month.

Future viability.

The print industry in times of COVID-19 – Heidelberg presents the Print Media Industry Climate Report as **added value for its partners.**



// Current capacity utilization of print shops in China has recovered significantly
// Packaging and label segment very stable during the coronavirus period
// Data from Heidelberg Cloud delivers trends on the current situation in the print industry
// Weekly update at www.heidelberg.com/PMI-climate

// 2 TB of data are supplied every month from machine logs and file transfers.

// 50 million production data sets, anonymized in the Heidelberg Cloud, provide the most comprehensive PMI benchmark database.

Our measures get **to the point:**

#We4You.
Through good times and bad!

As well as introducing measures to limit the spread of COVID-19, we have taken steps to ensure that we can provide our customers with the services they need under the new conditions.

We asked ourselves the following questions:

- ? What can our Company do to support our customers during this crisis?
- ? How can we ensure they get the supplies and services they need?
- ? What can we offer customers whose businesses have shut down – either on the orders of the local authorities or because demand for print jobs has slumped?

Alongside our weekly **PMI Climate Report,** we have taken additional initiatives to help our customers surmount these challenges:

- ! **First-hand expertise during the COVID-19 crisis**
  Heidelberg USA is launching a new series of free educational videos on its Heidelberg Connect platform
- ! **Ensuring continued technical and application support thanks to remote service**
  Heidelberg Asia is offering full support to its customers during the crisis thanks to the Heidelberg Cloud
- ! **Versafire: frequently asked questions regarding the COVID-19 pandemic**
  To enable you to restart production as soon as possible

You can see the initiatives in full via >>> **#We4You.**

Disclaimer: These are individual examples. The support Heidelberg is able to provide may vary from country to country and from case to case, depending on local regulations and the availability of resources.

CONTENTS

Future viability.

Inspirational stories from around the world.

Some of our customers have been particularly creative in finding ways to cope with the situation. Here are stories we have collected from the field:

#We4You.
// Professional maintenance service despite social distancing

Kohlhammer Druckerei GmbH ensures machine performance during the crisis thanks to a special service agreement

#We4You.
// Changeover to IPA-free production at Geiger-Notes AG

How Geiger-Notes is dealing with the lack of isopropyl alcohol on the market due to the pandemic

#We4You.
// How a print shop is helping

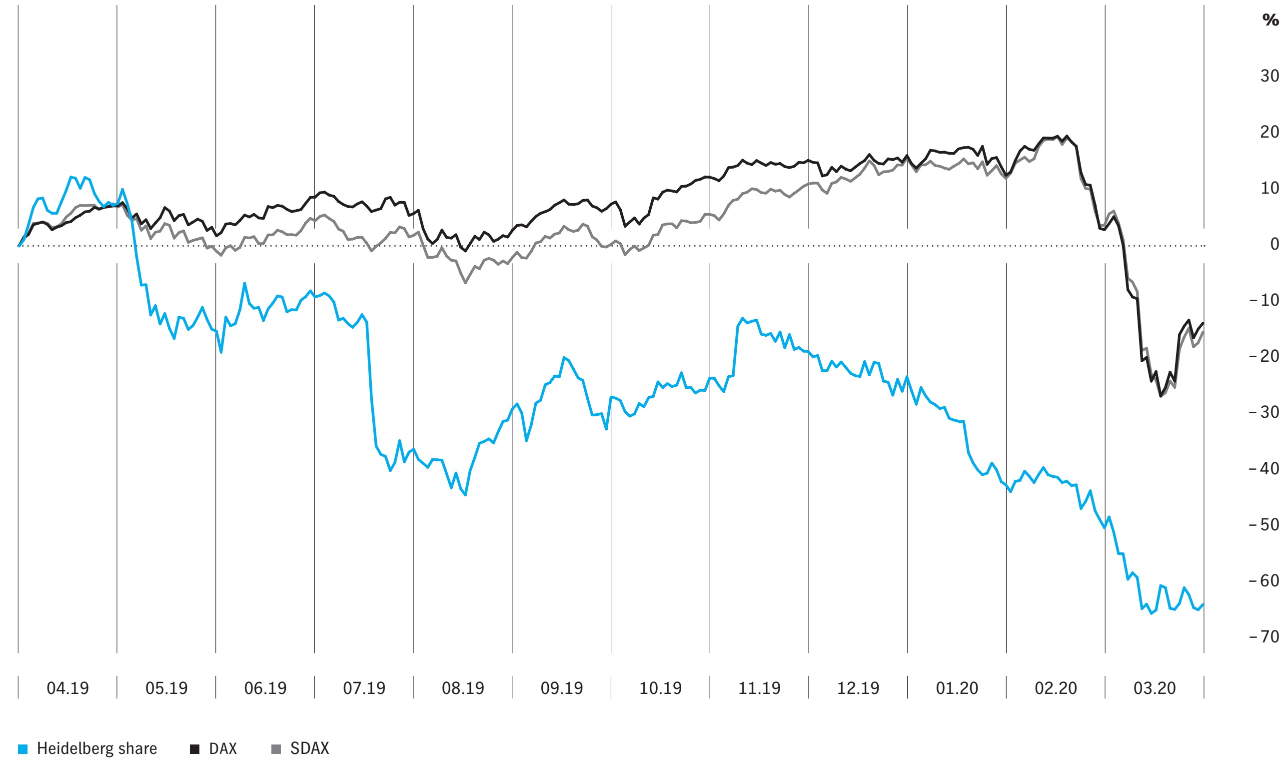
Time Printing Solutions Provider in the USA is producing sanitation signage during the coronavirus pandemic

SAFEGUARDING THE FUTURE
COMPETITIVENESS
PROFITABILITY
go to FINANCIAL SECTION

Heidelberg on the Capital Markets

Performance of the Heidelberg share

Compared to the DAX (Index: April 1, 2019 = 0 percent)



The Heidelberg share and the Heidelberg bonds

- Heidelberg share price declines significantly in the year under review
- Heidelberg bonds reflect economic uncertainty

In the financial year 2019/2020, the price performance of the Heidelberg share and the Heidelberg bonds reflected the economic uncertainty and the resulting negative developments on the capital markets. Following an initially positive start to the year in early April 2019, the Heidelberg share reached its high for the year of € 1.74 on April 15, 2019. With the capital markets losing confidence and becoming increasingly nervous about the medium-term global economic outlook, the publication of the provisional figures for the financial year 2018/2019 at the start of May saw the share losing ground and tracking sideways until the middle of July 2019.

The investment restraint stemming from the state of the economy, particularly in Europe, weighed on the financial year 2019/2020, and the Heidelberg share price responded to the publication of the provisional figures for the first quarter on July 17, 2019 and the resulting adjustment of its annual forecast with another substantial downturn. By mid-November, the Heidelberg share had largely returned to July levels thanks to stable overall sales performance compared with the previous year, reaching a price of € 1.35 in November 2019. The pronounced economic slowdown and the increasingly gloomy outlook meant that this was followed by a continuous downward trend for both the capital markets and the Heidelberg share until the end of the financial year. This was exacerbated considerably by the outbreak of the COVID-19 pandemic in the fourth quarter of the year under review. Following the publication of a comprehensive package of measures and a significant cash inflow from trust assets, the negative trend was halted at € 0.54 on March 17, 2020. However, the impact of the pandemic on the stock markets overshadowed the positive effect of these measures, meaning that the shares only recovered slightly from their low for the year to close at € 0.56 on March 31 – down around 64 percent on the start of the financial year. As part of the regular review of the composition of the DAX selection indices, the Heidelberg share was removed from the SDAX index effective March 23, 2020 due to the reduced market capitalization of its free float.

The German DAX benchmark index and the small cap selection index, the SDAX, also saw losses in the same period, falling by around 14 percent and 15 percent respectively compared with the beginning of the financial year.

The price of the 2015 Heidelberg convertible bond largely developed independently of the Heidelberg share price in the year under review. It opened the year at almost 100 percent and recovered more quickly than the share following the publication of the preliminary quarterly figures on July 17, 2020, remaining at just below 100 percent largely consistent throughout the rest of the year. Almost two-thirds of the convertible bond was redeemed at the put date of March 30, 2020, meaning the bond had an outstanding nominal volume of € 17.1 million at the end of the financial year. It subsequently traded at around 75 percent on March 31, 2020.

The Heidelberg bond began the year under review at around 103 percent and traded consistently over 100 percent until the publication of the preliminary figures for the first quarter on July 17, 2019. This was followed by a sideways movement that ended with a downturn in late February 2020 and a low for the year of around 38 percent on March 17, 2020. The publication of the package of measures was accompanied by the announcement that the Company intended to redeem the Heidelberg bond ahead of schedule. The bond then recovered successively to close the financial year at around 84 percent on March 31, 2020.

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

The aim of our investor and creditor relations activities is to present Heidelberg transparently on the capital markets in order to achieve an appropriate valuation for the Heidelberg share and bonds. To this end, we inform all stakeholders in an open and timely manner and set great store on not only publishing financial figures but also explaining them. This includes working continuously with the average of 11 financial analysts and two rating agencies that regularly assessed the Heidelberg share and bonds in the year under review.

At the analysts' conference in Frankfurt/Main in June 2019, the Management Board presented the progress made in the planned digital transformation of the Group. In addition to the analysts' and investors' conference on the annual financial statements and regular conference calls on the publication of quarterly figures, our investor and creditor relations activities focus on constantly communicating with investors, analysts and other capital market participants at a number of international capital market conferences and roadshows.

Our work was supplemented by a series of visits to our Company's production sites by investors and analysts. In addition to one-on-ones and group discussions with the Management Board and the Investor Relations team, these visits included tours of our production facilities and printing demonstration centers and our new innovation center.

Contact with private investors is very important to us. As in previous years, this was reflected by the cooperation with the German shareholders' associations Schutzgemeinschaft der Kapitalanleger e. V. (SdK) and Deutsche Schutzvereinigung für Wertpapierbesitz e. V. (DSW).

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

Annual General Meeting 2019 approves all agenda items by significant majority

On July 25, 2019, around 1,200 shareholders attended our Annual General Meeting for the financial year 2018/2019, which was held at the Rosengarten Congress Center in Mannheim. This meant that around 36 percent of Heidelberg's share capital was represented. The Management Board explained the Company's strategy and the accounts for the past financial year (April 1, 2018 to March 31, 2019). The Company's shareholders then voted on seven of the eight agenda items, including the election of Ms. Li Li to the Supervisory Board as a shareholder representative. Ms. Li Li from Tianjin City is the CEO of Masterwork Group Co., Ltd., a strategic anchor shareholder of Heidelberg since late March 2019. A large majority of those entitled to vote on the resolution on the election to the Supervisory Board approved the candidate proposed by the management. The previous member of the Supervisory Board, Prof. Dr.-Ing. Günther Schuh, stepped down effective from the end of the Annual General Meeting on July 25, 2019. All the other agenda items were approved by a significant majority.

Shareholder structure: Free float at around 84 percent

Following the voting right notifications received, the proportion of Heidelberger Druckmaschinen shares in free float on March 31, 2020 – in accordance with the Deutsche Börse definition – was around 84 percent of the share capital of 304,479,253 shares. The following notifications of voting rights in excess of 3 percent had been received as of March 31, 2020:

- Masterwork Machinery S.à r.l.: 25,743,777 shares (around 8.5 percent)
- Ferd. Rüesch AG: 23,210,000 shares (around 7.6* percent)
- Universal-Investment-Gesellschaft mit beschränkter Haftung: 13,639,871 shares (around 4.5* percent)

* Recalculated following the capital increase in March 2019

Credit ratings as of March 31, 2020

	Standard & Poor's	Moody's
Company	B –	Caa1
Outlook	Stable	Negative

Key performance data of the Heidelberg share

Figures in € ISIN: DE 0007314007	2018/2019	**2019/2020**
Basic earnings per share [1]	0.07	– 1.13
High	3.26	1.74
Low	1.49	0.53
Price at beginning of financial year [2]	3.03	1.57
Price at end of financial year [2]	1.55	0.56
Market capitalization – financial year-end in € millions	472	171
Number of shares outstanding in thousands (reporting date)	304,479	304,479

Key performance data of the Heidelberg 2015 corporate bond

Figures in percent RegS ISIN: DE 000A14J7A9	2018/2019	**2019/2020**
Nominal volume in € millions	150.0	150.0
High	105.5	104.13
Low	99.8	38.45
Price at beginning of financial year [3]	104.4	102.55
Price at end of financial year [3]	103.1	83.75

Key performance data of the Heidelberg 2015 convertible bond

Figures in percent ISIN: DE 000A14KEZ4	2018/2019	**2019/2020**
Nominal volume in € millions	58.6	17.1
High	121.6	100.50
Low	92.9	74.97
Price at beginning of financial year [3]	118.9	99.74
Price at end of financial year [3]	99.4	74.97

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

Management Report 2019/2020

BASIC INFORMATION ON THE GROUP

Business Model of the Group

Company profile

Heidelberger Druckmaschinen Aktiengesellschaft is a reliable and highly innovative partner to the global printing industry. For more than 170 years we have stood for quality and future viability. This means that we are a company with a long tradition, but at the same time we help define the future trends in our industry thanks to state-of-the-art technologies and innovative business ideas. Our mission is to shape the digital future of our industry.

We play a leading technological role with our integrated range of solutions and new digital business models. In doing so, we focus on the systematic end-to-end digitization of customer value creation, with a particular view to integrated system solutions for machines, software, consumer goods and performance services.

With our technology leadership in our core business and a focus on digitization, we are addressing a global market in which experts expect to see moderate growth in the coming years, with strong foundations for our products and services thanks to an annual print production volume of over € 400 billion in packaging, advertising and label printing.

We are also addressing new markets beyond the printing industry. For example, we have successfully established ourselves in the e-mobility market with our expertise in power electronics. Our printing technology also gives us access to the production of printed organic electronics, a future market with great potential.

With a market share of more than 40 percent for sheetfed offset presses, we were able to consolidate our position as the printing industry's market and technology leader in the current financial year as well. Consolidated sales amounted to almost € 2.35 billion in the financial year 2019/2020. Together with our sales partners, around 11,300 employees in total at 250 production sites in 170 countries around the globe ensure the implementation of our customers' requirements and our continuous development on the market.

Service and consumables network, sites and production

- Lifecycle Business Management and Lifecycle Operations support print shop performance
- Production partner for industrial customer business
- China: Key production site and center of excellence

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

Lifecycle Business Management and Lifecycle Operations support print shop performance

We have bundled all of our activities relating to service and service parts, consumables and CtP, including product management, under the term Lifecycle Business. We intend to use a joint management organization for services and consumables to expand the competitive edge from a customer perspective that we enjoy thanks to a combination of service and consumables solutions. To enable us to offer this combination of service and consumables in a customer-oriented manner, we added Print Site Contracts to our product portfolio, thereby significantly intensifying our focus on increased customer productivity during the lifecycle phase of installed machinery.

This approach is complemented by the range of the global Heidelberg service organization, which is highly valued by our customers and is considered to be an engineering leader even beyond the printing industry. Our service logistics network ensures that customers can enjoy a reliable supply of original Heidelberg service parts over the entire product lifecycle. Customers can choose what they need from a range of 260,000 different service parts. We have around 130,000 service parts permanently in stock, meaning that, on a daily basis, we can fulfill 98 percent of incoming orders when they are received and dispatch the respective parts to any destination worldwide within 24 hours. We also use the network to supply customers with our consumables. The range of consumables extends from the preliminary stage including printing plates and plate chemicals, via the pressroom with printing inks, coatings, offset blankets, pressroom chemicals and rollers, through to further processing. With its extensive network of sales branches, Heidelberg has grown to become one of the biggest providers of consumables for print shops.

The expertise of our application specialists and our coordinated materials ensure reliable results. We offer our customers various complete packages of consumables so that they can give their core business their undivided attention. Examples include our Saphira Eco or Low Migration Line. Our eShop provides easy access to all of the necessary products.

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

The performance promise of our integrated logistics network supports our customers' performance around the world and ensures high machine availability and reliable quality. Through strategic partnerships with logistics providers, we are constantly optimizing our logistics network.

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

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

Heidelberg production network: Focus on greater efficiency and cooperation

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

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

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

Heidelberger Druckmaschinen as a production partner for industrial customer business

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

With its high productivity and quality, our foundry in Amstetten is one of the most powerful in Europe. We use it to produce over 3,000 different components weighing between ten kilograms and six metric tons in a wide range of cast materials. We support our customers with perfectly attuned production processes for the manufacture and processing of high-end cast parts, thereby enabling production and cost benefits along the entire value chain.

In the area of electronics, we develop and produce customized control and power electronics. Having delivered over 150,000 charging cables and produced more than 30,000 OEM Wallboxes, Heidelberg is now one of the biggest suppliers in the area of e-mobility. Since June 2018, we have offered our own Wallbox, the Home Eco, to private customers and have already delivered 5,000 units. We are also working on expanding this Wallbox model series to include intelligent models and expect to begin series production of a second model, Energy Control, by summer 2020. In the area of power electronics, Heidelberg also develops and manufactures components and systems for international companies and technology groups.

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

China: Key production site and center of excellence

In total, Heidelberg has approximately 850 employees in China, some 400 of whom work in sales and service positions. This puts Heidelberg in a strong position to realize future growth opportunities in China and Asia and to further develop and secure its position on these markets. Two branches in Beijing and Hong Kong and three offices in Guangzhou, Shanghai and Shenzhen serve to ensure comprehensive local customer care.

We also have our own production site in China, which is one of our largest individual markets. The product portfolio manufactured in China is adjusted and expanded continuously to reflect the requirements of the Asian market, and in particular the important packaging market. The Shanghai production site is fully integrated into Heidelberg's plant network. This means that all its processes and its quality are compliant with Heidelberg's uniform global quality standards, even with a rising share of certified local suppliers.

The Heidelberg quality is now also known beyond China's borders, which was reflected in an export volume to other countries (Asia, Europe and the Americas) of some 13 percent of the total production volume. Some model series are already being produced exclusively for the world market in Shanghai and demonstrated to customers at the plant's print media center, where customers can also train their employees as required. Every year, the location welcomes a total of around 800 visitors from throughout Asia, making it an important pillar in this region.

Markets and customers

- The market for printed products is changing continuously
- Digital transformation is leading to business innovations and new business models – data delivers value added
- The right solution for every business: Heidelberg

The market for printed products is changing continuously

The worldwide print production volume has been at more than € 400 billion annually for years. A figure of € 415 billion is expected in 2024. Within this market, there are THREE FUNDAMENTAL TRENDS offering interesting growth opportunities.

The FIRST TREND is regional: While print volumes are continuing to grow overall in the emerging economies, print service providers in the industrialized nations are facing highly dynamic and rapidly changing market parameters. 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 are leading to a decline in sales. This is partially being compensated by the increase in the finishing of printed products, above all in cosmetics, and in customization, as these raise the value of individual printed products. This applies in particular to the market – which is growing overall – of packaging and label printing.

The SECOND TREND relates to the printing technology used. Around two-thirds of the print volume is created using sheetfed offset, flexographic and digital printing processes, and the trend is rising. Sheetfed offset printing accounts for around 35 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 18 percent since 2000, and the trend towards customization and the growing demand for quick turnaround times mean that it will continue to gain in importance. Flexo printing, an important technology on the packaging market, continues to benefit from the stable and significant growth in packaging and labels, and holds a share of around 14 percent of global print volumes.

The THIRD TREND is shaped by the structural change in all areas of the printing industry that is continuing to be driven by industrialization, automation and digitization. While there used to be a balanced relationship between the three success factors of PRODUCTIVITY or PRICE ADVANTAGES, PRINT QUALITY and CUSTOMER PROXIMITY, these factors have changed over time and have favored the consolidation process in the printing industry. Today, PRODUCTIVITY GAINS can be achieved through the use of software and a higher level of automation. This increases capacity utilization and, ultimately, the overall equipment effectiveness. 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. 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 particular in small, more artisanal, but also in medium-sized companies. Finally, the Internet has replaced CUSTOMER PROXIMITY with globally transportable data. This development is also known as web-to-print (WTP), e-business printing or online printing, and describes production techniques for the Internet-based transmission or creation of printed materials.

Digital transformation is leading to business innovations and new business models – data delivers value added

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 enable the networked use of autonomous and interactive processes. 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 cardboard production and recycling, which gives customers a competitive edge, particularly for food packaging, as they are 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 channels for print customers are increasingly becoming crucial success factors, as are inventory optimization and logistics. 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, Heidelberg has also offered various subscription models (see the “Service and consumables network, sites and production” and “Strategy” sections) and is thus focusing even more on the digital future. The use of software will not just be the key to growth for printing operations, but for Heidelberg as a leading provider of capital goods for the print media industry it will be the key to its transformation into a new digital business model that shares equally in the industrialization of its customers.

A milestone on this path of digital transformation was the launch of the Heidelberg Assistant, a digitization solution that redefines the foundations of the customer-supplier relationship. Today, more than 1,000 customers are already enjoying the benefits of the Heidelberg Assistant. It provides our customers with data and information that enable them to smoothly manage their processes or the smart and efficient running of their print shop (see the “Service and consumables network, sites and production” section).

The right solution for every business: Heidelberg

Our new business models, such as our subscription services, are based on our business area strategies for the packaging, commercial and label market segments. The potential market for Heidelberg, particularly for consumables, has a volume of around € 8 billion. New machinery business offers Heidelberg market potential of around € 2.1 billion for sheetfed offset printing presses and around € 2.7 billion for digital printing presses. We are also strategically well positioned on our new markets outside the traditional printing industry. Information can be found in the “Heidelberger Druckmaschinen as a production partner for industrial customer business” section on page 25 of this report.

Packaging market

In total, packaging accounts for around 28 percent of all printed materials. The packaging market is also the fastest growing market segment, with average growth of around 2.5 percent. In recent years, we have successfully installed more than 2,000 sheetfed offset printing presses at our packaging customers around the world, and we now realize around 50 percent of our offset press sales in this area. International brand companies, which put a lot of money into advertising and product staging, have the highest standards of quality: If there is even a tiny flaw on a single folding box, all the pallets delivered are returned to the packaging supplier. So there can be no errors in production. Heidelberg has the solution in zero-defect packaging: The greater the degree of automation, the data workflow and the more integrated inspections, the closer the print shop gets to claiming zero defects. The digital tools needed for this are provided by the Prinect software. Using assistance systems such as Intellistart, firms can link up their printing presses and color measurement and inspection systems to form smart systems that share data across all production steps, thereby automatically checking actual values against the defined targets for each process step and monitoring production quality.

Commercial market

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

Label market

While the label market is relatively small, making up around 7 percent of the total print volume, it offers excellent growth opportunities in the printing industry on account of the high demand for exceptionally finished labels and just-in-time delivery. Digital printing currently accounts for around 30 percent of label printing, and this share is seeing high single-digit growth rates in areas such as inkjet technology. Digital printing is therefore driving the change in this promising market segment. Heidelberg’s answer for demand-driven digital printing is Labelfire. By integrating conventional printing and finishing processes in addition to inline finishing, the Labelfire allows label makers to print the finished label from a single file – using just one single printing press. There are virtually no manual touch points between the print file and the finished product. The result is less waste, lower costs, greater energy efficiency and shorter delivery times.

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

Management and control

Heidelberger Druckmaschinen Aktiengesellschaft is a stock corporation under German law with a dual management structure consisting of the Management Board and the Supervisory Board. The Management Board has two members: Rainer Hundsdörfer (Chief Executive Officer, Head of Heidelberg Digital Technology and Head of Heidelberg Lifecycle Solutions) and Marcus A. Wassenberg (Chief Financial Officer and Head of Heidelberg Financial Services). The organizational chart below shows the allocation of the business units (BUs) to the Management Board divisions and the segments and the allocation of functional responsibilities within the Management Board as of March 31, 2020. Rainer Hundsdörfer is the Chief Executive Officer and Head of the Heidelberg Digital Technology and Heidelberg Lifecycle Solutions segments and is therefore responsible for the Digital Print, Label, Postpress, Sheetfed, Lifecycle Business and Software Solutions business units, as well as the the functions Occupational Health and Safety and Company Security, Manufacturing and Assembly, Internal Audit, Compliance and Data Protection, Communications, Product Development and Product Safety, Quality Management, Corporate Development, Environmental and Energy Management, Heidelberg Digital Unit and Marketing, Lifecycle Operations, Print Media Center, Recurring Revenue and Solutions Management, and Sales Excellence. Rainer Hundsdörfer also has overall responsibility for Sales and Marketing, meaning he is in charge of the regional sales organization. In his role as Chief Financial Officer, Marcus A. Wassenberg is also Head of the Heidelberg Financial Services segment and responsible for the Customer Financing business unit and the functions Human Resources (Chief Human Resources Officer), Controlling, Corporate Finance, Procurement, Facility Management, Information Technology, Investor Relations, Mergers and Acquisitions, Accounting, Legal, Patents and Corporate Governance, Shared Services, and Taxes.

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

Business Allocation Plan as of March 31, 2020

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

Segments and business units

In line with the operating activities, the internal reporting structure of the Heidelberg Group was divided into the following segments in the financial year 2019/2020: Heidelberg Digital Technology, Heidelberg Lifecycle Solutions and Heidelberg Financial Services. These are also the reportable segments in accordance with IFRS. Within the segments, Heidelberg is divided into business units (BUs). Each business unit formulates plans for how best to leverage the potential offered by its respective sub-market. The centrally organized development, production, service, sales and administration functions derive and implement targets on the basis of these plans. This organizational approach allows us to define our strategies at the level of the respective sub-markets while generating synergies within the functions and upholding the principle of "one face to the customer". Our sheetfed offset, flexo and digital printing press technologies are the responsibility of the corresponding business units. Finishing technologies for packaging and advertising are the responsibility of the Postpress business unit. The BU Lifecycle Business ensures that our customers around the world are supplied with consumables. Remarketed printing presses, mainly manufactured by Heidelberg, are traded in the Sheetfed business unit. The Software Solutions business unit generates growth potential by expanding software business.

Group corporate structure and organization

Heidelberger Druckmaschinen Aktiengesellschaft is the parent company of the Heidelberg Group. It carries out central management responsibilities for the entire Group, but is also operationally active in its own right. The overview below shows which of the companies were material subsidiaries as of March 31, 2020 that are included in the consolidated financial statements. The list of all shareholdings of Heidelberger Druckmaschinen Aktiengesellschaft can be found in the appendix to the notes to the consolidated financial statements on pages 168 to 171.

Overview of material subsidiaries included in the consolidated financial statements

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

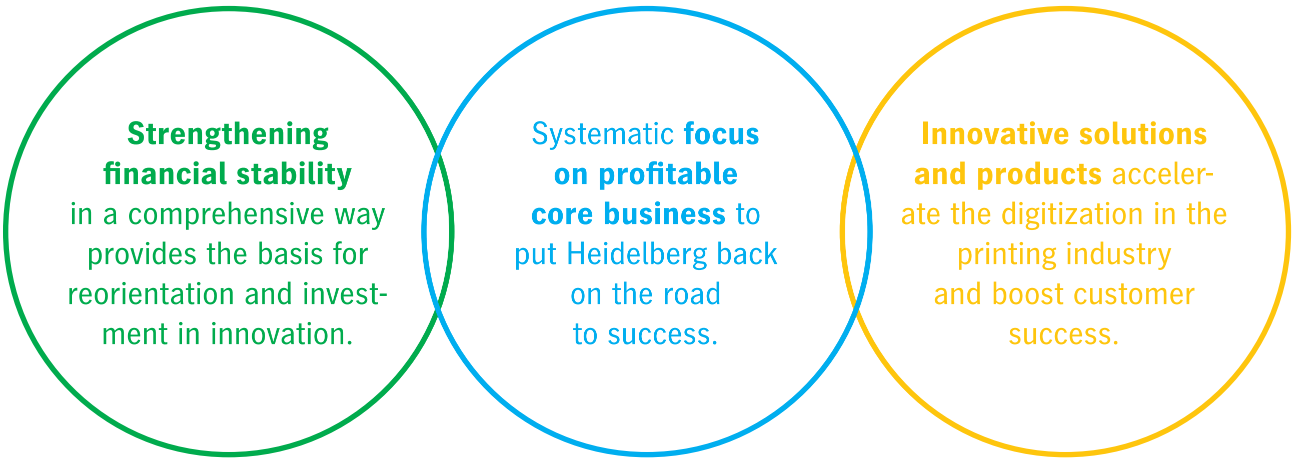
Strategy

Reorientation with a focus on profitability, competitiveness and safeguarding the future

With the announcement of a package of measures in March 2020, we initiated a comprehensive strategic reorientation of the Heidelberg Group with a systematic focus on profitability, competitiveness, and safeguarding the future of the Company. Key elements of the future strategy include a focus on profitable core business accompanied by divestment from loss-making activities, as well as integrated solutions with new digital business models. These measures are supported by the adjustment of structural costs at all levels and the optimization of the global production network. Financial stability is the foundation of this reorientation. By retransferring around € 380 million to the Company from the trust assets of Heidelberg Pension-Trust e.V., which was formed in 2005, Heidelberg is significantly increasing its liquidity and improving its financing structure by reducing its liabilities, thereby allowing it to press ahead with its reorientation in a targeted manner.

We are focusing on the expansion of our existing market and technology leadership and the enhancement of the digital agenda that the Company initiated in the financial year 2017/2018. In the future, Heidelberg intends to continue to benefit from its unique position as an end-to-end system provider of printing presses using different printing technologies, consumables, software and services. We see ourselves as a partner to our customers and a technological pioneer when it comes to automating printing processes along the entire value chain in offset printing as well as the growing digitization of processes in packaging, label and advertising printing.

Customer retention will be strengthened by providing support throughout the entire lifecycle. The Company's future operating success will be built on our global installed printing press base, its digital connection and networking, the data it delivers, and our technological ability to make growing use of artificial intelligence. This will enable us to increase our customers' efficiency, profitability and success, particularly in the extremely dynamic and challenging environment at present. Since 2018, we have



also offered usage-dependent contract models that will allow us to grow in line with our customers' output.

Our strategic focus is on the growth potential in the respective market segments and on the profitability of each activity and service. In the financial year 2020/2021, the Company will therefore divest its activities in the area of large-format sheetfed offset printing and the Primefire 106 in digital printing. This will take place via appropriate partnerships or by discontinuing the respective activities. Although these two product ranges have generated sales of around € 50 million in recent years, they have also resulted in losses in the same amount.

Focus on profitable core business and digital value creation

Market forecasts continue to suggest that the total global print volume will remain stable, coming in at around € 415 billion in 2024 (see the "Market and customers" section on pages 26 to 28). In our core business, we serve customers in the areas of packaging, label and commercial printing.

In sheetfed offset printing, we focus on customers' central requirements, enabling them to realize increasingly complex print jobs quickly and with a consistently high level of productivity and quality. Heidelberg offers the comprehensive expertise and digitally connected platforms that will help the printing process evolve from the Smart Print Shop into a smart print media industry. The automation functions established in recent years, like Push-to-Stop and the networking of printing presses, software, consumables and services within the Smart Print Shop, offer the foundation for achieving this. Thanks to new products, the entire supply chain is being fully digitized for the first time via a platform for all of the partners involved. In the process, Heidelberg is also making use of its established partnerships such as the one with MK Masterwork in China. Further processing still offers huge potential for industrialization, networking and robotics, and this is something we are also working on with our partners MK Masterwork and Polar.

The focused product range for digital printing is characterized by the printing presses offered in conjunction with renowned partners such as the Japanese manufacturer Ricoh, while activities in the growth area of label printing are also being expanded in a targeted manner. This is being achieved using the digital label printing press from Gallus (Labelfire), where Heidelberg is benefiting from growth in the global print volume for self-adhesive labels. As the share of this market attributable to digital printing technology is still well below 10 percent, above-average growth rates are anticipated.

In light of the importance of data usage and connecting all the process participants, the further expansion of the software range is another focal area. The Prinect production workflow, the established management information systems for central operations management and the Heidelberg Assistant are key factors in digital cooperation with customers.

All of these activities constitute the strong core of our business, in which we also remain committed to the Smart Print Shop and artificial intelligence. Our aim is to continue to drive the accompanying digital transformation by helping our customers to improve their operating workflows using the right technology.

Heidelberg's innovative strength and technology leadership remain the foundations of this strategic development. In late 2018, the corresponding research and development activities were consolidated at the new innovation center for around 1,000 employees at the Wiesloch-Walldorf site. Future investment will focus on the systematic end-to-end digitization of customer value creation, from order acceptance through to further processing. Further information on our development activities can be found in the "Research and Development" section on pages 36 to 38 of this report.

Use of big data and participation in output via expanded product range

The print market is continuing to consolidate around increasingly large industrialized print shops. To allow them to work as efficiently and productively as possible, we are harnessing the unique data expertise of the more than 13,000 Heidelberg printing presses and around 25,000 Heidelberg Prinect modules for data transfer that have been installed to date. Big data is a central component of the future success of the established Heidelberg Smart Print Shop. This enables the intelligent networking and automation of all components and processes, with the user only having to intervene in the autonomous process chain as required.

With higher utilization meaning that value creation in the industry is increasingly shifting from printing presses to the range of service, software and consumables, Heidelberg is the only provider in the industry to offer its customers the printing press, services, consumables, consulting and software from a single source and on a modular basis, including an all-in contract covering all of these aspects. The data-driven interaction of all coordinated individual components enables a significant improvement in overall system effectiveness and utilization and improved competitiveness for the customer.

Since financial year 2019/2020, we have consolidated the corresponding product range under the name Print Site Contracts, more than 300 of which have been signed in the last 12 months. They offer services throughout the entire lifecycle of printing press operation – on a modular basis for consumables and service (Lifecycle Smart) or in an expanded variant including our Prinect software (Lifecycle Plus). Since late 2017, Heidelberg has also offered a subscription model under which the customer no longer pays for the individual components, but rather for the number of sheets printed on a performance-related basis. This business model guarantees constant, predictable revenue streams for Heidelberg over a longer period irrespective of the volatility of new machinery business, and is directly linked to the growing print production volume and a higher share of wallet, i.e. more value created per order. The automated e-shop that was launched in 2018 currently enables Heidelberg customers in 13 countries to benefit from the intelligent use of data. This digital platform allows printing presses to be automatically provided with the necessary consumables, thereby significantly reducing complexity for the customer. To this end, Heidelberg has launched the Heidelberg Digital Unit, a new center of excellence for digital marketing and e-commerce.

Innovative high-tech applications offer additional sales potential

Alongside its core business in sheetfed offset and digital printing, Heidelberg is opening up additional business areas thanks to its innovative strength. For example, we have successfully established ourselves in the market for electric vehicle charging systems with the Heidelberg Wallbox, more than 35,000 of which have been shipped to customers in the past two years.

We are also establishing a dedicated business unit for the industrial development, production and sales of printed organic electronics at the Wiesloch-Walldorf site. The introduction of this new technology offers extensive opportunities for Heidelberg as an operator in areas such as sensor printing – not just in small batches but on an industrial scale, kilometer after kilometer in a clean room. The technology and the range of potential services are unparalleled in this form in the world at present. According to specialists, the economic potential for printed sensors is enormous.

Systematic focus on improving profitability – earnings effect of around € 100 million anticipated

In addition to focusing on its profitable core business, Heidelberg's strategic reorientation encompasses the sustainable adjustment of production and structural costs. This includes a workforce reduction of up to 2,000 jobs worldwide, which may also involve plant closures. The associated measures, which will be implemented in close cooperation with employee representatives and with the greatest possible social responsibility, are not related to the extremely difficult economic situation at present on account of the COVID-19 pandemic. It is not currently possible to quantify the specific impact of the expected global recession in terms of its duration or its consequences for Heidelberg's operating performance. Accordingly, the Management Board reserves the right to take additional measures to secure profitability sustainably and for the long term. Depending on the outcome of the negotiations with the employee representatives and the accounting charges, the non-recurring expenses required to implement the package of measures that have already been announced are estimated at around € 300 million; the vast majority of this figure was recognized in the financial year 2019/2020. The anticipated savings of around € 50 million are expected to have a positive effect from the end of the financial year 2020/2021. All in all, we expect the portfolio and cost efficiency measures to result in sustainable earnings improvements of around € 100 million.

Key Performance Indicators

With the announcement of the package of measures for the Company's reorientation, Heidelberg has set itself a clear objective: profitability. In its management of the Group, the Management Board primarily uses key financial figures as the basis for its decisions. These control parameters are the main basis for the overall assessment of all issues and developments being assessed in the Group.

Most significant controlling performance indicators

Our planning and management are mainly based on the sales and earnings development of the Group. In terms of operational financial performance measurement, the most significant key financial performance indicators relevant to control in addition to sales are the result of operating activities before interest, taxes, depreciation and amortization excluding the restructuring result (EBITDA excluding restructuring result), the net result after taxes and leverage, i.e. net debt in relation to EBITDA excluding restructuring result. More detailed information on the development of these financial performance indicators can be found in the individual sections of the "Economic Report" on pages 39 to 52 and in the "Future Prospects" section on pages 64 and 65.

Other financial and non-financial performance indicators

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

Reconciliation of EBITDA excluding restructuring result to net result after taxes

Figures in € millions	2018/2019	**2019/2020**
EBITDA excluding restructuring result	180	102
Depreciation and amortization excluding depreciation and amortization due to restructuring	79	96
EBIT excluding restructuring result	101	6
Restructuring result	– 20	– 275
Result of operating activities	81	– 269
Financial result	– 49	– 52
Net result before taxes	32	– 322
Taxes on income	11	21
Net result after taxes	21	– 343

Partnerships

- Partnerships and cooperations for new digital business models
- Focus on digitization and industrialization

In the past, Heidelberg's position as a market and technology leader has allowed it to establish itself as a preferred industry partner for worldwide cooperations at various levels. The resulting cooperations with companies that are likewise the leaders in their fields are paying off consistently. They are a key component of our strategy of becoming a digital company and a powerful engine for advancing our business. Cooperations help us to make our established activities more efficient and contribute to the faster cultivation of new market segments in defined growth areas and additional sales regions. In the projects, the main focus is on digital transformation. We combine our own innovative drive with that of our partners. This ensures the rapid integration of expertise and optimized resource management on both sides.

In early 2018, Heidelberg created the Heidelberg Digital Unit as a corporate start-up. It comprises all of Heidelberg's digital activities in the area of customer care, particularly global marketing, digital sales (e-commerce), digital innovation and data science. After being established in the previous financial year, the new unit already made a positive contribution to business development in the year under review. The increased use of all digital channels in contact with the customer is leading to significantly higher market penetration. E-commerce sales now amount to around € 130 million. In the area of innovation in particular, the corporate start-up is working with various partners and start-ups to establish new technologies and business models for the print media industry in the digital age. In 2019, the Heidelberg Digital Unit was recognized by Capital magazine as one of Germany's best digilabs.

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

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

Digital label printing is growing globally, and the Gallus Labelfire is now well established within this segment. The hybrid digital printing system, which combines industrial inkjet printing with conventional label printing, was enhanced with interesting value-added functions in time for the Labelexpo Europe in the past year.

In order to further expand our market position in the growth area of packaging printing, we have a sales partnership with China's largest manufacturer of die-cutters and hot-foil embossing machines, Masterwork Group (MK Masterwork). The Masterwork Group is also Heidelberg's largest single shareholder. The cooperation in terms of the value added of both companies is also set to be intensified.

On the product side, we expanded the portfolio for our folding box customers in the reporting period. We presented die-cutters for industrial packaging customers with the Powermatrix 106 CSB and the Promatrix 145 CSB, while the recent launch of the Diana Go folder gluing machine rounds off our range of products for smaller runs. All in all, our partnership with MK Masterwork is progressing extremely well.

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

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

Research and Development

- Focus on digitization: Push-to-Stop concept enhanced – artificial intelligence increases efficiency and effectiveness
- Innovation Ranking 2019 recognizes Heidelberg as the industry leader and one of the 25 most innovative companies in Germany
- Digital transformation of the industry continues
- European development network with unique industry expertise

The past financial year was the first since the Company's development department completed its relocation from the Heidelberg site to the new innovation center (IVC) at the Wiesloch-Walldorf site, where Heidelberg is working to remain the technology leader in the printing industry in the future and shape the digital transformation process within the industry.

Focus on digitization: Push-to-Stop concept enhanced

In the past financial year, all development activities were geared toward drupa, the leading trade show for the industry, which was originally scheduled for June 2020 and which has now been postponed until April 2021 as a result of the coronavirus crisis. drupa is traditionally where the industry presents its latest innovations to a wide international audience. Accordingly, Heidelberg's activities in the area of offset and digital printing concentrated on answering its customers' most pressing questions: How to process increasingly complex jobs as quickly as possible? How to achieve consistently high productivity and quality irrespective of the operator? How to safeguard the future while competing globally? How to digitize supplier and customer management? How to respond to the skills shortage and support employees? In addition to a large number of other innovations, the final quarter of the past financial year therefore saw Heidelberg announce the systematic enhancement of the Push-to-Stop concept it first presented at drupa 2016 and, in connection with this, the start of series production for the most intelligent, most automated Speedmaster generation of all time. In the offset segment, this enhancement makes the Push-to-Stop function and the Prinect cloud interface available for each new Speedmaster printing press. The first applications based on artificial intelligence (AI), such as for the wash-up device, also reached series maturity. Our intelligent assistants make our customers' work easier. Artificial intelligence (AI) simplifies workflows and enables quicker decisions based on a broad data pool with real-time information and predictions that go beyond human capabilities. A smart production environment makes considerably more efficient and effective decisions than a human about the sequence of printing plates, color curves, washing programs, dryer settings or powder quantities. In other words, artificial intelligence is the key to greater competitiveness and adaptability to changes on the market.

Although drupa has been postponed, Heidelberg is launching all the new products it would have presented at the trade show as scheduled.

Innovation Ranking 2019 recognizes Heidelberg as the industry leader and one of the 25 most innovative companies in Germany

The Innovation Ranking 2019, a study commissioned by the Handelsblatt newspaper, attested that the printing industry as a whole demonstrates a high degree of innovative strength, particularly in light of the ongoing digital transformation within the industry. In the list of the most innovative companies, Heidelberg was ranked 23rd in Germany (and 325th in the world), placing it well ahead of its competitors. The measurement criteria used in the study are particularly sound. For example, the ranking is determined by the number of relevant patents submitted by a company over an extended period. In turn, the relevance and weighting of each patent is determined on the basis of its contribution to digitization and its digital penetration, particularly at the interface between analog and digital technologies. On this basis, the Swiss consulting company EconSight prepared a ranking of the 100 leading companies at this interface on behalf of Handelsblatt. These are the companies that Handelsblatt believes to have good prospects of leading the way in the innovation-driven competition in the coming years. And Heidelberg is one of them.

Digital transformation of the industry continues

The digital transformation within the printing industry is continuing, and many print shops remain fully focused on digitization. This applies in particular to the digitization of all value-added processes, which enables the adoption of new business models in order to remain competitive.

To master this challenge, Heidelberg invests around 5 percent of its sales in development every year. The numerous development projects are focused on the expansion of the core business and the further development of Push-to-Stop technology for autonomous printing, where the user only intervenes in processes that the system cannot resolve by itself. Various development teams are also working on the digitization of all print shop processes – the Smart Print Shop – and the further expansion of digital business models, for example "Heidelberg Subscription", under which customers increasingly pay for the benefits they obtain from a system. Development work can draw upon the extensive data pool, which Heidelberg has built up over the past decade using the customer systems that are connected to the Company.

European development network with unique industry expertise

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

Five-year overview: Research and development

	2015/2016	2016/2017	2017/2018	2018/2019	**2019/2020**
R&D costs in € millions	122	119	121	127	126
in percent of sales	4.9	4.7	5.0	5.1	5.4
R&D employees	888	891	911	988	1,003
Patent applications	76	75	81	89	81

New working environment and methods focus on customer benefit and reflect the dynamics of change in an increasingly digital world

In order to bring development projects to success more quickly and efficiently, the dynamics of change in an increasingly digital world must be taken into account. This is why Heidelberg is using agile working methods to a greater extent. This allows development to respond quickly and flexibly to changing customer requirements in the digital world and incorporate new market insights into the development process in a timely manner. Products reach market maturity more quickly and can then be optimized for specific market segments in cooperation with and for customers.

Heidelberg has also designed its development process to be open, meaning that customers, suppliers, partner companies and employees can be integrated into the process at all times. This enhances cost efficiency and customer benefit. The building concept allows the entire development process to be brought together under one roof, making communication and teamwork between employees easier. State-of-the-art, innovative techniques are used, such as interactive monitors that enable digital reviews, teamwork and communication. In other words, the IVC is the role model for the future working environment throughout Heidelberg. As an innovation platform built on communication and transparency, it is the key to, and a symbol of, the cultural change at Heidelberg.

R & D in figures

Around 9 percent of our workforce is currently employed in the area of research and development. We invested around 5 percent of our sales in research and development in the year under review. Heidelberg submitted a total of 81 new patent applications in the financial year 2019/2020 (previous year: 89). This means that Heidelberg's innovations and unique selling propositions are protected by around 3,230 active patents and patent applications worldwide.

ECONOMIC REPORT

Macroeconomic and Industry-Specific Conditions

In 2019, growth in the world economy slowed further to 2.3 percent, the lowest level since the financial crisis in 2009. The trade tensions resulting from the continued rise in protectionism and the resulting impact on exports and industrial production had a particularly pronounced effect on global economic development. Japan saw especially weak performance, with GDP growth of just 0.7 percent in the wake of natural disasters and a VAT hike. The euro zone and the United Kingdom recorded growth of 1.4 percent. Among the key economic areas, only the United States enjoyed a tangible upturn in economic output of 2.3 percent, although growth momentum here was also moderate.

The emerging economies saw extremely muted economic performance on the whole. In China, year-on-year GDP growth slowed once again to 6.1 percent. Irrespective of this, economic output in the other emerging economies of Asia continued to grow rapidly. One major exception is India, where economic momentum weakened considerably in the summer half-year. Economic development in the nations of Central and Eastern Europe has remained surprisingly robust since 2018 in light of the economic weakness in the euro zone, although the pace of expansion slowed considerably during the course of 2019. By contrast, Latin America is continuing to suffer from fundamental structural weakness – a fact that made the slight economic recovery in Brazil all the more encouraging. In Germany, economic performance in 2019 was dominated by the sharp downturn in industrial production, with GDP rising by just 0.6 percent.

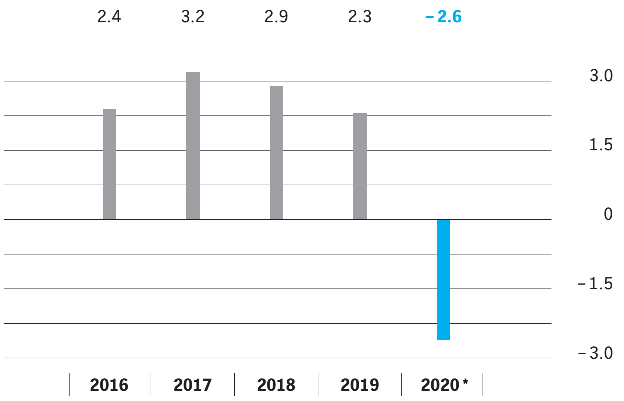
According to the calculations of the German Federal Statistical Office, inflation-adjusted production in the German mechanical engineering industry declined by 3.2 percent year-on-year as a result of the lower order volume in the past year (preliminary figure as of March 2020, subject to correction). In the printing and paper technology sector, orders for printing presses also fell by 6 percent adjusted for inflation, while sales increased by 2 percent.

The first quarter of the 2020 calendar year was dominated by the COVID-19 pandemic, which had a rapid and dramatic impact on economic activity and triggered a global downturn. A global recession in full-year 2020 is considered to be likely.

Sources: IHS Global Insight 2020; VDMA 2020

Change in global GDP[1)]

Figures in percent



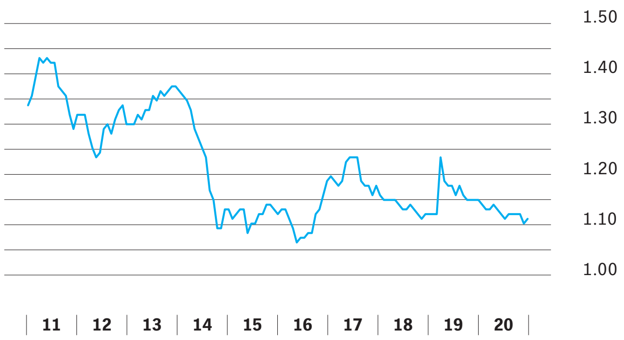
* Forecast
[1)] Data determined in accordance with the straight aggregate method

The chain-weighted method would deliver the following results: 2016: 2.8 %; 2017: 3.5 %; 2018: 3.2 %; 2019: 2.6 %; 2020 *: – 2.6 %

Source: Global Insight (WMM); calendar year; as of April 2020

Development of EUR / USD

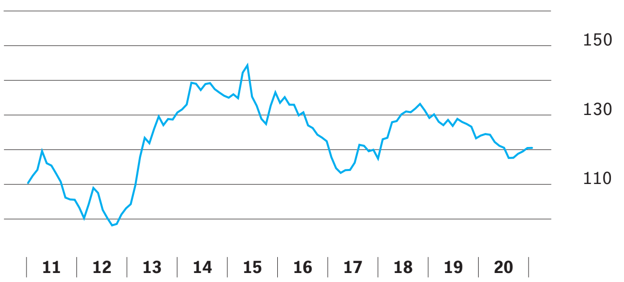
January 2011 to January 2020



Source: Global Insight

Development of EUR / JPY

January 2011 to January 2020



Source: Global Insight

Business Development

- Sales volume down on previous year
- EBITDA margin at 4.3 percent
- Net result before taxes including restructuring result € –322 million, net result after taxes € –343 million
- Leverage at 0.4

Overall assessment of business development

The financial year was dominated by the growing reluctance to invest in the face of the economic slowdown, which was then exacerbated hugely by the global COVID-19 pandemic in the fourth quarter. Reflecting macroeconomic development and the course of business, the Company adjusted its forecast for the financial year 2019/2020 on July 17, 2019 and January 20, 2020. The economically driven reluctance to invest, especially in Europe, resulted in a product mix with lower overall profitability, particularly in equipment business. On March 17, 2020, the Company announced a comprehensive package of measures aimed at improving its profitability and liquidity. The measures resolved include increasing the Company's liquidity and significantly reducing its net debt by almost completely retransferring trust assets (around € 380 million) to the Company. Details can be found in the financial section of this report on pages 126 and 127. In addition, a systematic focus on the Company's profitable core business – including discontinuing the production of Primefire and large-format printing presses – and a workforce reduction of up to 2,000 jobs will reduce production and structural costs and lead to sustainable growth in profitability. The forecast for the financial year 2019/2020 was adjusted further to reflect the anticipated non-recurring expenses in connection with the package of measures as well as the further significant deterioration in the economic environment as a result of the COVID-19 pandemic.

At € 2,349 million, sales in the financial year 2019/2020 were down around 6 percent on the previous year and failed to achieve the prior-year level (€ 2,490 million) that was announced as a target at the start of the financial year. This was due to the economic conditions, particularly in the fourth quarter. Operating profitability, expressed as the EBITDA margin excluding restructuring result and including non-recurring income of around € 25 million from the sale of Hi-Tech Coatings, amounted to 4.3 percent and hence fell below the original forecast range of 7.5 to 8.0 percent; this was due to volume and product mix factors. The EBITDA margin excluding restructuring result in the Heidelberg Digital Technology segment fell to – 0.8 percent in the year under review as a result of the significant downturn in sales in the fourth quarter (forecast: 3.5 to 4 percent), while the Heidelberg Lifecycle Solutions segment recorded an EBITDA margin excluding restructuring result of 12.1 percent including the abovementioned non-recurring income (forecast: 13.5 to 14 percent). The Heidelberg Financial Services segment made a positive earnings contribution in the past financial year as planned.

The net result for the financial year 2019/2020 was impacted by expenses of around € 275 million in connection with the package of measures as well as the lower level of sales, amounting to € –322 million before taxes (previous year: € 32 million). The net result after taxes amounted to € –343 million after € 21 million in the previous year. The expenses in connection with the comprehensive package of reorientation measures and the impact of the COVID-19 pandemic meant that the target of a net result after taxes at the same level as the previous year was not achieved. Accordingly, the equity ratio declined sharply to around 8 percent at the reporting date.

Leverage (the ratio of net debt to EBITDA) improved to 0.4 on the back of the substantial liquidity inflow, coming in at clearly below the target of 2.

Five-year overview: Business development

Figures in € millions	2015/2016	2016/2017	2017/2018	2018/2019	**2019/2020**
Incoming orders	2,492	2,593	2,588	2,559	2,362
Sales	2,512	2,524	2,420	2,490	2,349

We significantly optimized our financing structure in the year under review. Heidelberg increased its liquidity considerably through the retransfer of around € 380 million (around € 324 million in cash and cash equivalents and around € 56 million in securities) to the Company from the trust assets of Heidelberg Pension-Trust e. V., which was formed in 2005. This will lead to a further substantial improvement in the financing structure by reducing financial liabilities.

First-time application of IFRS 16

Heidelberger Druckmaschinen Aktiengesellschaft is applying the accounting standard IFRS 16: Leases, which has replaced IAS 17: Leases, for the first time in the financial year 2019/2020. The main effects of the adoption of IFRS 16 can be seen in the rise in both non-current assets (recognition of right-of-use assets) and financial liabilities (recognition of lease liabilities). In the income statement, depreciation and amortization are up while the financial result has deteriorated; these effects are roughly offset by the improvements in EBITDA, hence there is virtually no impact on the net result. The previous year's figures have not been restated.

First-time application of the revaluation method for land in accordance with IAS 16

At the end of the 2019/2020 financial year, the revaluation method was applied for the first time to land recognized in accordance with IAS 16. In the statement of financial position, the increased value of land caused significant growth in property, plant and equipment and – after deducting deferred taxes – equity as well. However, write-downs on land recognized under depreciation and amortization in the income statement had only a minor effect on EBIT and earnings after taxes. The previous year’s figures have not been restated.

Incoming orders down on previous year

Incoming orders declined to € 2,362 million in financial year 2019/2020 (previous year: € 2,559 million), largely as a result of the economic situation and uncertainty, particularly in the last three months of the financial year, as a result of the global COVID-19 pandemic. Having recorded year-on-year growth in the first nine months, incoming orders in the Heidelberg Digital Technology segment fell by around € 150 million in the fourth quarter alone compared with the same quarter of the previous year. Full-year incoming orders in the Asia/Pacific region increased thanks to strong performance in the first three quarters of the financial year, but the final quarter also saw a considerable downturn. Following growth in the first three quarters, the North America region saw a significant reduction in incoming orders in the fourth quarter, meaning the full-year total was lower than in the previous year.

The order backlog amounted to around € 612 million as of March 31, 2020, down on the prior-year figure of € 654 million. The volume of orders under subscription contracts increased significantly and accounted for 15 percent as of the reporting date.

Sales down on previous year

In the first three quarters, total sales were unchanged year-on-year in spite of the economic uncertainties. However, the COVID-19 pandemic – and the accompanying production shutdowns and disruptions to supply and logistics chains as well as limitations on sales and service provision – had a pronounced impact on the final quarter of the financial year, particularly in the Heidelberg Digital Technology segment. Following an unexpectedly weak fourth quarter, sales in the year under review totaled € 2,349 million, down significantly on the previous year (€ 2,490 million). Sales growth was recorded in the regions of North America and Eastern Europe, while EMEA saw the biggest downturn in sales. Sales per employee (excluding trainees) amounted to € 208 thousand in the year under review after € 216 thousand in the previous year.

Results of Operations

- EBITDA margin below target range
- Net result after taxes impacted by restructuring expenses

At € 102 million, EBITDA excluding restructuring result and including non-recurring income of around € 25 million from the sale of Hi-Tech Coatings and the positive effects of the first-time application of IFRS 16 (around € 19 million) was down significantly on the prior-year figure (€ 180 million). In particular, earnings were impacted by the lower sales volume, write-downs of inventories due to the discontinuation of two product lines, and a less profitable product mix. The use of flexible working hours and short-time work to cushion the impact of the COVID-19 pandemic in the fourth quarter was only able to partially offset these factors. The EBITDA margin excluding restructuring result amounted to around 4.3 percent of sales, thereby falling below the forecast range of 7.5 to 8.0 percent announced at the start of the financial year.

Income statement

Figures in € millions	2018/2019	**2019/2020**
Net sales	2,490	2,349
Change in inventories/other own work capitalized	65	– 5
Total operating performance	2,556	2,345
EBITDA excluding restructuring result	180	102
Depreciation and amortization excluding depreciation and amortization due to restructuring	79	96
Result of operating activities excluding restructuring result	101	6
Restructuring result	– 20	– 275
Result of operating activities	81	– 269
Financial result	– 49	– 52
Net result before taxes	32	– 322
Taxes on income	11	21
Net result after taxes	21	– 343

Income statement: Net result after taxes impacted by restructuring expenses

As a result of the lower sales volume, the Group's total operating performance decreased from € 2,556 million in the previous year to € 2,345 million in the year under review. The ratio of the cost of materials to total operating performance and the staff cost ratio both increased year-on-year to around 47 percent (previous year: 45 percent) and 43 percent (previous year: 35 percent) respectively. The increases are primarily due to changes in connection with the depreciation of inventories and restructuring expenses in conjunction with the reorientation.

Other operating expenses and income repeated the prior-year level at a net amount of € 343 million in the year under review (previous year: € 344 million). Non-restructuring-related depreciation and amortization increased compared with the previous year essentially due to the first-time application of IFRS 16 (€ 17 million). In the year under review, the restructuring result amounted to € – 275 million essentially for restructuring expenses in connection with the reorientation of the Company that was communicated in mid-March 2020.

The financial result amounted to € – 52 million (previous year: € – 49 million).

All in all, the net result before taxes amounted to € – 322 million (previous year: € 32 million), while the net result after taxes amounted to € – 343 million (previous year: € 21 million).

Five-year overview: Results of operations

Figures in € millions	2015/2016	2016/2017	2017/2018	2018/2019	**2019/2020**
Sales	2,512	2,524	2,420	2,490	2,349
Per capita sales[1] (in € thousands)	217	219	209	216	208
EBITDA excluding restructuring result[2]	189	179	172	180	102
in percent of sales	7.5	7.1	7.1	7.2	4.3
Result of operating activities excluding restructuring result	116	108	103	101	6
Restructuring result	−21	−18	−16	−20	−275
Financial result	−65	−56	−48	−49	−52
Net result after taxes	28	36	14	21	−343
in percent of sales	1.1	1.4	0.6	0.8	−14.6

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

Net Assets

- Increased machine inventories due to delays in delivery as a result of the COVID-19 pandemic
- Significant reduction in net debt
- Non-current assets increase due to application of IFRS 16 and the revaluation method under IAS 16

Although delays in delivery resulting from the COVID-19 pandemic led to an increase in inventories, this was more than offset by write-downs due to the discontinuation of two product lines. Inventories increased essentially as a result of disruptions to logistics and deliveries to customers in the wake of the global COVID-19 pandemic. The year-on-year increase in non-current assets was primarily due to the first-time adoption of the revaluation method for land recognized pursuant to IAS 16 (around € 170 million) and the first-time application of IFRS 16 (around € 47 million).

Thanks to the retransfer to the Company of around € 380 million (around € 324 million in cash and cash equivalents and around € 56 million in securities) from the trust assets of Heidelberg Pension-Trust e. V., net debt was reduced significantly to € 43 million at the end of the financial year 2019/2020.

Assets

Figures in € millions	31-Mar-2019	**31-Mar-2020**
Non-current assets	846	952
Inventories	685	660
Trade receivables	360	299
Receivables from sales financing	60	43
Current securities and cash and cash equivalents	215	428
Other assets	163	220
	2,329	**2,602**

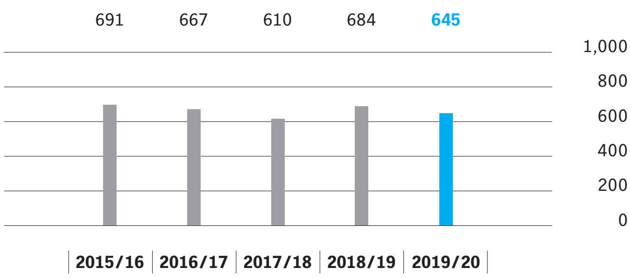
Assets: Non-current assets increase due to first-time application of IFRS 16 and the revaluation method under IAS 16

Total assets as of March 31, 2020 increased significantly compared with March 31, 2019, largely as a result of the increase in non-current assets (first-time application of IFRS 16 and the revaluation method under IAS 16) and the higher level of cash and cash equivalents due to the retransfer of trust assets. This was countered by the reduction in inventories, trade receivables, and receivables from sales financing.

Total inventories declined to € 660 million (previous year: € 685 million). Due to the lower level of sales and active receivables management, trade receivables amounted to € 299 million as of March 31 of the year under review (previous year: € 360 million). Consequently, net working capital fell to € 645 million as of March 31, 2020 (March 31, 2019: € 684 million).

Development of net working capital (2019/2020: 645)

Figures in € millions



We continued to successfully pursue our proven strategy of many years of arranging customer financing agreements with financing partners in the Heidelberg Financial Services segment and reduced receivables from sales financing year-on-year as of March 31, 2020.

Equity and liabilities

Figures in € millions	31-Mar-2019	**31-Mar-2020**
Equity	399	202
Provisions	880	1,338
of which pension provisions	582	986
Financial liabilities	465	471
Trade payables	245	212
Other equity and liabilities	340	379
	2,329	**2,602**

Equity and liabilities: Equity impacted by package of measures

On the equity and liabilities side, the Heidelberg Group's equity decreased substantially year-on-year to € 202 million (previous year: € 399 million). This was due to the net loss for the period as well as the reduction in the interest rate for German pensions. The equity ratio amounted to around 8 percent at the reporting date (previous year: around 17 percent). This development was partially offset by the application of the revaluation method for land recognized pursuant to IAS 16.

The change in the interest rate for German pensions (from 2.0 percent as of March 31, 2019 to 1.8 percent as of March 31, 2020) and the trust assets of Heidelberg Pension-Trust e. V. that can no longer be set off against pension obligations meant that pension provisions increased significantly. As a result, total provisions rose to € 1,338 million (previous year: € 880 million).

Despite the partial repayment of the convertible bond, financial liabilities increased slightly to € 471 million as of the reporting date due to the first-time application of IFRS 16 (around € 52 million), compared with € 465 million as of March 31, 2019. Net debt decreased significantly year-on-year to € 43 million (March 31, 2019: € 250 million) as a result of the higher level of cash on hand. At 0.4, the ratio of net debt to EBITDA excluding restructuring result (leverage) was well below the target of 2. Trade payables declined to € 212 million as of March 31, 2020 (previous year: € 245 million).

Five-year overview: Net assets

Figures in € millions	2015/2016	2016/2017	2017/2018	2018/2019	**2019/2020**
Total assets	2,202	2,219	2,256	2,329	2,602
Total operating performance	2,520	2,556	2,507	2,556	2,345
Ratio of total assets to total operating performance (in percent)	87.4	86.8	90.0	91.1	111.0
Net working capital	691	667	610	684	645
in percent of sales [1]	27.5	26.4	25.2	27.5	27.5
Equity	287	340	341	399	202
in percent of total equity and liabilities	13.0	15.3	15.1	17.1	7.8
Net debt [2]	281	252	236	250	43
Leverage [3]	1.5	1.4	1.4	1.4	0.4

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

Financial Position

- Free cash flow of € 225 million
- Put option reduces volume of 2015 convertible bond
- Significant improvement in financing structure

Statement of cash flows: Free cash flow of € 225 million due to inflow from trust assets

After adjusting the net result after taxes for non-cash items such as write-downs, depreciation, amortization and provisions, net cash used in operating activities amounted to € – 54 million at the reporting date (previous year: € – 11 million). Net cash from investing activities amounted to € 279 million in the year under review due to the inflow from the pension fund. In the past financial year, we invested in product innovations, IT and infrastructure measures in particular. In total, free cash flow including the inflow from trust assets of around € 325 million was therefore significantly positive in the year under review at € 225 million (previous year: € – 93 million).

Financing structure: Cash inflow from trust assets leads to significant improvement in net debt and partial reduction in financing framework

The pillars of our financing portfolio – capital market instruments (corporate bond and the remaining convertible bond units), the syndicated credit line plus other instruments and promotional loans – were well balanced at the reporting date with a total volume of around € 590 million.

The exercise of the put option by bondholders reduced the outstanding volume of the convertible bond to around € 17 million as of March 30, 2020.

The Company is planning to redeem the corporate bond in the course of the 2020/2021 financial year. However, the timing and the resolution on implementation depend on ongoing business development with regard to the impact of the current global COVID-19 pandemic.

The syndicated credit line, which is only partially drawn down, was reduced from around € 320 million to around € 267 million. Together with the cash in hand at the reporting date, it provides Heidelberg with financial flexibility for its forthcoming reorientation and the day-to-day operating activities of the global organization.

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

Five-year overview: Financial position

Figures in € millions	2015/2016	2016/2017	2017/2018	2018/2019	**2019/2020**
Net result after taxes	28	36	14	21	– 343
Cash used in/generated by operating activities	42	139	87	– 11	– 54
of which: net working capital	35	33	24	– 62	27
of which: receivables from sales financing	10	9	– 10	6	14
of which: other	– 4	97	73	45	– 95
Cash used in/generated by investing activities	– 74	– 115	– 95	– 82	279
Free cash flow	– 32	24	– 8	– 93	225 [1)]
in percent of sales	– 1.3	1.0	– 0.3	– 3.7	9.6

[1)] Including inflow of around € 325 million from trust assets

Segment Report

- Heidelberg Digital Technology: Earnings impacted by economic uncertainty and pandemic
- Heidelberg Lifecycle Solutions: Service significantly impaired by COVID-19 pandemic
- Heidelberg Financial Services: Successful cooperation with financing partners

Heidelberg Digital Technology segment: Earnings impacted by economic uncertainty and pandemic

At € 1,414 million (previous year: € 1,535 million), sales in the Heidelberg Digital Technology segment in the financial year 2019/2020 were down significantly year-on-year. This was due in particular to the impact of economic uncertainty as well as the COVID-19 pandemic in the fourth quarter. Segment sales were still at the prior-year level after the first nine months. Incoming orders correspondingly also declined to € 1,374 million (previous year: € 1,517 million), leading to a lower order backlog of € 421 million at the reporting date (previous year: € 511 million). Due to the first-time application of IFRS 16, segment EBITDA excluding restructuring result included a positive earnings contribution of € 12 million. The segment was down significantly on the previous year at € – 11 million due to the lower level of sales as well as a product mix with overall lower profitability, with the margin also declining to – 0.8 percent. The segment reported a restructuring result of € – 202 million in the year under review, largely as a result of the discontinuation of two product lines. The Heidelberg Digital Technology segment had a total of 7,291 employees as of March 31, 2020 (previous year: 7,308). Following the completion of the innovation center, investments in the segment declined to € 80 million and primarily related to product innovations, IT and infrastructural measures.

Heidelberg Digital Technology

Figures in € millions	2018/2019	**2019/2020**
Incoming orders	1,517	1,374
Sales	1,535	1,414
Order backlog	511	421
EBITDA excluding restructuring result	53	– 11
Result of operating activities excluding restructuring result	– 9	– 82
Restructuring result	– 12	– 202
Investments	98	80
Employees [1]	7,308	7,291

[1] Number of employees excluding trainees

Heidelberg Lifecycle Solutions segment: Service significantly impaired by COVID-19 pandemic

In the Heidelberg Lifecycle Solutions segment, sales declined to € 931 million in the year under review (previous year: € 951 million). This was also primarily due to a weak fourth quarter in which service business was significantly impaired by the COVID-19 pandemic. Incoming orders fell to € 983 million (previous year: € 1,037 million).

EBITDA excluding the restructuring result amounted to € 112 million (previous year: € 122 million); this figure included the non-recurring income from the sale of Hi-Tech Coatings of around € 25 million and the positive effect of the first-time application of IFRS 16 (€ 7 million). The segment's operating earnings margin (EBITDA margin) amounted to around 12 percent, again as a result of the fourth quarter. The reorientation meant that the segment also recorded a restructuring result of € – 74 million. The Heidelberg Lifecycle Solutions segment had 3,990 employees as of March 31, 2020 (previous year: 4,174 employees). We invested € 28 million in the segment in the year under review, including in software and printed electronics.

Heidelberg Lifecycle Solutions

Figures in € millions	2018/2019	**2019/2020**
Incoming orders	1,037	983
Sales	951	931
Order backlog	143	191
EBITDA excluding restructuring result	122	112
Result of operating activities excluding restructuring result	106	87
Restructuring result	– 8	– 74
Investments	32	28
Employees [1]	4,174	3,990

[1] Number of employees excluding trainees

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

In a capital-intensive sector like the printing industry, financing solutions are crucial to our customers' success. Heidelberg Financial Services has been successfully supporting print shops in implementing their planned investments for a number of years, primarily by means of its dense network of financing partners worldwide. We actively moderate between our customers and financing partners. Where required, we help our customers – especially in emerging economies – to acquire Heidelberg technologies via direct financing provided by one of our Group-owned print finance companies.

In addition, we successfully continued our long-standing cooperation with our financing partners in the past financial year. Against this backdrop, overall demand for new direct financing was low.

The continued targeted reduction in the receivables volume was offset by interest income of € 5 million (previous year: € 4 million). This was attributable to interest income from subscription contracts. Our receivables from sales financing, which result from the granting of direct financing, declined from € 60 million in the previous year to € 43 million in the financial year 2019/2020. The volume of counter-liabilities assumed fell by € 4 million to € 13 million (previous year: € 17 million).

The segment result (EBITDA) amounted to € 1 million and was therefore lower than the previous year's result (€ 4 million). This was primarily due to risk provisioning effects. We also recognized provisions for the negative effects resulting from the COVID-19 pandemic. Despite our systematic receivables management and the resulting decline in amounts past due, we therefore recorded a negative risk provisioning result overall. Thanks to the systematic implementation of our strategy in receivables and risk management, we were able to keep the loss ratio below the long-term average and thus make a positive contribution to earnings.

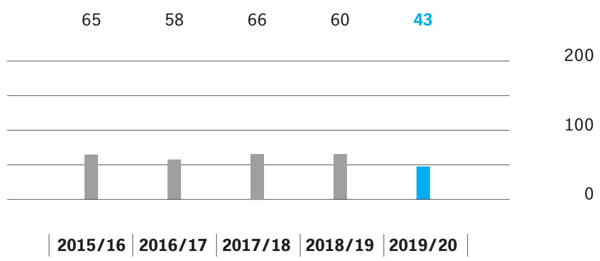
Heidelberg Financial Services

Figures in € millions	2018/2019	**2019/2020**
Sales	4	5
EBITDA	4	1
Result of operating activities excluding restructuring result	4	1
Employees [1]	40	35

[1] Number of employees excluding trainees

Receivables from sales financing

Figures in € millions



Report on the Regions

- Significant downturns in almost all regions in the fourth quarter due to COVID-19
- Asia/Pacific records growth in orders thanks to first three quarters
- North America region increases sales

Europe, Middle East and Africa (EMEA)

The order volume in the EMEA region declined from € 1,076 million in the previous year to € 928 million in the year under review. In Germany, the reporting year had been characterized by a reluctance to invest since the beginning of the financial year; this reluctance intensified in the fourth quarter as a result of the COVID-19 pandemic. Italy, Spain and the United Kingdom also recorded declines, particularly in the fourth quarter. There was a similar picture in terms of sales, which totaled € 912 million in the region following € 1,050 million in the previous year.

Asia/Pacific

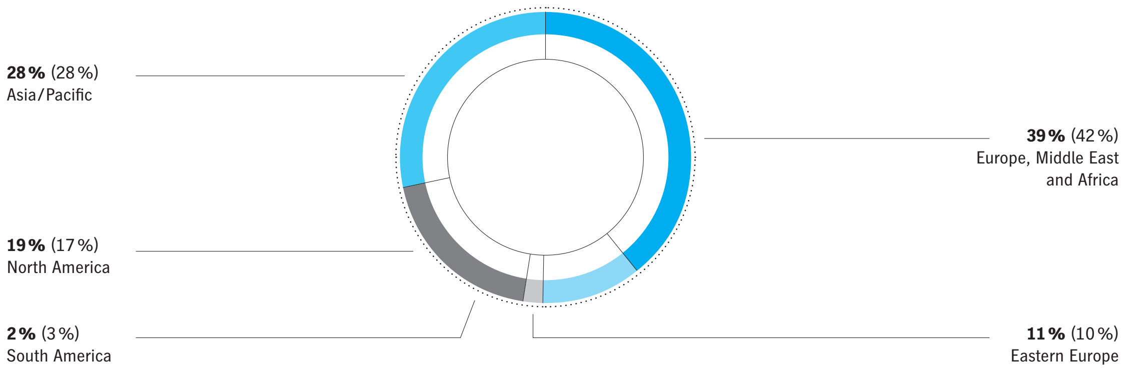
Despite the downturn in the fourth quarter as a result of COVID-19, incoming orders in the Asia/Pacific region increased to € 687 million on a full-year basis (previous year: € 658 million). This was due in particular to orders from China and Japan in the first three quarters of the financial year. By contrast, sales declined from € 687 million in the previous year to € 665 million. The COVID-19 pandemic had a pronounced impact in the fourth quarter. China was able to nearly absorb this downturn thanks to strong sales in the previous quarters, while the Japanese market actually increased its full-year sales compared with the previous year.

Eastern Europe

Incoming orders in the Eastern Europe region declined from € 296 million in the previous year to € 261 million in the year under review, whereas sales increased significantly to € 268 million (previous year: € 242 million), which was mainly due to the good order backlog at the beginning of the financial year.

Sales by region

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



North America

In the year under review, the North America region failed to repeat the prior-year level with incoming orders of € 427 million (previous year: € 457 million). The US in particular saw a dramatic downturn in the final quarter of the financial year following good performance in the first three quarters. Sales increased to € 447 million in the year under review (previous year: € 427 million), with Canada contributing to this development in addition to the US.

South America

At € 63 million, incoming orders in the South America region failed to repeat the prior-year level (€ 72 million). The smaller markets in the region in particular saw falling orders. Sales in the region also declined substantially, from € 84 million in the previous year to € 58 million.

Incoming orders by region

Figures in € millions	2018/2019	**2019/2020**
EMEA	1,076	928
Asia/Pacific	658	683
Eastern Europe	296	261
North America	457	427
South America	72	63
Heidelberg Group	**2,559**	**2,362**

Sales by region

Figures in € millions	2018/2019	**2019/2020**
EMEA	1,050	912
Asia/Pacific	687	665
Eastern Europe	242	268
North America	427	447
South America	84	58
Heidelberg Group	**2,490**	**2,349**

Employees

The number of people employed by the Heidelberg Group around the world decreased by 206 as of March 31, 2020 and amounted to 11,316 (previous year: 11,522 employees excluding trainees). There were 7,197 employees in Germany and 4,119 outside Germany at the reporting date.

Motivated and qualified employees are Heidelberg's greatest asset. Against the backdrop of demographic change and rising digitization it is our objective to prepare our workforce for the future requirements of their rapidly changing work environment. Among other things, we use training programs on agile methods of cooperation and new learning models such as micro-learning in order to support the trend toward informal learning. The procedural structuring of short, daily learning activities, or "bite-sized learning", minimizes the translation requirements for the learning content and makes it easier to apply it in day-to-day workplace situations. We have also further expanded our range of management development opportunities with keynote speeches and impulse workshops. One key topic was digital leadership. A lively dialog on current issues took place at events that were attended by local managers in person with international managers connected remotely.

Last year, we established our "Fit4Sales" training for all sales employees worldwide. Additional training modules will be rolled out this year in order to make the sales process even more structured. This reflects the trend of ensuring that learning takes place in close proximity to the respective tasks. We are using "speedboat initiatives" to integrate learning content into specific sales projects. Training is a top priority at Heidelberg and it relies on premium quality. Ninety-nine young people began their training with Heidelberg on September 1, 20219. We provide training in more than ten occupations at four locations and offer various bachelor programs in the areas of engineering, media and business. The ongoing digital transformation is also making considerable demands of the Company's vocational training. The establishment of a "future workshop" for training gives trainees early and unrestricted access to new digital learning content and allows them to test out, in a playful manner, 3D printers, VR glasses and other tools of the future and use them for their own needs. The "future workshop" is a dedicated physical infrastructure that provides access to this content.

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

Employees by region

Number of employees [1]	31-Mar-2019	**31-Mar-2020**
EMEA	8,578	8,351
Asia/Pacific	1,639	1,661
Eastern Europe	494	520
North America	708	682
South America	103	102
Heidelberg Group	**11,522**	**11,316**

[1] Excluding trainees

Sustainability

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

Ecological key figures

	2017/2018	2018/2019	**2019/2020**
Energy in GWh/a[1]	290	290	274
Energy in GWh/a (weather-adjusted)[1)2]	288	303	283
Water in m^3/a	207,903	227,710	193,760
CO_2 emissions in metric tons[3]	105,153	105,418	94,299
Waste in metric tons	35,980	41,545	34,247
Recycling rate in percent	96.36	97.53	96,08

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

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

RISKS AND OPPORTUNITIES

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

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

Risk and Opportunity Management System

Objectives and strategy

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

A further objective is not just to comply with all regulatory requirements for the risk and opportunity management system, but also to establish a risk culture and to raise risk awareness in the Company as a whole.

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

Structure and process

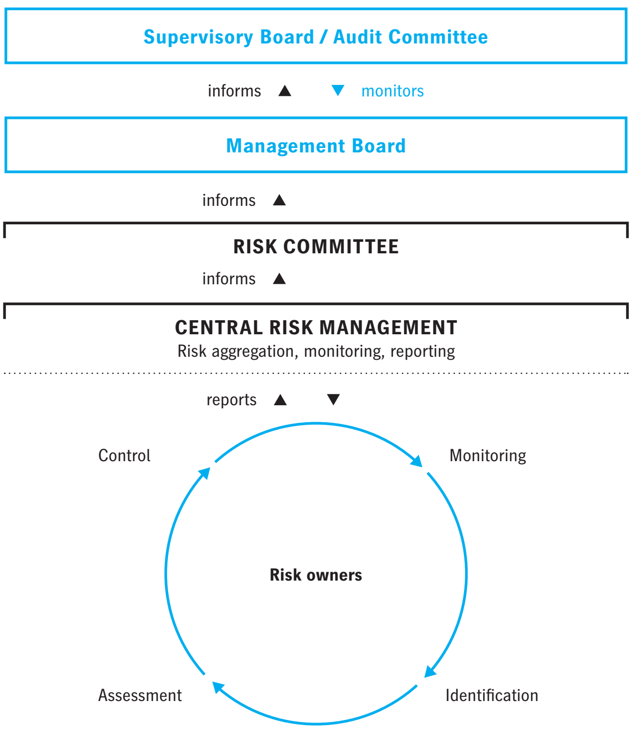
Both Heidelberg's company-wide opportunity and risk management system and its internal control system (ICS), which, among others, serves as a basis for the Group accounting process, are based on the framework and guidelines provided by the Committee of Sponsoring Organizations of the Treadway Commission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

Risk and opportunity management is solidly integrated as part of corporate management at Heidelberg. The Management Board is responsible for appropriate risk and opportunity management in the Company. Clear values, principles and guidelines help the Management Board and the management operate and control the Group. The Company's guidelines and organizational instructions stipulate a structured process with which individual risks in the Group, general risk and any opportunities are systematically tracked and assessed. The operating units and central divisions are incorporated in this process. The companies included in the risk management system are the same as those included in the consolidated financial statements. Information on risks is collected locally. The risk-significant areas of observation and the risk documentation methodology are set out in the guidelines. The classification into risk categories is based on the potential impact on the net results and liquidity of the individual units. Reporting thresholds are set on a uniform basis. For key areas, such as Procurement, Development, Production, Sales, Human Resources, IT, Legal and Finance, there is a risk officer who reports risks to central Group Risk Management (GRM) in a standardized manner. Each risk officer is responsible for the identification, assessment, control and monitoring of risks within his or her area.

Risks reported to GRM are recorded in a risk catalog at Group level. GRM validates the risks reported, records them in the risk catalog and discusses them with the Risk Committee.

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. 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 its audit planning, the Internal Audit department checks risk and opportunity management procedures and the effectiveness of the ICS at process level. A representative for Internal Audit is a member of the Risk Committee. 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 auditor also assesses the functionality of the risk early warning system in accordance with section 317 (4) of the German Commercial Code (HGB). Heidelberg's risk and opportunity management process comprises the elements of risk identification, assessment, control and monitoring (see diagram below).



Identification of risks and opportunities

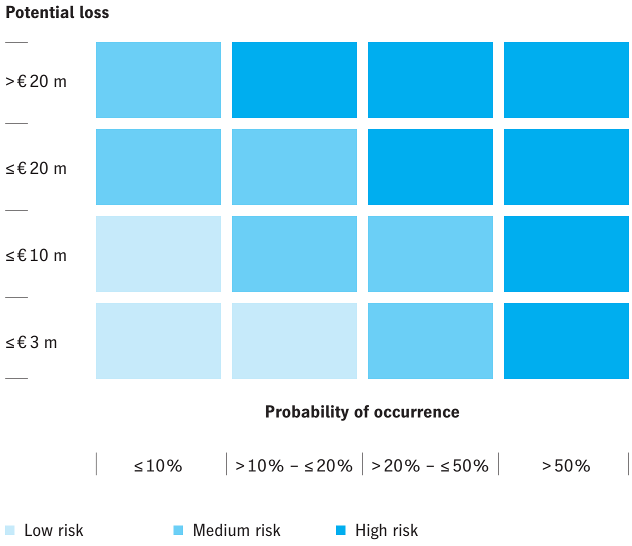
The Group-wide risk officers monitor the general economic environment, which contributes to the effective identification of risks and opportunities. Furthermore, GRM assists in the identification and categorization of risks and opportunities by preparing the risk catalog. The catalog and its potential 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 taking risk-mitigating activities into account (net analysis). If possible, the assessment is based on objective criteria or empirical evidence. Similar individual risks are combined as an aggregated risk. The risk assessment is based on the dimensions "probability of occurrence" and "extent of damage" in the planning period. For risks with a probability of occurrence of more than 50 percent – if so stipulated in IFRS standards – provisions are recognized or taken into account in the corporate planning.

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

Risk matrix



Controlling risks and opportunities

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

Monitoring of risks and opportunities

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

Strategic risks and opportunities

Politics and national economy

Political and national economic risks can have a direct impact on Heidelberg’s business activities and its financial position and performance. For example, the situation at the EU’s external borders, in the Middle East and the resulting global political tensions are a source of great uncertainty and could have a negative impact on economic conditions. In particular, the political decisions in connection with the COVID-19 pandemic are expected to have an adverse effect on economic conditions. Although the political and national economic consequences of the pandemic cannot be reliably estimated at present, the restrictions on the movement of people and goods that have been imposed as a result are expected – despite government support programs on a massive scale (including compensation for reduced working hours, subsidies and promotional loans) – to have an impact on supply chains and global demand and hence ultimately on the Company’s results of operations.

According to the International Monetary Fund (IMF), the world economy is already in a recession as a result of the COVID-19 pandemic, and Germany is also expected to see negative growth in 2020. According to a special report by the German Council of Economic Experts in late March 2020, German GDP is set to fall by between 2.8 percent and 5.4 percent. The outlook for 2020 is particularly gloomy for companies in the capital goods industry. The risks in connection with the COVID-19 pandemic and the lockdown of entire national economies mean that other economic and fiscal policy risks have receded into the background at present. Once the COVID-19 pandemic has been brought under control, however, the focus is expected to return to the potential risks arising from trade disputes between the US, China and Europe to a greater extent. The financial consequences of the crisis will then also be reflected in increased corporate and government debt. The extent to which this will affect demand-related behavior as well as cooperation between EU member states and within the euro zone cannot be estimated at present. Although the much discussed skills shortage is less of a priority for many companies in the current economic environment, it is likely to return to the agenda as the economy recovers.

The Kiel Institute for the World Economy (IfW) expects 2021 to see global economic growth at the level that would have been expected without the pandemic. Following temporary paralysis in 2020, Heidelberg’s important sales market of China is also expected to return to year-on-year growth of up to 8 percent. Similarly, the economic institutes are forecasting an economic recovery in Germany in 2021. This will be boosted by government support measures, the expansive monetary policy of the central banks in the US and Europe, and potential catch-up effects if the support measures have the desired effect. The IMF also considers a recovery to be possible in 2021, but only if the virus is successfully restricted and liquidity problems do not force companies to file for insolvency en masse in the meantime.

As the global economic slowdown has been reflected in a tangible reduction in momentum in terms of orders for new machinery of late and the industry association VDMA has reported a significant downturn in its business climate index, Heidelberg is entering the new financial year 2020/2021 with caution.

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

Political and national economic risks are currently regarded as high.

Industry and market

Following a downturn of 2.8 percent in 2019, the German Mechanical Engineering Industry Association (VDMA) expects production to decline by 5 percent in real terms in 2020. This is based on the assumption that the situation resulting from the COVID-19 pandemic will ease in the second half of the calendar year. In the same way as for the general political and national economic environment, development within the industry is difficult to forecast.

The printing industry as a whole continues to be characterized by excess capacity and price competition. Innovation cycles and the accompanying investment costs and risks mean that size and rationalization are the only way for many print companies to ensure their survival in a tough market environment. In this environment, the increased automation of Heidelberg's printing presses (industrialization of print production, including Push-to-Stop) can lead to a significant increase in net productivity and efficiency for customers. This typically makes Heidelberg's product portfolio more attractive and improves customer retention.

Heidelberg expects the ongoing industrialization of the print media industry to lead to the number of larger print media service providers growing in the industrialized countries and the number of medium and smaller print shops falling further. While print volumes are continuing to increase overall in the emerging economies, print service providers in the industrialized nations are facing a highly dynamic and rapidly changing market environment. The substitution of printed products and business stationery by the Internet and the impact of demographic change on the buying and reading habits of the population is leading to a decline in the corresponding advertising printing sales. This is partially compensated by the increase in packaging printing sales, higher finishing quality, particularly in cosmetics, and customization. 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.

Heidelberg continues to see digital business as a growth market despite discontinuing the production and marketing of the Primefire 106. Although Heidelberg is still represented in the digital printing market with other products, the market for the areas of application served by the Primefire 106 is not currently large enough to be economical. The discontinuation removes the future risks of further development and market penetration. Heidelberg does not expect the announced adjustment to its product portfolio to have a significant effect on its market positioning.

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

If the global economy were to fail to develop in line with expectations or if key markets were to suffer a more pronounced economic downturn than anticipated, there is a risk that the planned sales and earnings performance would not be achieved, particularly in new machinery business (and above all in the HDT segment). The Lifecycle Solutions segment is 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 will increase moderately in the coming years, thereby reducing economic fluctuations within the Group slightly.

There are considerable risks to the world economy from the COVID-19 pandemic in particular. The duration and extent of the financial impact of a complete or even partial lockdown for companies and the consequences for demand-related behavior following the pandemic cannot be forecast at present. If the lockdown due to the COVID-19 pandemic lasts longer than anticipated, this is likely to threaten the existence of many market participants as their income dries up, their receivables go unpaid or they are unable to meet their own payment obligations, resulting in the threat of illiquidity.

In an uncertain market environment that is also characterized by structural changes within the industry, permanent cost control and optimization are especially important when it comes to maintaining or regaining freedom of action and earnings power as a company. For this reason, Heidelberg has launched an additional program to optimize its production and structural costs, including the discontinuation of loss-making products/production areas. The measures announced and initiated in March 2020 have been included in planning in line with their impact over time.

The risks of industry and market development, including the realization of planned cost reductions, are considered to be high.

Operational risks and opportunities

Information security

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

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

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

Sales financing

Financial services business (sales financing) involves various risks including credit and counterparty default risk, residual value risk, currency risk and operational risk. The majority of the financing portfolio consists of receivables from customers located in emerging economies, including Brazil. As a result of the difficult economic situation in Brazil, Heidelberg therefore has a relatively high share of overdue receivables in Brazil. In addition, requests for payment deferrals and restructured financing agreements are increasing in the wake of the COVID-19 pandemic. The liquidity situation among our financing customers is deteriorating considerably, leading to overdue and deferred payments. Like all other overdue receivables, however, these are closely monitored and controlled by way of intensive receivables management. A comprehensive database of contracts and printing presses helps to minimize residual value and counter-liability risks. The processes and methods used have proven their worth in the past years. Overall, losses on sales financing in the past financial year were below the average level for the previous years.

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

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

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

Procurement

Procurement risks primarily involve ensuring that Heidelberg's suppliers and service providers can deliver the required quality at all times. Risk management is therefore a fixed component of our supplier management. Heidelberg works closely with selected systems suppliers on a contractual basis and reduces risks relating to supplier defaults and late deliveries of components or low-quality components. It also works continuously to optimize its supply methods and procurement processes with key suppliers to ensure the reliable supply of parts and components in the required quality. As Heidelberg generates around two-thirds of its sales outside the euro area, the option of global procurement is constantly being examined and expanded. Wherever it benefits Heidelberg, we pursue a dual vendor strategy to reduce unilateral dependencies.

Procurement risks are considered to be medium.

Production

Production disruptions or downtime, not to mention disruptions in transport and logistics, are a fundamental high risk that Heidelberg counters by implementing very high technical and safety standards. Nevertheless, the risk of a business interruption at the production sites due to material damage (e. g. fire, machinery/tool failure or natural disasters) cannot be entirely ruled out. However, the (safety) precautions taken (e. g. production structure and process planning, preventive maintenance, technical fire protection, works fire department) serve to reduce the amount of any damage incurred and the probability of these risks occurring. Furthermore, specific risks are covered by insurance policies with typical sums insured.

Production risks are considered to be low.

Sales partnerships

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

This risk is considered to be low.

HR

Heidelberg's success is substantially influenced by qualified and motivated employees and management. It therefore invests both in maintaining the capabilities of its own employees and management and in improving its attractiveness to new employees in order to meet the challenges of forthcoming digitization and demographic change. Heidelberg has responded to the changes entailed by an aging workforce by improving its preventive healthcare. As a result of past restructuring programs as well as the current restructuring program, it cannot be ruled out that negative financial or non-financial effects (loss of key personnel, image, attractiveness as an employer) could arise for Heidelberg if it is unable to appoint successors with the required qualifications or at all.

This risk is considered to be medium.

Financial risks and opportunities

Pension obligations

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

Heidelberg's pension obligations are, in part completely or pro rata, covered by plan assets managed in trust, and are reported net in the statement of financial position. Plan assets consist of interest-bearing securities, equities, real estate and other investment classes and are continuously monitored and managed in line with risk and earnings considerations. The broad diversification of assets helps to further reduce risk.

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

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

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

Taxation

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

Tax risk is considered to be medium.

Foreign currency and interest rate business

As an internationally operating company, Heidelberg conducts business in various currencies, which can lead to risks and opportunities due to exchange rate changes. The risks are identified centrally and suitable strategies and measures are derived to counteract them. Some of these measures are derivative financial instruments, specifically forward exchange transactions and currency options. Details on these instruments and on the impact of hedging transactions can be found in note 33 of the notes to the consolidated financial statements. The functional separation of trading, settlement and risk controlling and compliance with the Minimum Requirements for Risk Management (MaRisk) formulated by the German Federal Financial Supervisory Authority (BaFin) are regularly reviewed by Internal Audit. Currency risks are managed in the medium and long term and operationally, whether through appropriate hedges or by increasing procurement volumes in foreign currency (natural hedging).

Changes in exchange rates can have a positive or negative effect on earnings and can also affect equity directly. There are interest rate risks for floating-rate liabilities as changes in the underlying market interest rate can affect their interest. Fluctuations in interest rates can have either a positive or a negative effect on earnings. Where appropriate, interest rate risks are limited by suitable interest rate swaps.

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

Liquidity

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

Despite the level of cash and cash equivalents at the balance sheet date and the financing structure, the liquidity risk is estimated to be medium in view of the significant deterioration in the business environment due to the COVID-19 pandemic.

Refinancing

Heidelberg is dependent on being able to refinance financial liabilities that become due, to meet existing financing commitments and to finance additional funding requirements for the development of its business activities. If reliable financing were not ensured, the ability to pay would be at risk. Heidelberg has a stable financing base with a diversified financing structure (banks, capital market and other financing commitments) and a maturity profile as far as 2023. There are mutual dependencies between the individual financing components in some cases. There are mutual dependencies between the individual financing components in some cases. If the results of operations and financial position were to deteriorate to such a degree that it were no longer possible to guarantee compliance with the financial covenants and if, at the same time, it were not possible to modify the financial covenants, this would have a significant adverse impact on the Group.

The details of the financing structure are described in the “Financial Position” section on page 46. Notes 28 and 39 to the consolidated financial statements explain in more detail that financing is linked to standard financial covenants.

The refinancing risk is considered to be medium on account of the potential impact and uncertainty resulting from the COVID-19 pandemic. This risk could increase in the event of a more sustained deterioration in the business environment due to COVID-19. Like other companies, Heidelberg is therefore monitoring the possibility of government support measures and would also apply for these if the situation were to deteriorate.

Rating

The capital market uses ratings from rating agencies to assist lenders in assessing the risk of default of a borrower or its financial instrument. Heidelberg is currently rated by Moody’s and Standard & Poor’s. Its rating from Moody’s has been Caa1 with a negative outlook since January 2020. Its rating from Standard & Poor’s has been B- with a negative outlook since April 2020. In light of the potential impact and uncertainty resulting from COVID-19 in particular, there is a fundamental risk that the rating agencies could downgrade Heidelberg’s credit rating further in the event that the relevant performance indicators (such as its dynamic gearing ratio) or the general outlook for the mechanical engineering industry deteriorate and make refinancing more difficult.

Despite the cash and cash equivalents available at the reporting date and the financing structure, the negative outlook issued by the two rating agencies means the risk is considered to be high.

Legal and compliance risks

As part of its general business operations, Heidelberg is involved in judicial and extra-judicial legal disputes whose outcome cannot be predicted with certainty. The principal legal disputes relate to product liability cases. In addition, there are legal disputes regarding warranty cases in connection with sales of machinery that could also lead to rescission. In addition to legal risks there are also antitrust risks, though their probability of occurrence is considered to be very low. Provisions are recognized accordingly for risks resulting from legal disputes, provided utilization is likely and the probable amount of the provision required can be reliably estimated. Heidelberg reduces legal risks from individual agreements by utilizing standardized master agreements wherever possible. Heidelberg’s interests in the area of patents and licenses are protected in a targeted manner.

The Heidelberg Group’s compliance management system (CMS) has been implemented with a view to identifying compliance misconduct and violations at an early stage and preventing them in order to minimize and prevent liability and reputational damage to the Heidelberg Group and its employees, managers and executive bodies.

To ensure that this objective is met, a compliance risk analysis is conducted regularly and on an ad hoc basis. In particular, this allows compliance risks arising from misconduct and violations of corruption, anti-trust and money laundering law to be identified, evaluated and controlled. Existing compliance principles, guidelines, regulations and work instructions are also reviewed and updated as required in this connection. In the financial year 2019/2020, the Heidelberg Group Code of Conduct was updated and the Business Partner Code of Conduct was revised, among other things. The Business Partner Code of Conduct aims to minimize and prevent potential compliance risks resulting from supply and production chains. The Heidelberg Group reserves the right to regularly review its business partners' compliance with the Business Partner Code of Conduct. In order to identify compliance risks at an early stage, the Heidelberg Group has also implemented a whistleblower system in the form of an external ombudsman who is available to the employees, managers and executive bodies of the Heidelberg Group and all customers, suppliers and other business partners as a reporting channel, including anonymously if desired.

As part of the implementation of the more stringent requirements of the European General Data Protection Regulation (GDPR) that came into force on May 25, 2018, Heidelberger Druckmaschinen Aktiengesellschaft has strengthened the Heidelberg Group's data protection organization further, particularly for its European companies, in order to allow it to identify and control potential risks arising from these heightened data protection requirements. This includes the implementation and continuous enhancement of a data protection management system and the establishment of various GDPR-compliant processes.

Legal and compliance risks are considered to be medium.

General statement on risks and opportunities

There are currently no discernible individual risks to the Heidelberg Group as a going concern. This applies both to business activities already implemented and to operations that Heidelberg is planning or has already introduced. Opportunities are not netted.

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

The overall risk situation of the Heidelberg Group has increased compared with the previous year.

The discontinuation of the development and production of the Primefire 106 digital printing press means there are no longer any future risks in connection with technical development and market launch. However, there are new risks resulting from the program to adjust production and structural costs that has been announced. The successful implementation of this program will be a key factor in Heidelberg achieving its goals. Accordingly, implementation is being managed with support from external experts and the active involvement of the Management Board. However, the possibility that it will not be possible to implement the planned measures within the planned time frame, with the planned savings or with the planned non-recurring expenses cannot be ruled out. This would have a negative impact on the results of operations. However, there is also an opportunity insofar as quicker or more comprehensive implementation could have a positive impact for Heidelberg.

A high risk of failing to meet earnings targets primarily lies in the possibility that the expectations of economic development in key sales markets (Europe – especially Germany – and the US and China) will fail to materialize, either in part or in full. A weaker than expected performance by these countries could have a negative impact on sales and margins in the HDT segment in particular. The manufacturer-side barriers to market entry in sheetfed offset printing are high, meaning that no significant competition from new providers is expected at least on this front. In addition, the precise transportation of paper sheets at high speeds remains a core competency of Heidelberg, and we are therefore an ideal partner for providers of new technologies. Partnerships allow Heidelberg to bundle the innovative strength of partners with its own in order to respond more quickly to current market conditions. Furthermore, Heidelberg has a strong global sales and service network.

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.

The risks are considered to be high overall.

Opportunities for Heidelberg lie in particular in the strategic measures as described in the "Strategy" section on pages 31 to 33.

Thanks to Heidelberg's global service and logistics network and the integration of independent providers into this network, there is also growth potential in the less cyclical lifecycle business.

Above and beyond this, a major opportunity for Heidelberg lies in the possibility of more positive economic performance in the print and media industry than is currently forecast. A shift in exchange rates in Heidelberg's favor would also have a positive effect on sales and earnings planning. There are opportunities – and risks – in several countries that social and political changes, government intervention, customs regulations and changes in legislation could influence our business development.

The opportunities are considered to be insignificant overall.

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

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

Central consolidated accounting responsibilities, such as the consolidation of the financial figures and the review of recognized goodwill, are undertaken by corporate accounting on behalf of the entire Group. Corporate accounting also regularly monitors whether the accounts are properly maintained and if the Group-wide Heidelberg Accounting Rules are adhered to, thereby ensuring that the financial information complies with regulatory requirements. In addition, our Internal Audit team, which has access to all data, examines individual areas and affiliates throughout the Group on the basis of random sampling. In doing so, it examines, among other things, whether the internal control system has been implemented in this regard or whether transactions have been controlled, and whether the principles of the separation of functions and dual control are adhered to in all areas. The latter is mandatory, for example, for every order that is placed, for every invoice that is issued, and for every investment decision that is made. Compliance with all other internal guidelines and directives that have an impact on accounting operations is also monitored.

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

All companies report their financial data for consolidation to the Group in accordance with a reporting calendar that applies uniformly throughout the Group. Consolidation controls are carried out in addition to controls of whether tax calculations are appropriate and whether tax-related items that are included in the annual financial statements have been properly recognized. Overall, these procedures ensure that reporting on the business activities of the Group is consistent worldwide and in accordance with approved accounting guidelines. The effectiveness of the internal accounting control system is also regularly monitored by our Internal Audit team.

OUTLOOK

Expected Conditions

In response to the outbreak and spread of the novel coronavirus, drastic measures have been and continue to be taken around the world to contain or slow down the COVID-19 pandemic, leading to severe restrictions in societal and above all business life in many countries. The duration and extent of the global downturn depend directly on the further progress of the epidemic and the measures required to contain it.

Economic momentum in the US in the first half of the year will be dominated by the direct and indirect consequences of the COVID-19 epidemic. Economists from IHS Global Insight Markit are forecasting a downturn of 5.4 percent for full-year 2020.

The economic prospects for the euro zone have also deteriorated considerably, making a recession unavoidable. GDP in the euro zone is expected to contract by 4.5 percent this year if the spread of COVID-19 is successfully contained by the summer. There are two reasons why the catch-up process is likely to be slower than usual: Firstly, the negative consequences of the COVID-19 pandemic in the US are occurring with some delay and hence will curb the first phase of the recovery in Europe. Secondly, this particular crisis is not only hitting industry but also - to an unusually large extent - service sectors, where it will not be possible to quickly recover the shortfall in demand in all cases.

The Japanese economy has been hard hit by the slump in demand from China due to COVID-19. A contraction in GDP in 2020 is extremely likely even if the economy begins to recover in the summer.

Unfortunately, 2020 does not seem set to be any healthier for the emerging economies. Although economic activity in China is likely to recover gradually following the successful containment of the virus and the relaxation of some quarantine measures that has already taken place, GDP growth for the current year is forecast at just 2 percent. This is having a considerable adverse impact on the emerging economies of Southeast Asia, as China is their most important trading partner and companies from this region are integrated into the value creation networks that are likely to have been hit by the production shutdowns in China.

Although Latin America is one of the least affected regions in terms of the number of cases, the COVID-19 pandemic is expected to impact economic activity and interrupt the recovery in the region.

A further downturn in production in the mechanical engineering industry was anticipated for 2020. The outbreak of the COVID-19 pandemic comes at a time of considerable structural upheaval and a significantly weakened world economy. This is having a corresponding impact on demand for machinery as potential investors refrain from placing orders. However, machine availability is also suffering due to extensive supply chain disruption. It is not yet possible to reliably quantify the consequences of these and other adverse effects. In March, the VDMA revised its production forecast to –5 percent. This is based on the assumption that the coronavirus will mainly impact economic activity in the first half of the calendar year, making this prognosis already subject to a high degree of uncertainty for this reason alone.

Future Prospects

The economic and political conditions presented on the markets relevant to Heidelberg, and the expected development of the printing industry, serve as premises for the forecast planning for the 2020/2021 financial year (April 1, 2020 to March 31, 2021) and beyond.

Since the outbreak of the COVID-19 pandemic began in the first quarter of 2020, Heidelberg has been focused on guaranteeing the safety and health of its employees, the functionality of its operating networks and fulfilling the needs of its customers as well as possible under the difficult circumstances. Thanks to the Company's global positioning, ample flexibility and high degree of digitization, we assume that operational capability is still largely guaranteed worldwide despite local restrictions.

The negative impact of the pandemic first became apparent in China in January 2020, and has increasingly spread to our core markets in Europe and North America since February. Heidelberg had already announced a package of measures in response to changing economic conditions, and in March 2020 initiated extensive measures to improve its cost structures and safeguard its liquidity. Given the rapid pace of developments, it is currently not possible to say for how long or how much the restrictions on public and economic life will affect the global economy and thus Heidelberg's operational performance. Accordingly, a reliable forecast of the Company's sales and earnings development in the 2020/2021 financial year is difficult at this time on account of the vast economic uncertainty. At least for the 2020 calendar year, experts are forecasting a global recession that could be even more severe than that following the financial crisis of 2008/2009.

In order to significantly improve Heidelberg's profitability in the medium to long term, we launched a comprehensive reframing in March 2020. Key elements of the future strategy include a focus on profitable core business accompanied by divestment from loss-making activities and integrated solutions with new digital business models. These efforts will be supported by the adjustment of structural costs at all levels (see "Strategy", pages 31 to 33). The implementation of most of the measures will get underway and allow savings as early as the 2020/2021 financial year. Owing to the COVID-19 pandemic, tangible positive effects of the reframing will then be expected from the 2021/2022 financial year.

Outlook for 2020/2021 marred by uncertainty over global COVID-19 pandemic

At the time of this management report being completed at the end of May 2020, the uncertainty as to the duration and severity of the negative impact of the COVID-19 pandemic prevents a legitimate forecast for the 2020/2021 financial year. While there were signs of stabilization in China in April 2020, and in Europe and also in North America from May, given the significant decline in the order situation, performance indicators are expected to be significantly lower than in the previous year, especially in the first half of the financial year (April 1 to September 30, 2020). In the coming months as well, the recovering momentum in new mechanical engineering orders in China documented by the VDMA is unlikely to suffice to compensate for the projected weakness in other regions of the world, in particular the US and Europe. As in previous years, Heidelberg is forecasting an improvement in its sales development in the second half of the financial year as compared to the first. However, it is not yet known if this will rise to the previous year's level.

Given this, until further notice we forecast that sales will be significantly lower than the previous year's level (€ 2,349 million) in the 2020/2021 financial year. The two segments, Heidelberg Digital Technology and Heidelberg Lifecycle Solutions, are equally affected by the negative development.

In view of the anticipated sales decline due to the COVID-19 pandemic, Heidelberg forecasts that its EBITDA margin for the 2020/2021 financial year will also be significantly reduced as a result of volume effects. Earnings will benefit from savings under the package of measures, accounting measures and temporary relief from flexible working time and the use of time accounts and short-time work. Asset management projects already initiated should also contribute to earnings in the current financial year. Overall, Heidelberg is aiming for an operating EBITDA margin excluding restructuring result of at least the same level as the previous year.

The expenses needed for the package of measures of around € 300 million in total were predominantly already posted in the 2019/2020 financial year. As Heidelberg may yet take further measures to improve its cost structure depending on the scale of the COVID-19 pandemic's impact, further restructuring expenses of € 50 to € 60 million are also expected in financial year 2020/2021. The planned ongoing repayment of financial liabilities, in particular the high-yield bond, should allow an improvement in the financial result. The specific form this will take, and when it takes place, will be determined based on the pandemic's progression and its impact on Heidelberg's liquidity. Overall, Heidelberg is forecasting a significantly improved but again clearly negative net result after taxes in the 2020/2021 financial year with leverage rising from a low level. In the medium to long term, Heidelberg assumes that the comprehensive package of restructuring measures will help to sustainably improve the Company's future profitability and its financial strength for future growth.

LEGAL DISCLOSURES

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

The Supervisory Board discussed the appropriateness of Management Board compensation as scheduled in the year under review. In some cases this was done in connection with the agreement and review of agreements on objectives with Management Board members. The procedure and benchmarks for measuring the variable compensation elements were defined with the introduction of the compensation system in place since the financial year 2012/2013. Multi-year variable compensation was reviewed and redesigned in the 2017/2018 financial year. The aim was to increase variability by redesigning expected values while reinforcing the idea of shareholder value. These changes also influence the compensation system as a whole. Following the entry into force of the German Act Implementing the Second Shareholders' Rights Directive (ARUG II) and the new German Corporate Governance Code as amended dated December 16, 2019, the Supervisory Board intends to revise the compensation system for the Management Board over the course of the 2020/2021 financial year and to present the results of its work to the 2021 Annual General Meeting for its approval in accordance with ARUG II ("say on pay").

By resolution of the Supervisory Board of June 4, 2020 the "One-year variable compensation for financial year 2019/2020" for Rainer Hundsdörfer and Marcus A. Wassenberg was set at € zero in each case. On this basis, the information in the charts "Allocation" (line "One-year variable compensation") and "Compensation of the individual members of the Management Board (HGB)" (column "One-year variable compensation") was determined and adjusted accordingly.

The following applies in the reporting year and until further notice:

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

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

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

The MULTI-YEAR VARIABLE COMPENSATION was reviewed and redesigned in the 2017/2018 financial year. Since the 2017/2018 financial year, the multi-year variable compensation has been determined according to two benchmarks: earnings before taxes according to the IFRS consolidated income statement (EBT) and total shareholder

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

Personal investment by Management Board members: During the period of appointment to the Management Board, each Management Board member must use the one-year and multi-year variable compensation to establish and hold a portfolio of shares in the Company in the value of their current fixed annual compensation. Shares in the Company already held by the respective Management Board member are counted towards this value. There is no obligation to acquire shares using other compensation or private wealth. The Company is entitled to invest 10 percent of the one-year variable compensation and 10 percent of the multi-year variable compensation (before deduction of taxes and contributions) in the form of shares in the Company. A bank or financial service provider is commissioned to acquire the shares; the Company bears the costs of processing and custody. The Company's entitlement to

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

Figures in € thousands	Rainer Hundsdörfer · Chief Executive Officer, Head of Digital Technology and Head of Lifecycle Solutions				Marcus A. Wassenberg [2] · Chief Financial Officer and Head of Financial Services since September 1, 2019			
	2018/2019 Objective	**2019/2020 Objective**	2019/2020 (Min)	2019/2020 (Max)	2018/2019 Objective	**2019/2020 Objective**	2019/2020 (Min)	2019/2020 (Max)
Fixed compensation [6]	660	670	670	670	–	233	233	233
Fringe benefits	26	27	27	27	–	12	12	12
Total	686	697	697	697	–	245	245	245
One-year variable compensation	594	603	0	603	–	210	0	210
Multi-year variable compensation	456	432	0	1,205	–	222	0	620
2018/2019 tranche [7]	456 [8]	–	–	–	–	–	–	–
2019/2020 tranche [7]	–	432 [9]	0	1,205	–	222 [9]	0	620
Total fixed and variable compensation components	1,736	1,732	697	2,505	–	677	245	1,075
Service cost	234	234	234	234	–	97	97	97
Total compensation	1,970	1,966	931	2,739	–	774	342	1,172

Figures in € thousands	Prof. Dr. Ulrich Hermann [3] Head of Lifecycle Solutions until February 16, 2020				Stephan Plenz [4] Head of Digital Technology until November 30, 2019			
	2018/2019 Objective	**2019/2020 Objective**	2019/2020 (Min)	2019/2020 (Max)	2018/2019 Objective	**2019/2020 Objective**	2019/2020 (Min)	2019/2020 (Max)
Fixed compensation [6]	408	364	364	364	408	276	276	276
Fringe benefits	25	34	34	34	14	12	12	12
Total	433	398	398	398	422	288	288	288
One-year variable compensation	367	327	0	327	367	248	0	248
Multi-year variable compensation	281	78	0	218	282	59	0	166
2018/2019 tranche [7]	281 [8]	–	–	–	282 [8]	–	–	–
2019/2020 tranche [7]	–	78 [9]	0	218	–	59 [9]	0	166
Total fixed and variable compensation components	1,081	803	398	943	1,071	595	288	702
Service cost	144	127	127	127	144	96	96	96
Total compensation	1,225	930	525	1,070	1,215	691	384	798

Figures in € thousands	Dirk Kaliebe [5] Chief Financial Officer and Head of Financial Services until August 31, 2019			
	2018/2019 Objective	**2019/2020 Objective**	2019/2020 (Min)	2019/2020 (Max)
Fixed compensation [6]	408	207	207	207
Fringe benefits	16	11	11	11
Total	424	218	218	218
One-year variable compensation	367	186	0	186
Multi-year variable compensation	282	45	0	124
2018/2019 tranche [7]	282 [8]	–	–	–
2019/2020 tranche [7]	–	45 [9]	0	124
Total fixed and variable compensation components	1,073	449	218	528
Service cost	144	72	72	72
Total compensation	1,217	521	290	600

Footnotes, see page 69

Allocation [1]

Figures in € thousands	**Rainer Hundsdörfer** Chief Executive Officer, Head of Digital Technology and Head of Lifecycle Solutions		**Marcus A. Wassenberg** [2] Chief Financial Officer and Head of Financial Services since September 1, 2019		**Prof. Dr. Ulrich Hermann** [3] Head of Lifecycle Solutions until February 16, 2020		**Stephan Plenz** [4] Head of Digital Technology until November 30, 2019		**Dirk Kaliebe** [5] Chief Financial Officer and Head of Financial Services until August 31, 2019	
	2018/2019	**2019/2020**	2018/2019	**2019/2020**	2018/2019	**2019/2020**	2018/2019	**2019/2020**	2018/2019	**2019/2020**
Fixed compensation [6]	647	662	–	229	400	359	400	273	400	207
Fringe benefits	26	27	–	12	25	34	14	12	16	11
Total	673	689	–	241	425	393	414	285	416	218
One-year variable compensation	594	0	–	0	367	40	367	248	367	186
Multi-year variable compensation	467	195	–	0	288	681	362	605	362	544
2016/2017 tranche [7]	467	–	–	–	288	–	362	–	362	–
2017/2018 tranche [7]	–	195	–	0	–	346	–	321	–	301
2018/2019 tranche	–	–	–	–	–	226	–	201	–	181
2019/2020 tranche	–	–	–	–	–	109	–	83	–	62
Total fixed and variable compensation components	1,734	884	–	241	1,080	1,114	1,143	1,138	1,145	948
Service cost [8]	234	234	–	97	144	127	144	96	144	72
Total compensation	1,968	1,118	–	338	1,224	1,241	1,287	1,234	1,289	1,020
of which: agreed personal investment	106	20	–	0	66	0	73	0	73	0

[1] Compensation paid or yet to be paid to the members of the Management Board for the respective financial year.
[2] Marcus A. Wassenberg was appointed as a member of the Management Board effective September 1, 2019.
The information here relates to the period from September 1, 2019 to March 31, 2020.
[3] Prof. Dr. Ulrich Hermann's appointment as a member of the Management Board ended on February 16, 2020.
His Management Board service agreement expired on March 31, 2020. The information here relates to the period until February 16, 2020.
[4] Stephan Plenz's appointment as a member of the Management Board ended as of November 30, 2019.
His Management Board service agreement expires on June 30, 2020. The information here relates to the period until November 30, 2019.
[5] Dirk Kaliebe's appointment as a member of the Management Board and his service agreement ended on September 30, 2019.
The information for the reporting year relates to the period until September 30, 2019.
[6] The remuneration waived by members of the Management Board in the 2019/2020 financial year amounted to €17 thousand (2018/2019 financial year: €36 thousand) in total. From October 1, 2018 the monthly fixed compensation of members of the Management Board was increased by 3 percentage points each and, furthermore, from the 2018/2019 financial year, the fixed annual compensation of Prof. Dr. Ulrich Hermann was adjusted to match that of Dirk Kaliebe and Stephan Plenz.
[7] Term: 3 years
[8] Not yet allocated in the financial year

Footnotes, page 68:
[1] In accordance with section 4.2.5 (3) of the German Corporate Governance Code in the version published on April 24, 2017
[2] Marcus A. Wassenberg was appointed as a member of the Management Board effective September 1, 2019.
The information here relates to the period September 1, 2019 to March 31, 2020.
[3] Prof. Dr. Ulrich Hermann's appointment as a member of the Management Board ended on February 16, 2020.
His Management Board service agreement expired on March 31, 2020. The information here relates to the period from April 1, 2019 to February 16, 2020.
[4] Stephan Plenz's appointment as a member of the Management Board ended as of November 30, 2019.
His Management Board service agreement expires on June 30, 2020. The information here relates to the period from April 1, 2019 to November 30, 2019.
[5] Dirk Kaliebe's appointment and his service agreement ended on September 30, 2019. The information here relates to the period April 1, 2019 to September 30, 2019.
[6] From October 1, 2018 the monthly fixed compensation of members of the Management Board was increased by 3 percentage points each and, furthermore, from the 2018/2019 financial year, the fixed annual compensation of Prof. Dr. Ulrich Hermann was adjusted to match that of Dirk Kaliebe and Stephan Plenz.
[7] Term: 3 years
[8] In the 2018/2019 financial year, this includes the fair value as of the grant date of the multi-year share-based cash compensation as follows:
Rainer Hundsdörfer: €163 thousand; Dirk Kaliebe: €101 thousand; Prof. Dr. Ulrich Hermann: €101 thousand; Stephan Plenz: €101 thousand.
[9] In the 2019/2020 financial year, this includes the fair value as of the grant date of the multi-year share-based cash compensation as follows:
Rainer Hundsdörfer: €131 thousand; Marcus A. Wassenberg: €67 thousand; Prof. Dr. Ulrich Hermann: €24 thousand (pro rata temporis amount for 10.55 months); Stephan Plenz: €18 thousand (pro rata temporis amount for eight months); Dirk Kaliebe: €14 thousand (pro rata temporis amount for six months).

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.

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

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.

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	2018/2019	647	26	594	361	1,628
	2019/2020	662	27	0	131	820
Marcus A. Wassenberg [3]	2018/2019	0	0	0	0	0
	2019/2020	229	12	0	67	308
Total	2018/2019	647	26	594	361	1,628
	2019/2020	891	39	0	198	1,128
Prof. Dr. Ulrich Hermann [4]	2018/2019	400	25	367	223	1,015
	2019/2020	359	34	40	301 [5]	734
Stephan Plenz [6]	2018/2019	400	14	367	223	1,004
	2019/2020	273	12	248	263 [7]	796
Dirk Kaliebe [8]	2018/2019	400	16	367	223	1,006
	2019/2020	207	11	186	233 [9]	637
Total	2018/2019	1,847	81	1,695	1,030	4,653
	2019/2020	1,730	96	474	995	3,295

[1] The remuneration waived by members of the Management Board in the 2019/2020 financial year amounted to € 17 thousand (previous year: € 36 thousand) in total.
In the 2018/2019 financial year: From October 1, 2018 the monthly fixed compensation of members of the Management Board was increased by 3 percentage points each and, furthermore, from the 2018/2019 financial year, the fixed annual compensation of Prof. Dr. Ulrich Hermann was adjusted to match that of Dirk Kaliebe and Stephan Plenz.
[2] In the 2018/2019 financial year, this includes the fair value as of the grant date of the multi-year share-based cash compensation as follows:
Rainer Hundsdörfer: € 163 thousand; Dirk Kaliebe: € 101 thousand; Prof. Dr. Ulrich Hermann: € 101 thousand; Stephan Plenz: € 101 thousand.
In the 2019/2020 financial year, this includes the fair value as of the grant date of the multi-year share-based cash compensation as follows:
Rainer Hundsdörfer: € 131 thousand; Marcus A. Wassenberg: € 67 thousand; Prof. Dr. Ulrich Hermann: € 81 thousand; Stephan Plenz: € 81 thousand; Dirk Kaliebe: € 81 thousand.
The total expenses in the 2019/2020 financial year for multi-year share-based cash compensation of € 873 thousand (previous year: total income of € 356 thousand) breaks down as follows: Rainer Hundsdörfer: income of € 24 thousand (previous year: income of € 125 thousand); Marcus A. Wassenberg: € 2 thousand (previous year: € 0 thousand); Prof. Dr. Ulrich Hermann: € 334 thousand (previous year: income of € 77 thousand); Stephan Plenz: € 296 thousand (previous year: income of € 77 thousand); Dirk Kaliebe: € 265 thousand (previous year: income of € 77 thousand).
[3] Marcus A. Wassenberg was appointed as a member of the Management Board effective September 1, 2019.
The information here relates to the period September 1, 2019 to March 31, 2020.
[4] Prof. Dr. Ulrich Hermann's appointment as a member of the Management Board ended on February 16, 2020.
His Management Board service agreement expired on March 31, 2020. The information here relates to the period from April 1, 2019 to February 16, 2020.
[5] The amount breaks down as follows: 2017/2018 tranche: € 53 thousand; 2018/2019 tranche: € 113 thousand; 2019/2020 tranche: € 135 thousand.
[6] Stephan Plenz's appointment as a member of the Management Board ended as of November 30, 2019. His Management Board service agreement expires on June 30, 2020.
The information here relates to the period from April 1, 2019 to November 30, 2019.
[7] The amount breaks down as follows: 2017/2018 tranche: € 40 thousand; 2018/2019 tranche: € 101 thousand; 2019/2020 tranche: € 122 thousand.
[8] Dirk Kaliebe's appointment as a member of the Management Board and his service agreement ended on September 30, 2019.
The information for the reporting year relates to the period from April 1, 2019 to September 30, 2019.
[9] The amount breaks down as follows: 2017/2018 tranche: € 30 thousand; 2018/2019 tranche: € 91 thousand; 2019/2020 tranche: € 112 thousand.

Rainer Hundsdörfer, Prof. Ulrich Hermann and Stephan Plenz invested the portions of the one-year variable compensation paid for financial year 2018/2019 as well as the corresponding portions of the multi-year variable compensation for financial years 2016/2017, 2017/2018 and 2018/2019 (2016/2017 tranche) in shares of Heidelberger Druckmaschinen Aktiengesellschaft on August 7, 2019, 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 8, 2019.

In the year under review, FRINGE BENEFITS primarily consist of the value of the private use of a company car.

BENEFITS TO MEMBERS OF THE MANAGEMENT BOARD WHO LEFT IN THE REPORTING YEAR (total amount for all former members of the Management Board not including pension contributions for Dirk Kaliebe for the period from October 1, 2019 to September 30, 2021: € 5,499 thousand) are as follows:

DIRK KALIEBE's term in office as a member of the Management Board and his service agreement with Heidelberger Druckmaschinen Aktiengesellschaft ended on September 30, 2019 (end of contract).

An agreement was entered into between Heidelberger Druckmaschinen Aktiengesellschaft and Dirk Kaliebe on May 27, 2019 with essentially the following content:

The following regulations apply to the period until the end of his contract (September 30, 2019): Assuming the achievement of 90 percent of fixed annual compensation, Dirk Kaliebe receives pro rata temporis (6/12) one-year variable remuneration for the 2019/2020 financial year of € 186 thousand. In addition, assuming the general achievement of 90 percent of fixed annual compensation, he receives pro rata temporis (30/36) multi-year variable compensation

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	2018/2019	552	231	558	234
	2019/2020	796	234	800	234
Marcus A. Wassenberg [3]	2018/2019	0	0	0	0
	2019/2020	82	82	97	97
Prof. Dr. Ulrich Hermann [4]	2018/2019	340	143	393	144
	2019/2020	–	127	–	127
Stephan Plenz [5]	2018/2019	1,711	143	1,947	144
	2019/2020	–	96	–	96
Dirk Kaliebe [6]	2018/2019	1,799	143	2,068	144
	2019/2020	–	72	–	72

[1] The pension entitlement that can be achieved by the age of 65 (Rainer Hundsdörfer and Marcus A. Wassenberg) is dependent on personal compensation development, the respective EBIT and the return achieved, and hence cannot be determined precisely in advance. If the pension option is utilized and the current assumptions continue to apply, the retirement pension resulting from the accrued pension capital is expected to be as follows: Rainer Hundsdörfer: approx. 7 percent and Marcus A. Wassenberg: approx. 17 percent of the respective last fixed compensation.

[2] For Rainer Hundsdörfer and Marcus A. Wassenberg, the pension contribution for the reporting year is calculated on the basis of the pensionable income on March 31, without taking into account the earnings-based contribution not yet determined. The waiver of remuneration in the 2019/2020 and 2018/2019 financial years had no effect on pensionable fixed annual compensation.

[3] Marcus A. Wassenberg was appointed as a member of the Management Board effective September 1, 2019. The information here relates to the period from September 1, 2019 to March 31, 2020. As the service cost amounts to € 0 thousand in the 2019/2020 financial year, the addition to the defined benefit obligation for the period from September 1, 2019 to March 31, 2020 is reported under "Service Cost".

[4] Prof. Dr. Ulrich Hermann's appointment as a member of the Management Board ended on February 16, 2020. His Management Board service agreement expired on March 31, 2020. The information here relates to the period from April 1, 2019 to February 16, 2020.

[5] Stephan Plenz's appointment as a member of the Management Board ended as of November 30, 2019. His Management Board service agreement expires on June 30, 2020. The information here relates to the period from April 1, 2019 to November 30, 2019.

[6] Dirk Kaliebe's appointment as a member of the Management Board and his service agreement ended on September 30, 2019. The information for the reporting year relates to the period from April 1, 2019 to September 30, 2019.

for the three-year period from 2017/2018 to 2019/2020 of € 301 thousand (including an entitlement previously established and thus already vested of € 120 thousand), assuming the general achievement of 90 percent of fixed annual compensation, he receives pro rata temporis (18/36) multi-year variable compensation for the three-year period from 2018/2019 to 2020/2021 of € 181 thousand and assuming the general achievement of 90 percent of fixed annual compensation, he receives pro rata temporis (6/36) multi-year variable compensation for the three-year period from 2019/2020 to 2021/2022 of € 62 thousand. The one-year variable compensation and the multi-year variable compensation as set out above are paid out at the same time as for active members of the Management Board.

The following regulations apply to the period from October 1, 2019 to September 30, 2021 (original agreement appointment): For the early termination of his engagement and to generally cover lost remuneration (fixed annual compensation from October 1, 2019; one-year variable compensation from October 1, 2019 to September 30, 2021 and the pro rata multi-year variable compensation for the 2019/2020 to 2021/2022 financial years), he receives a one-time severance payment of € 2,317 thousand. In calculating the severance payment, an amount of 90 percent of the fixed annual compensation per financial year, i.e. 180 percent in total, was assumed for the one-year and multi-year variable compensation. The severance payment was paid out on October 31, 2019.

From the time of this agreement becoming effective, Dirk Kaliebe is no longer under any obligation to add to or maintain a portfolio of shares.

In addition, the company car can be used beyond the end of the agreement (amendment of previous service agreement) until the end of his originally agreed appointment (September 30, 2021) under the same terms and conditions (benefit in kind: € 28 thousand); thereafter the company car can be acquired by Dirk Kaliebe at the lower of its remaining value according to the DAT system and current fair value. Furthermore, the Company has undertaken to maintain Dirk Kaliebe's cover under the current or another D & O insurance policy for a period of at least ten years after the end of his term in office as a member of the Management Board, or at least until the end of the limitation period for claims against Dirk Kaliebe in accordance with section 93 (6) AktG under the same terms and conditions as for active members of the Management Board.

On the basis of the existing pension agreement, Heidelberger Druckmaschinen Aktiengesellschaft will pay the fixed pension contribution of 35 percent of his eligible remuneration (respective pension contribution: € 145 thousand) at the due dates of July 1, 2020, July 1, 2021 and July 1, 2022 (amendment of previous service agreement), provided that the payment of benefits has not yet commenced in accordance with the provisions of the pension agreement at that time. The pro rata pension contributions amount to € 362 thousand for the period from October 1, 2019 to September 30, 2021; the corresponding past service cost amounts to € 333 thousand. Heidelberger Druckmaschinen Aktiengesellschaft has undertaken to protect his pension benefits by way of a reinsurance policy pledged to him or a pension trustee as referred to in section 246 (2) sentence 2 HGB; this will only be provided at Dirk Kaliebe's request and not before October 1, 2021 at the earliest.

In summary, the amounts of the benefits promised and granted in connection with Dirk Kaliebe leaving the Management Board are as follows:

€ thousands	
Severance pay	2,317
Fringe benefits for the period October 1, 2019 to September 30, 2021	28
Pension contributions for the period from October 1, 2019 to September 30, 2021 (past service cost: € 333 thousand)	362
Total	**2,707**

The appointment of STEPHAN PLENZ as a member of the Management Board was ended early by mutual arrangement on November 30, 2019; due to the fixed term, his service agreement with Heidelberger Druckmaschinen Aktiengesellschaft will end on June 30, 2020 (end of service agreement).

An agreement was entered into between Heidelberger Druckmaschinen Aktiengesellschaft and Stephan Plenz on November 28, 2019 with essentially the following content:

Stephan Plenz was released from his duty to provide services with continued pay effective December 1, 2019. His fixed monthly compensation of € 34 thousand will continue to be paid for the period from December 1, 2019 to June 30, 2020 (total amount: € 242 thousand); in addition, he was reimbursed for the compensation he waived for the period October 2019 to November 2019 (€ 3 thousand). While released from his duty to provide services (amendment of previous service agreement), he is entitled to perform other employment or activities, provided this is not in competition with the Company and does not aid competition by a third party. This applies in particular to direct or indirect consulting for companies that are shareholders of the Company so that the interests of the Company are not lastingly impaired as a result; any approval is to be granted by the Management Board of the Company. Other earnings will not be deducted from his compensation.

He can continue to use the company car provided to him for private use until the end of his service agreement (benefit in kind: € 7 thousand). Furthermore, he has the right to acquire his company car at its respective fair value by unilateral declaration, though not before the end of June 30, 2020 at the earliest. The accident insurance currently in place will be maintained until the end of his service agreement.

To cover his claims to one-year variable compensation, on the basis of the achievement of 90 percent of fixed annual compensation, he will receive an amount of € 372 thousand for the period from April 1, 2019 to March 31, 2020 and an amount of € 93 thousand for the period from April 1, 2020 to June 30, 2020. To cover his claims to multi-year variable compensation, on the basis of the achievement of 90 percent of the relevant fixed annual compensation in each case, he will receive an amount of € 362 thousand for the performance period from April 1, 2017 to March 31, 2020, an amount of € 271 thousand for the share of the performance period of the 2018/2019, 2019/2020 and 2020/2021 financial years relating to the period from April 1, 2018 to June 30, 2020, an amount of € 155 thousand for the share of the performance period of the 2019/2020, 2020/2021 and 2021/2022 financial years relating to the period from April 1, 2019 to June 30, 2020 and an amount of € 31 thousand for the share of the performance period of the 2020/2021, 2021/2022 and 2022/2023 financial years relating to the period from April 1, 2020 to June 30, 2020. The one-year variable compensation and the multi-year variable compensation as set out above are paid out at the same time as for active members of the Management Board. From the time of this agreement becoming effective, Stephan Plenz is no longer under any obligation to add to or maintain a portfolio of shares.

Furthermore, Heidelberger Druckmaschinen Aktiengesellschaft will pay Stephan Plenz a transitional allowance in the amount of one year's fixed annual compensation of € 414 thousand, which is due and payable at the end of his service agreement. Other earnings will not be deducted from his compensation.

Furthermore, Heidelberger Druckmaschinen Aktiengesellschaft has undertaken to maintain his existing D & O insurance until at least the end of his service agreement. Moreover, the Company will ensure that Stephan Plenz continues to be insured under the existing secondary liability for a period of ten years after the end of his service agreement, or at least until the start of the limitation period in accordance with section 93 (6) AktG, and for this purpose will take out secondary liability insurance covering the date at which Stephan Plenz leaves the Management Board and the limitation period in accordance with section 93 (6) AktG.

In order to fully protect his direct benefit commitments from insolvency, the Company has agreed to take out a reinsurance policy and to pledge this to Stephan Plenz. The one-time amount paid for the insurance and the HGB settlement amount as of March 31, 2020 differ only marginally.

In summary, the amounts of the benefits promised and granted in connection with Stephan Plenz leaving the Management Board are as follows:

€ thousands	
Transitional allowance	414
Fixed compensation including fringe benefits for the period December 1, 2019 to June 30, 2020	252
Performance-based compensation for the period from December 1, 2019 to June 30, 2020 [1)]	339
Total	**1,005**

[1)] Not including amounts attributable to share-based compensation if these were disclosed at their fair value as of the grant date in previous years

The appointment of PROF. DR. ULRICH HERMANN as a member of the Management Board was ended early by mutual arrangement on February 16, 2020; his service agreement with Heidelberger Druckmaschinen Aktiengesellschaft ended on March 31, 2020 (end of service agreement).

A cancellation agreement was entered into between Heidelberger Druckmaschinen Aktiengesellschaft and Prof. Dr. Ulrich Hermann on February 13/17, 2020 with essentially the following content:

Prof. Dr. Ulrich Hermann was released from his duty to provide services with continued pay effective February 18, 2020. His fixed monthly compensation of € 34 thousand was paid until March 31, 2020 (total amount: € 50 thousand). He was permitted to continue to use the company car provided to him for private use until the end of his service agreement (benefit in kind: € 3 thousand). Furthermore, he was granted the right to acquire his company car from March 31, 2020 at the earliest, with the purchase price to be determined by a neutral expert. The accident insurance currently in place will be maintained until the end of his service agreement.

To cover his claims to one-year variable compensation, on the basis of the achievement of 10.9 percent of fixed annual compensation, he will receive an amount of € 45 thousand for the period from April 1, 2019 to March 31, 2020. To cover his claims to multi-year variable compensation, on the basis of the achievement of 90 percent of the relevant fixed annual compensation in each case, he will receive an amount of € 360 thousand for the performance period from April 1, 2017 to March 31, 2020, an amount of € 241 thousand for the share of the performance period of the 2018/2019, 2019/2020 and 2020/2021 financial years relating to the period from April 1, 2018 to March 31, 2020 and an amount of € 124 thousand for the share of the performance period of the 2019/2020, 2020/2021 and 2021/2022 financial years relating to the period from April 1, 2019 to March 31, 2020. The one-year variable compensation and the multi-year variable compensation as set out above are paid out at the same time as for active members of the Management Board. From the time of this agreement becoming effective, Prof. Dr. Ulrich Hermann is no longer under any obligation to add to or maintain a portfolio of shares.

Heidelberger Druckmaschinen Aktiengesellschaft pays Prof. Dr. Ulrich Hermann severance pay of € 2,069 thousand (250 percent of fixed annual compensation for a period of two years) to be paid in five installments: 30 percent as of April 30, 2020, 20 percent as of August 31, 2020, 15 percent as of January 31, 2021, 15 percent as of April 30, 2021 and 20 percent as of July 31, 2021. Between December 31, 2020 and March 31, 2022, any other earnings under any other employment agreements, of which he is required to furnish the Company with evidence, must be deducted from the severance payments still outstanding in accordance with section 326 (2) sentence 2 and section 615 (2) BGB.

Furthermore, Heidelberger Druckmaschinen Aktiengesellschaft has undertaken to maintain his existing D & O insurance until the end of his service agreement.

In summary, the amounts of the benefits promised and granted in connection with Prof. Dr. Ulrich Hermann leaving the Management Board are as follows:

€ thousands	
Severance pay	2,069
Fixed compensation including fringe benefits for the period February 17, 2020 to March 31, 2020	53
Performance-based compensation for the period from February 17, 2020 to March 31, 2020 [1]	27
Total	**2,149**

[1] Not including amounts attributable to share-based compensation if these were disclosed at their fair value as of the grant date in previous years

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

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

The pension agreement provides for a defined contribution commitment. For each contribution year, a pension contribution will be credited consisting of a fixed pension contribution and any additional contribution. This performance-based additional contribution is paid depending on the amount of the annual EBIT of the Heidelberg Group in the past contribution year. This pension capital bears interest. The fixed pension contribution is 35 percent of the corresponding fixed compensation. The pension can be drawn as an early pension from the age of 60. In the event of a member of the Management Board leaving the Company, the pension will be paid from the age of 65 or 60 respectively, principally as a non-recurring payment of pension capital. In addition, the agreements also provide for disability and surviving dependents' benefits (60 percent of the disability payment or the pension) contingent on the amount of the last fixed compensation. In deviation from the defined contribution plan for executive staff, the percentage in the event of a disability pension is based on the length of service on the Company's Management Board, with attributable time up to the age of 65 and a maximum pension percentage of 60 percent. If the contract of employment expires prior to the start of benefit payments, the claim to the accrued pension funds at that point in time remains valid. The other pension benefits (disability and surviving dependents' benefits) earned in accordance with section 2 of the German Company Pension Act (BetrAVG) remain valid on a pro rata temporis basis. In a departure from section 1b BetrAVG, the benefits of Rainer Hundsdörfer and Marcus A. Wassenberg are vested immediately.

In terms of EARLY TERMINATION BENEFITS, all service agreements provide for the following uniform regulations in the event of the effective revocation of a Management Board member's appointment or a justifiable resignation by a member of the Management Board: The service agreement ends after the statutory notice period in accordance with section 622 (1), (2) of the German Civil Code (BGB). In the event of the effective revocation of a Management Board member's appointment, the member receives a severance payment at the time of termination of the service agreement in the amount of his or her previous total compensation under the service agreement for two years, but not exceeding the amount of the compensation for the originally agreed remainder of the service agreement. An entitlement to multi-year variable compensation determined, established and thus already vested at the date of departure is unaffected by the severance and transitional regulations and is paid immediately after departure or, with regard to the new multi-year variable compensation, as soon as the annual financial statements of the financial year in question have been prepared, but no later than the end of the first quarter of the financial year following the departure. This does not affect the right to extraordinary termination for cause in accordance with section 626 BGB. The severance payment is paid in quarterly installments in line with the originally agreed residual term, but in not more than eight quarterly installments. Other compensation received by a then former member of the Management Board, which this former member has agreed to disclose to the Company, must be offset in accordance with sections 326 (2) sentence 2 and 615 (2) BGB, with the corresponding changes, during the originally agreed residual term. If a member of the Management Board becomes unable to work due to disability, the benefits stipulated in the respective pension agreement will be paid. If no decision on reappointment is made by at least nine months before the end of the term in office and the Management Board member is not reappointed thereafter, the Management Board member receives a severance payment in the amount of the fixed annual compensation (transitional payment). The entitlement to this fixed annual compensation arises at the time of termination of the service agreement. It does not arise if, when the decision on reappointment is made or by the time of termination of the service agreement, there is good cause for which the Management Board member is responsible that would give the Company a right to termination in accordance with section 626 BGB. The above rule applies with the corresponding changes to the payment and eligibility of other compensation.

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

Each member of the Supervisory Board receives fixed annual compensation of € 40,000. The 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 per meeting for participation in a meeting of these committees. The Chairman of the Audit Committee receives compensation of € 4,500 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 per meeting. The members of the Supervisory Board also receive an attendance fee of € 500 per meeting for attending a meeting of the Supervisory Board or one of its committees. Furthermore, the expenses incurred by members of the Supervisory Board and VAT payable on them will be reimbursed. In order to boost the Supervisory Board's role as a controlling body, compensation does not include a variable, performance-based component. The Supervisory Board currently consists of 12 members.

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

Compensation of the Supervisory Board (excluding VAT)

Figures in €				2018/2019				**2019/2020**
	Fixed annual compen-sation	Attendance fees	Committee compen-sation	Total	Fixed annual compen-sation	Attendance fees	Committee compen-sation	Total
Dr. Martin Sonnenschein [1]	0	0	0	0	40,000	2,500	4,000	46,500
Dr. Siegfried Jaschinski [2]	120,000	6,000	16,500	142,500	80,000	5,500	28,000	113,500
Ralph Arns [3]	70,000	4,500	6,000	80,500	80,000	7,500	15,000	102,500
Rainer Wagner [4][5]	26,666	2,500	6,000	35,166	0	0	0	0
Joachim Dencker [6]	30,000	2,500	0	32,500	40,000	6,000	0	46,000
Gerald Dörr [6]	30,000	2,500	3,000	35,500	40,000	6,500	7,500	54,000
Mirko Geiger	40,000	6,000	7,500	53,500	40,000	7,000	7,500	54,500
Karen Heumann	40,000	3,000	4,500	47,500	40,000	5,500	7,500	53,000
Oliver Jung	40,000	4,500	3,000	47,500	40,000	7,500	10,500	58,000
Kirsten Lange	40,000	6,000	7,500	53,500	40,000	7,000	7,500	54,500
Li Li [7]	0	0	0	0	30,000	3,500	0	33,500
Dr. Herbert Meyer [5]	13,333	2,500	13,500	29,333	0	0	0	0
Petra Otte [6]	30,000	2,000	0	32,000	40,000	5,500	0	45,500
Ferdinand Rüesch [6]	34,633 [8]	3,000	3,000	40,633	40,000	6,500	7,500	54,000
Beate Schmitt	40,000	3,500	6,000	49,500	40,000	7,500	15,000	62,500
Prof. Dr. -Ing. Günther Schuh [9]	59,422 [10]	2,500	0	61,922	13,333	1,000	0	14,333
Christoph Woesler [5]	13,333	1,000	0	14,333	0	0	0	0
Roman Zitzelsberger [5]	13,333	1,000	0	14,333	0	0	0	0
Total	640,720	53,000	76,500	770,220	603,333	79,000	110,000	792,333

[1] Member and Chairman of the Supervisory Board since December 1, 2019
[2] Member and Chairman of the Supervisory Board until November 30, 2019
[3] Deputy Chairman of the Supervisory Board from July 25, 2018
[4] Deputy Chairman of the Supervisory Board until July 25, 2018
[5] Member of the Supervisory Board until July 25, 2018
[6] Member of the Supervisory Board since July 25, 2018
[7] Member of the Supervisory Board since July 25, 2019
[8] of which: fixed compensation for membership in the Board of Directors of a foreign subsidiary: € 0 (previous year: € 4,633)
[9] Member of the Supervisory Board until July 25, 2019
[10] of which: fixed compensation for membership in the Board of Directors of a foreign subsidiary: € 0 (previous year: € 19,422

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

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

As of March 31, 2020, the **ISSUED CAPITAL** (share capital) of Heidelberger Druckmaschinen Aktiengesellschaft amounted to € 779,466,887.68 and was divided into 304,479,253 no-par value bearer shares that are not subject to any restriction on transferability. As of the end of the reporting period, the Company held 142,919 treasury shares, from which no rights arise for the Company in accordance with section 71b of the German Stock Corporation Act (AktG).

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

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

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

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

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

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

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

The Annual General Meeting on July 25, 2019 authorized the Management Board, with the approval of the Supervisory Board, to issue warrants, convertible bonds and/or participating bonds as well as profit-sharing rights including combinations of the above instruments (collectively referred to as “bonds”) up to a total nominal amount of € 200,000,000.00, dated or undated, on one or several occasions by July 24, 2024, and to grant the bearers or creditors of the bonds options or conversion rights to up to 30,447,925 bearer shares of the Company with a pro rata amount of share capital of up to € 77,946,688.00 in total, in accordance with the further conditions of the bonds. Shareholders’ preemption rights can be disapplied in accordance with the further conditions of this authorization. For this purpose, the share capital of Heidelberger Druckmaschinen Aktiengesellschaft was contingently increased by up to € 77,946,688.00 (**CONTINGENT CAPITAL 2019**). In addition, the Annual General Meeting on July 25, 2019 resolved to cancel Contingent Capital 2015. Details on Contingent Capital 2019 can be found in Article 3 (4) of the Articles of Association.

In accordance with the resolution of the Annual General Meeting on July 25, 2019, the Management Board was authorized, with the approval of the Supervisory Board, to increase the share capital of the Company by up to € 185,609,612.80 on one or more occasions by issuing up to 72,503,755 new shares against cash or non-cash contributions by July 24, 2024 (**AUTHORIZED CAPITAL 2019**). Shareholders’ preemption rights can be disapplied in accordance with the further conditions of this authorization. The Management Board was authorized, with the approval of the Supervisory Board, to determine the further content of share rights and the conditions for issuing shares. In addition, the Annual General Meeting on July 25, 2019 resolved to cancel Authorized Capital 2015 upon Authorized Capital 2019 coming into effect, provided that it has not been utilized by this date. Details on Authorized Capital 2019 can be found in Article 3 (5) of the Articles of Association.

The credit facility signed on March 25, 2011 and extended until 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 development 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 289b to 289e HGB for the 2018/2019 financial year is permanently available on our website www.heidelberg.com under "Investor Relations", "Reports and Presentations".

Disclosures on Treasury Shares

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

Corporate Governance Declaration

The Corporate Governance Declaration in accordance with section 289f HGB and section 315d HGB can be found on pages 181 to 187 of this Annual Report. It has also been made permanently available at www.heidelberg.com under Company > About Us > Corporate Governance.

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

Financial section 2019/2020

Consolidated income statement 2019/2020

Figures in € thousands	Note	1-Apr-2018 to 31-Mar-2019	**1-Apr-2019 to 31-Mar-2020**
Net sales	8	2,490,492	2,349,450
Change in inventories		31,459	– 33,087
Other own work capitalized		33,799	28,281
Total operating performance		**2,555,750**	**2,344,644**
Other operating income	9	82,433	99,349
Cost of materials	10	1,160,582	1,107,954
Staff costs	11	890,982	997,078
Depreciation and amortization	12	79,816	166,424
Other operating expenses	13	425,764	441,957
Result of operating activities [1]		**81,039**	**– 269,420**
Financial income	15	5,995	4,004
Financial expenses	16	54,896	56,389
Financial result	14	**– 48,901**	**– 52,385**
Net result before taxes		**32,138**	**– 321,805**
Taxes on income	17	11,263	21,197
Net result after taxes		**20,875**	**– 343,002**
Basic earnings per share according to IAS 33 (in € per share)	36	**0.07**	**– 1.13**
Diluted earnings per share according to IAS 33 (in € per share)	36	**0.07**	**– 1.13**

[1] Result of operating activities excluding restructuring result: € 6,068 thousand (April 1, 2018 to March 31, 2019: € 100,839 thousand)

Restructuring result (€ – 275,488 thousand; April 1, 2018 to March 31, 2019: € – 19,800 thousand) = restructuring income (€ 12,175 thousand; April 1, 2018 to March 31, 2019: € 6,825 thousand) less restructuring expenses (€ – 287,663 thousand; April 1, 2018 to March 31, 2019: € – 26,625 thousand)

Consolidated statement of comprehensive income 2019/2020

Figures in € thousands	Note	1-Apr-2018 to 31-Mar-2019	**1-Apr-2019 to 31-Mar-2020**
Net result after taxes		**20,875**	**– 343,002**
Other comprehensive income not reclassified to the income statement			
Remeasurement of defined benefit pension plans and similar obligations		– 49,857	– 9,354
Revaluation of land		–	169,823
Deferred income taxes	22	2,333	– 7,864
		– 47,524	**152,605**
Other comprehensive income which may subsequently be reclassified to the income statement			
Currency translation			
Change in other comprehensive income		17,587	– 5,234
Change in profit or loss		–	–
		17,587	**– 5,234**
Fair value of other financial assets			
Change outside of profit or loss		7	– 450
Change in profit or loss		–	**0**
		7	– 450
Cash flow hedges			
Change outside of profit or loss		– 1,346	232
Change in profit or loss		2,541	1,860
		1,195	2,092
Deferred income taxes	22	– 182	– 2
		18,607	**– 3,594**
Total other comprehensive income		– 28,917	149,011
Total comprehensive income		**– 8,042**	**– 193,991**

Consolidated statement of financial position as of March 31, 2020

Assets

Figures in € thousands	Note	31-Mar-2019	31-Mar-2020
Non-current assets			
Intangible assets	18	271,271	201,128
Property, plant and equipment	19	559,664	732,295
Investment property	19	7,705	7,493
Financial assets	20	7,103	11,727
Receivables from sales financing	21	30,361	24,417
Other receivables and other assets [1]	21	8,040	25,040
Income tax assets		90	92
Deferred tax assets	22	76,057	68,643
		960,291	1,070,835
Current assets			
Inventories	23	684,857	660,147
Receivables from sales financing	21	29,475	18,999
Trade receivables	21	359,706	298,873
Other receivables and other assets [2]	21	71,381	76,458
Income tax assets		8,097	15,744
Securities	24	0	55,760
Cash and cash equivalents	24	215,015	372,719
		1,368,531	1,498,700
Assets held for sale	20	0	33,126
Total assets		**2,328,822**	**2,602,661**

[1] Of which financial assets € 18,377 thousand (previous year: € 2,988 thousand) and non-financial assets € 6,663 thousand (previous year: € 5,052 thousand)
[2] Of which financial assets € 41,226 thousand (previous year: € 34,001 thousand) and non-financial assets € 35,232 thousand (previous year: € 37,380 thousand)

Consolidated statement of financial position as of March 31, 2020

Equity and liabilities

Figures in € thousands	Note	31-Mar-2019	**31-Mar-2020**
Equity	25		
Issued capital		779,102	779,102
Capital reserves, retained earnings and other reserves		– 400,580	– 233,677
Net result after taxes		20,875	– 343,002
		399,397	202,423
Non-current liabilities			
Provisions for pensions and similar obligations	26	582,159	985,620
Other provisions [3]	27	43,678	26,515
Financial liabilities	28	366,441	357,396
Contract liabilities [4]	29	30,606	23,043
Income tax liabilities [3]	32	55,245	56,244
Other liabilities [5]	31	12,682	12,848
Deferred tax liabilities	22	4,618	4,478
		1,095,429	1,466,144
Current liabilities			
Other provisions [3]	27	193,489	325,902
Financial liabilities	28	98,568	114,021
Contract liabilities [4]	29	156,348	149,476
Trade payables	30	245,389	212,195
Income tax liabilities [3]	32	9,266	10,863
Other liabilities [6]	31	130,936	121,637
		833,996	934,094
Total equity and liabilities		**2,328,822**	**2,602,661**

[3] Figures for the previous year have been restated to reflect the first-time adoption of IFRIC 23 and the corresponding decision by the IFRS Interpretations Committee (IFRS IC) on September 17, 2019; see note 32
[4] For transparency reasons, contract liabilities are reported as a separate item in the consolidated statement of financial position starting from the financial year 2019/2020; the figures for the previous year have been restated accordingly
[5] Of which financial liabilities € 4,594 thousand (previous year: € 4,209 thousand) and non-financial liabilities € 8,254 thousand (previous year: € 39,079 thousand)
[6] Of which financial liabilities € 90,270 thousand (previous year: € 91,821 thousand) and non-financial liabilities € 31,367 thousand (previous year: € 195,463 thousand)

Statement of changes in consolidated equity as of March 31, 2020 [1)]

Figures in € thousands	Issued capital	Capital reserves	Retained earnings
April 1, 2018	713,198	30,668	– 265,470
Change in accounting policies [2)]	–	–	– 2,339
April 1, 2018 – adjusted [2)]	713,198	30,668	– 267,809
Capital increase [3)]	65,904	2,557	–
Profit carryforward	–	–	13,565
Total comprehensive income	–	–	– 47,524
Consolidation adjustments/other changes	–	–	62
March 31, 2019	**779,102**	**33,225**	**– 301,706**
April 1, 2019	779,102	33,225	– 301,706
Change in accounting policies [2)]	–	–	– 2,722
April 1, 2019 – adjusted [4)]	779,102	33,225	– 304,428
Profit carryforward	–	–	20,875
Total comprehensive income [5)]	–	–	– 15,910
Consolidation adjustments/other changes	–	–	– 261
March 31, 2020	**779,102**	**33,225**	**– 299,724**

[1)] For further details please refer to note 25
[2)] First-time adoption of IFRS 9 and IFRS 15; the previous year's figures have not been restated
[3)] After deduction of transaction costs of € 532 thousand
[4)] First-time adoption of IFRS 16; the previous year's figures have not been restated (see note 2)
[5)] Of which: € 168,515 thousand from the adoption of the revaluation method for land recognized in accordance with IAS 16: the 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
Revaluation of land	Currency translation	Fair value of other financial assets	Fair value of cash flow hedges				
–	– 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
–	–	–	–	–	2,557	–	68,461
–	–	–	–	–	13,565	– 13,565	–
–	17,587	4	1,016	18,607	–28,917	20,875	– 8,042
–	0	–	–	–	62	–	62
–	**– 131,046**	**– 118**	**– 936**	**– 132,099**	**– 400,580**	**20,875**	**399,397**
–	– 131,046	– 118	– 936	– 132,099	– 400,580	20,875	399,397
–	–	–	–	–	– 2,722	–	– 2,722
–	– 131,046	– 118	– 936	– 132,099	– 403,302	20,875	396,675
–	–	–	–	–	20,875	– 20,875	–
168,515	– 5,234	– 312	1,952	164,921	149,011	– 343,002	– 193,991
–	–	–	–	–	– 261	–	–261
168,515	**– 136,280**	**– 430**	**1,016**	**32,822**	**– 233,677**	**– 343,002**	**202,423**

Consolidated statement of cash flows 2019/2020 [1)]

Figures in € thousands	1-Apr-2018 to 31-Mar-2019	**1-Apr-2019 to 31-Mar-2020**
Net result after taxes	20,875	–343,002
Depreciation, amortization, write-downs and reversals [2)]	79,816	166,549
Change in pension provisions	7,532	179
Change in deferred tax assets/deferred tax liabilities [3)]	–4,640	337
Result from disposals [2)]	–629	63
Change in inventories	–53,701	18,891
Change in sales financing	6,191	14,324
Change in trade receivables/payables	25,516	25,233
Change in other provisions	–60,007	116,726
Change in other items of the statement of financial position	–32,231	–53,251
Cash used in operating activities [3) 4)]	**–11,278**	**–53,951**
Intangible assets/property, plant and equipment/investment property		
Investments	–124,887	–95,526
Income from disposals	20,750	21,812
Business acquisitions/corporate sales		
Investments	–	–3,740
Income from disposals	–	33,751
Financial assets		
Investments	–89	–1,422
Income from disposals	469	54
Retransfer of trust assets of Heidelberg Pension-Trust e.V.	–	324,403
Cash used in/generated by investing activities before cash investment	**–103,757**	**279,332**
Cash investment	21,933	–387
Cash used in/generated by investing activities	**–81,824**	**278,945**
Proceeds from capital increase	68,461	–
Borrowing of financial liabilities	155,956	216,421
Repayment of financial liabilities	–121,601	–281,932
Cash generated by/used in financing activities	**102,816**	**–65,511**
Net change in cash and cash equivalents	**9,714**	**159,483**
Cash and cash equivalents at the beginning of the year	**201,607**	**215,015**
Changes in the scope of consolidation	926	–
Currency adjustments	2,768	–1,779
Net change in cash and cash equivalents	9,714	159,483
Cash and cash equivalents at the end of the year	**215,015**	**372,719**
Cash used in operating activities	–11,278	–53,951
Cash used in/generated by investing activities	–81,824	278,945
Free cash flow	**–93,102**	**224,994**

1) For further details please refer to note 35
2) Relates to intangible assets, property, plant and equipment, investment property and financial assets
3) Figures for the previous year have been restated to reflect the first-time adoption of IFRIC 23 and the corresponding decision by the IFRS Interpretations Committee (IFRS IC) on September 17, 2019; see note 32
4) Includes income taxes paid and refunded of €24,589 thousand (previous year: €14,998 thousand) and €604 thousand (previous year: €3,186 thousand) respectively. The interest expenses and interest income amount to €31,692 thousand (previous year: €33,175 thousand) and €5,797 thousand (previous year €5,812 thousand) respectively

Financial section 2019/2020

Notes to the consolidated financial statements for the financial year April 1, 2019 to March 31, 2020

Development of intangible assets, property, plant and equipment, and investment property

Figures in € thousands							Cost
	As of start of financial year	Change in scope of consolidation	Additions	Reclassifications [1]	Currency adjustments	Disposals	**As of end of financial year**
2018/2019							
Intangible assets							
Goodwill	128,825	2,392	0	0	–28	0	131,189
Development costs	353,592	0	21,836	0	118	0	375,546
Software/other rights	119,832	0	10,934	–42	452	7,350	123,826
Advance payments	0	0	0	0	0	0	0
	602,249	**2,392**	**32,770**	**–42**	**542**	**7,350**	**630,561**
Property, plant and equipment							
Land and buildings	657,865	0	23,979	32,567	4,140	2,112	716,439
Technical equipment and machinery	547,115	0	31,320	2,371	1,351	17,183	564,974
Other equipment, operating and office equipment	663,248	719	33,119	6,418	3,299	54,529	652,274
Advance payments and assets under construction	41,952	0	12,585	–41,277	1	98	13,163
	1,910,180	**719**	**101,003**	**79**	**8,791**	**73,922**	**1,946,850**
Investment property	**13,931**	**0**	**0**	**0**	**–27**	**2,428**	**11,476**
2019/2020							
Intangible assets							
Goodwill	131,189	–739	0	0	–149	1,039	129,262
Development costs	375,546	0	16,745	0	169	0	392,460
Software/other rights	123,826	–18,504	7,719	–6,752	–169	1,468	104,652
Advance payments	0	0	28	–28	0	0	0
	630,561	**–19,243**	**24,492**	**–6,780**	**–149**	**2,507**	**626,374**
Property, plant and equipment							
Land and buildings	757,917	–4,343	14,029	–59,227	–1,894	7,795	698,687
Technical equipment and machinery	565,287	–2,862	22,820	543	–291	8,966	576,531
Other equipment, operating and office equipment	666,207	–772	33,570	2,977	–1,182	37,330	663,470
Advance payments and assets under construction	13,163	0	14,752	–7,563	–14	54	20,284
	2,002,574 [3]	**–7,977**	**85,171**	**–63,270**	**–3,381**	**54,145**	**1,958,972**
Investment property	**11,476**	**0**	**0**	**–275**	**–1**	**0**	**11,200**

[1] Includes reclassifications to “Assets held for sale” of € 33,126 thousand (previous year: € 0 thousand)
[2] Including write-downs of € 72,695 thousand (previous year: € 7,396 thousand), see note 12
[3] Including the transition effect of the adoption of IFRS 16 of € 55,724 thousand (see note 19)

							Cumulative depreciation and amortization		**Carrying amounts**
As of start of financial year	Change in scope of consolidation	Depreciation and amortization [2]	Reclassifications [1]	Currency adjustments	Disposals	Reversals	As of end of financial year	Remeasurement	As of end of financial year
1,604	0	0	0	– 3	0	–	1,601	–	129,588
249,566	0	20,527	0	9	0	–	270,102	–	105,444
87,921	0	6,525	– 76	401	7,184	–	87,587	–	36,239
0	0	0	0	0	0	–	0	–	0
339,091	**0**	**27,052**	**– 76**	**407**	**7,184**	–	**359,290**	–	**271,271**
443,830	0	11,939	– 37	2,443	1,614	–	456,561	–	259,878
425,356	0	15,634	– 115	974	13,926	–	427,923	–	137,051
515,068	0	25,071	258	2,402	40,097	–	502,702	–	149,572
0	0	0	0	0	0	–	0	–	13,163
1,384,254	**0**	**52,644**	**106**	**5,819**	**55,637**	–	**1,387,186**	–	**559,664**
4,715	**0**	**120**	**7**	**– 12**	**1,059**	–	**3,771**	–	**7,705**

1,601	0	0	0	0	0	–	1,601	–	127,661
270,102	0	75,579	0	83	0	–	345,764	–	46,696
87,587	– 15,860	7,062	246	– 154	1,000	–	77,881	–	26,771
0	0	0	0	0	0	–	0	–	0
359,290	**– 15,860**	**82,641**	**246**	**– 71**	**1,000**	–	**425,246**	–	**201,128**
456,561	– 1,428	24,829	– 37,496	– 355	2,781	–	439,330	169,823	429,180
427,923	– 2,069	19,832	7	337	5,818	–	440,212	–	136,319
502,702	– 603	39,011	– 117	– 805	23,239	–	516,949	–	146,521
0	0	9	0	0	0	–	9	–	20,275
1,387,186	**– 4,100**	**83,681**	**– 37,606**	**– 823**	**31,838**	–	**1,396,500**	**169,823**	**732,295**
3,771	**0**	**102**	**– 165**	**– 1**	**0**	–	**3,707**	–	**7,493**

General notes

1 Basis for the preparation of the consolidated financial statements

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

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

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

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

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

The revaluation method was applied for the first time to land recognized in accordance with IAS 16 as of the end of the 2019/2020 financial year (see note 6 and note 19); the previous year's figures have not been restated.

These consolidated financial statements relate to financial year 2019/2020 (April 1, 2019, to March 31, 2020). They were approved for publication by the Management Board of Heidelberger Druckmaschinen Aktiengesellschaft on May 25, 2020.

2 Adoption of amended or new standards

The Heidelberg Group applied all standards that were mandatory in the reporting year.

The International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRS IC) have approved the following changes to existing standards, which are to be applied for the first time in financial year 2019/2020.

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 19: Plan Amendment, Curtailment or Settlement	7-Feb-2018	1-Jan-2019	14-Mar-2019	No material effects
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures	12-Oct-2017	1-Jan-2019	11-Feb-2019	None
Amendments to IFRS 9: Prepayment Features with Negative Compensation	12-Oct-2017	1-Jan-2019	26-Mar-2018	None
Annual Improvements to IFRS Standards 2015 – 2017 Cycle	12-Dec-2017	1-Jan-2019	15-Mar-2019	None
New standards				
IFRS 16: Leases	13-Jan-2016	1-Jan-2019	9-Nov-2017	Please refer to remarks below this table
New interpretations				
IFRIC Interpretation 23: Uncertainty over Income Tax Treatments	7-Jun-2017	1-Jan-2019	24-Oct-2018	Please refer to note 32.

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

New accounting provisions

The IASB and the IFRS IC approved and amended other standards and interpretations, whose application is not yet compulsory in financial year 2019/2020 or which have not yet been endorsed by the European Union (EU). Heidelberg is not currently planning to apply these standards at an early date.

Standards	Publication by the IASB / IFRS IC	Effective date [1]	Published in Official Journal of the EU	Content	Expected effects
Amendments to standards					
Amendments to IAS 1: Classification of Liabilities as Current or Non-Current	23-Jan-2020	1-Jan-2022	Pending	The amendments contain clarifications on the classification of liabilities as current or non-current. Classification should be based on rights that are in existence at the end of the reporting period regardless of management intentions or expectations.	Currently being examined
Amendment to IAS 1 and IAS 8: Definition of Material	31-Oct-2018	1-Jan-2020	10-Dec-2019	The amendments contain clarifications on the definition of "Material".	No material effects
Amendments to IAS 16: Property, Plant and Equipment – Proceeds before Intended Use	14-May-2020	1-Jan-2022	Pending	The amendments specify that proceeds generated during the acquisition or production of an item of property, plant and equipment, e.g. proceeds from the sale of such items, may no longer be deducted from cost but instead must be recognized directly in profit or loss.	Currently being examined

Standards	Publication by the IASB / IFRS IC	Effective date [1]	Published in Official Journal of the EU	Content	Expected effects
Amendments to IAS 37: Onerous Contracts – Cost of Fulfilling a Contract	14-May-2020	1-Jan-2022	Pending	¬ The amendments specify that, in assessing whether a contract is onerous, the cost of fulfilling a contract comprises all costs relating directly to the contract.	No material effects
Amendments to IFRS 3: Business Combinations – Definition of a business	22-Oct-2018	1-Jan-2020	22-Apr-2020	¬ The amendments contain clarifications for the criteria used to determine whether a business or a group of assets has been acquired.	Currently being examined
Amendments to IFRS 3: Business Combinations - Reference to the Conceptual Framework	14-May-2020	1-Jan-2022	Pending	¬ The amendments update and define in greater detail the references to the conceptual framework in IFRS 3. ¬ The amendments also require IAS 37 or IFRIC 21 to be applied in identifying the liabilities and contingent liabilities as-sumed by the acquirer and set out an explicit prohibition on the recognition of contingent assets acquired.	Currently being examined
Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform	26-Sep-2019	1-Jan-2020	16-Jan-2020	¬ In light of the IBOR reform, the amendments provide temporary practical expedients for hedge accounting. As a result, existing hedges generally do not have to be ended on account of the IBOR reform.	No material effects
Annual Improvements to IFRS Standards 2018 – 2020 Cycle	14-May-2020	1-Jan-2022	Pending	¬ Minor and non-urgent improvements are made to IFRS as part of the IASB's annual improvement project. These relate to the standards IFRS 1, IFRS 9, IFRS 16 and IAS 41.	Currently being examined
Amendments to References to the Conceptual Framework in IFRS Standards	29-Mar-2018	1-Jan-2020	6-Dec-2019	¬ The IASB published a revised version of its Conceptual Framework in March 2018. ¬ As individual standards and interpretations refer directly to the guidelines in the Conceptual Framework, these references were updated according to the revised version of the Conceptual Framework.	None
New standards					
IFRS 17: Insurance Contracts	18-May-2017	1-Jan-2021	Pending	¬ IFRS 17 replaces the previous standard IFRS 4. ¬ The standard provides three variants for the future accounting treatment of insurance contracts. On initial recognition, insurance contracts are measured at their settlement amount plus the service margin.	No material effects

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

IFRS 16: Leases

The mandatory introduction of IFRS 16: Leases, changed the accounting for leases significantly. At Heidelberg, this essentially concerns leases for buildings, its vehicle fleet and its IT equipment.

Heidelberg applied the modified retrospective method in adopting IFRS 16; the comparative figures for the 2018/2019 financial year were therefore not restated. The options available were exercised as follows on adoption:

- for leases previously accounted for as operating leases, the right-of-use asset was typically measured in the amount of the lease liability adjusted for advance or deferred lease payments. There was no impairment testing, and instead right-of-use assets were reduced by existing provisions. To a small extent, the carrying amount of the right-of-use asset was calculated as if IFRS 16 had been applied since the inception of the lease;

- leases ending no later than March 31, 2020 were recognized as short-term leases regardless of their original term;
- initial direct costs were excluded from the measurement of the right-of-use asset;
- the information available as of the adoption date was used to determine the term of existing leases with an option to extend or terminate.

Heidelberg exercises the practical expedient of not recognizing right-of-use assets or lease liabilities in the statement of financial position for short-term or low-value assets. The expense arising from these leases is recognized on a straight-line basis over the term of the lease. For other leases previously classified as operating leases in accordance with IAS 17, the respective lease liability is measured at the present value of the remaining lease payments, discounted using the corresponding currency- and maturity-dependent incremental borrowing rate at the date of adoption. The weighted average incremental borrowing rate was 3.99 percent as of the date that IFRS 16 was adopted. If a lease agreement also contains non-lease components, these are not recognized in accordance with IFRS 16.

As of April 1, 2019, the initial adoption of IFRS 16 resulted in an increase in non-current assets of around € 56 million and around € 59 million in lease liabilities, with a simultaneous small reduction in retained earnings. The right-of-use assets recognized are reported under property, plant and equipment, and thus in the same item in which the leased assets would be reported if they were owned by the Heidelberg Group.

IFRS 16 led to shifts between the result of operating activities (EBIT) and the financial result in the income statement. Instead of the previous other operating expenses from operating lease relationships, depreciation of right-of-use assets of around € 17 million and interest expenses of discounting lease liabilities of around € 2 million were recognized in the reporting year.

The change in the presentation of lease expenses from operating leases also resulted in a shift from the cash generated by/used in financing activities to the cash used in operating activities of around € 19 million as a significant portion of lease payments will be reported as repayments of lease liabilities in cash generated by financing activities. The interest portion will still be reported under cash used in operating activities.

Based on the operating lease obligations as of March 31, 2019, the following reconciliation resulted in the opening balance of the lease liability as of April 1, 2019.

Reconciliation of lease liabilities

Lease obligations as of March 31, 2019	72,147
Utilization of exemptions for short-term leases	–3,595
Utilization of exemptions for low-value asset leases	–2,152
Adjustments from extension options	3,652
Others	–2,758
Nominal value of the lease obligations (operating lease) as of April 1, 2019	**67,294**
Effect of the discounting of lease liabilities	–8,003
Lease liabilities recognized for the first time due to the adoption of IFRS 16 as of April 1, 2019	**59,291**
Liabilities from finance leases as of April 1, 2019	3,846
Total of lease liabilities as of April 1, 2019	**63,137**

3 Scope of consolidation

The consolidated financial statements of Heidelberger Druckmaschinen Aktiengesellschaft include a total of 69 (previous year: 74) domestic and foreign companies controlled by Heidelberger Druckmaschinen Aktiengesellschaft within the meaning of IFRS 10. Of these companies, 59 (previous year: 62) are located outside Germany.

	2018/2019	**2019/2020**
April 1	72	74
Additions	2	–
Disposals (including mergers)	0	5
March 31	74	69

Control within the meaning of IFRS 10 exists when an investor controls the material activities of the investee, has exposure to variable returns from its involvement with the investee and the ability to utilize its control to influence the amount of returns from the investee. Inclusion in the consolidated financial statements occurs at the time that control is established. Subsidiaries that are of minor importance are not included. These subsidiaries are of minor significance if the total of the equity, total assets, net sales and net profit or loss of the subsidiaries not included amounts to only an insignificant portion of the Group figure. The list of all shareholdings of Heidelberger Druckmaschinen Aktiengesellschaft, which is a component of the notes to the consolidated financial statements, can be found in the annex to these notes (see pages 168 to 171).

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

- Effective April 1, 2019, Heidelberg Mexico Services, S. de R.L. de C.V., Mexico City, Mexico, was merged with Heidelberg Mexico, S. de R.L. de C.V., Mexico City, Mexico.
- Heidelberg Postpress Beteiligungen GmbH, Wiesloch, Germany, was deconsolidated effective September 30, 2019.
- Hi-Tech Coatings International B.V., Zwaag, the Netherlands, and Hi-Tech Coatings International Limited, Aylesbury Bucks, UK, were deconsolidated effective November 29, 2019 in conjunction with the sale of the Hi-Tech Coatings division for coatings in the packaging, label and printing industry. The selling price amounted to € 38.1 million and was paid in cash in the year under review with the exception of a 10 percent share retained by the buyer; this share is due by the end of financial year 2020/2021. The sale resulted in the disposal of cash and cash equivalents in the amount of € 731 thousand. The deconsolidation gain (after exchange rate effects) on the disposal of the companies in the amount of € 24,872 thousand is reported in the consolidated income statement under other operating income. The sale of the Hi-Tech Coatings International B.V., Zwaag, the Netherlands, and Hi-Tech Coatings International Limited, Aylesbury, Bucks, United Kingdom, which were allocated to the Heidelberg Lifecycle Solutions segment, involved the following assets and liabilities:

	29-Nov-2019
Non-current assets	9,179
Current assets	7,822
Assets	**17,001**
Equity	– 453
Liabilities	4,229
Equity and liabilities	**3,776**

- In the year under review, Hi-Tech Coatings Deutschland GmbH, Wiesloch, Germany, was merged with Heidelberg Consumables Holding GmbH, Wiesloch, Germany.

4 Principles of consolidation

In accordance with IFRS 3, all business combinations are recognized using the purchase method in the form of the full revaluation method.

On first-time consolidation of acquired companies, the identifiable assets, liabilities and contingent liabilities are measured at fair value as of the date of acquisition. If the purchase price exceeds the fair value of the identifiable assets less liabilities and contingent liabilities, this is recognized as goodwill. Negative goodwill arising on an acquisition at less than market value is recognized in profit or loss after a repeat assessment of the measurement performed.

Intra-Group sales, expenses and income, receivables, liabilities and contingent liabilities are eliminated. Intra-Group transactions are calculated both on the basis of market prices and on the basis of arm's length transfer prices. Assets from commercial transactions among consolidated companies included in inventories are adjusted to eliminate intercompany profits and losses. In consolidation processes affecting profit or loss, income tax effects are taken into account and the corresponding deferred taxes are recognized.

5 Currency translation

In those individual financial statements of consolidated companies, which are prepared in local currencies, monetary items in foreign currencies (cash and cash equivalents, receivables, liabilities) are measured at the exchange rate as of the end of the reporting period and exchange rate effects are recognized in profit or loss. Non-monetary items denominated in foreign currencies are posted at their historic exchange rates.

The financial statements of the companies included in consolidation that are prepared in foreign currency are translated on the basis of the functional currency concept (IAS 21) in accordance with the modified closing rate method. As our subsidiaries financially, economically and organizationally effect their transactions on an independent basis, the functional currency is usually the same as each subsidiary's respective local currency. Assets and liabilities are therefore translated at the closing rates, the equity – except income and expenses directly recognized in equity – at the historical rates, and expenses and income at the average exchange rates for the year. The difference resulting from the foreign currency translation is offset against other reserves outside profit and loss.

Currency differences arising as against the previous year's translation in the Heidelberg Group are also offset against other reserves outside profit and loss.

Accounting in line with IAS 29 was not required as the Heidelberg Group does not have any subsidiaries located in countries with hyperinflationary economies.

The main exchange rates used in currency translation are as follows:

	Average rates for the year		Reporting date rates	
	2018/2019 €1 =	**2019/2020 €1 =**	31-Mar-2019 €1 =	**31-Mar-2020 €1 =**
AUD	1.5878	1.6390	1.5821	1.7967
CAD	1.5196	1.4812	1.5000	1.5617
CHF	1.1428	1.0944	1.1181	1.0585
CNY	7.7771	7.7434	7.5397	7.7784
GBP	0.8827	0.8750	0.8583	0.8864
HKD	9.0582	8.6697	8.8195	8.4945
JPY	128.1900	120.5558	124.4500	118.9000
KRW	1,285.3517	1,315.7167	1,276.4600	1,341.0300
USD	1.1550	1.1095	1.1235	1.0956

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

6 General accounting policies

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

General principles

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

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

Uniform accounting policies

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

Consistency of accounting policies

With the exception of changes resulting from new or amended standards or interpretations (see note 2) and the adoption of the revaluation method for land recognized in accordance with IAS 16, the accounting policies applied in the previous year remain unchanged.

Revenue recognition

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

When selling consumables and spare parts, control is typically transferred, and sales recognized, on delivery to the customer.

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

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

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

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

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

Intangible assets

With the exception of goodwill, all intangible assets have a limited useful life and are therefore amortized on a straight-line basis over their expected useful life. In accordance with the option provided under IAS 38, intangible assets are measured at amortized cost. In accordance with IFRS 3 in conjunction with IAS 36, goodwill is tested for impairment on an annual basis and if there is any evidence to suggest a loss of value. Purchased intangible assets are capitalized at cost. Internally generated intangible assets are capitalized to the extent that the criteria for recognition in IAS 38 are met. Manufacturing costs include all directly attributable costs.

Research and development costs

Development costs for newly developed products are capitalized at cost to the extent that expenses are directly attributable and if both the technical feasibility and the marketing of the newly developed products are assured (IAS 38). There must also be a sufficient degree of probability that the development activity will lead to future inflows of benefits. Capitalized development costs include all direct costs and overheads that are directly attributable to the development process. If capitalized development projects meet the criteria of qualifying assets, borrowing costs are capitalized as part of cost in line with IAS 23. The corresponding interest expense is calculated using the effective interest method. Capitalized development costs are amortized on the basis of the estimated period during which sales may be expected.

In accordance with IAS 38, research costs cannot be capitalized and are therefore recognized in profit or loss directly in the consolidated income statement.

Property, plant and equipment

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

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

In addition to direct costs, the cost also includes appropriate portions of material and production overheads.

Borrowing costs that can be assigned directly to qualifying assets are capitalized as a part of cost in line with IAS 23.

Costs of repairs to property, plant and equipment that do not result in an expansion or substantial improvement of the respective asset are recognized in profit or loss.

Investment property

Investment property (IAS 40: Investment Property) is recognized at cost less cumulative straight-line depreciation and cumulative write-downs in line with the option provided under IAS 40. The fair value of investment property is disclosed in the notes to the consolidated financial statements. This value is calculated by non-Group, independent experts in line with internationally acknowledged valuation methods; otherwise it is derived from the current market price of comparable real estate.

Leases

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

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

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

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

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

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

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

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

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

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

Depreciation and amortization

Amortization of intangible assets and depreciation of property, plant and equipment and investment property is calculated primarily on the basis of the following useful lives, which are applied uniformly throughout the Group (in years):

	2018/2019	**2019/2020**
Development costs	3 to 12	3 to 12
Software/other rights	3 to 31	3 to 31
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	5 to 26
Investment property	25 to 50	25 to 50

Write-downs on non-financial assets

Intangible assets and items of property, plant and equipment are impaired if the recoverable amount of the asset is lower than its carrying amount. The recoverable amount for an individual asset must be estimated if there is any indication that this asset could be impaired. There is a separate rule if an intangible asset (including capitalized development costs) or an item of property, plant and equipment is part of a cash-generating unit. If an asset is part of a cash-generating unit, impairment is determined on the basis of the recoverable amount of this unit. This is typically the case for property, plant and equipment; the cash-generating units are the same as the segments (see note 38).

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

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

Inventories

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

Costs include production-related full costs determined on the basis of normal capacity utilization.

In particular, the cost of products includes directly attributable direct costs (such as production materials and wages used in construction) and fixed and variable production overheads (such as materials and production overheads), including an appropriate depreciation on manufacturing equipment. Particular account is taken of costs that are charged to specific production cost centers.

The risks of holding inventories arising from reduced usability are taken into account by appropriate write-downs. These write-downs are recognized on the basis of the future production program or actual consumption.

Individual periods are used for different inventory items, which are monitored and adjusted based on appropriate criteria. Measurement takes into account lower realizable net selling prices at the end of the reporting period. If the reasons for a lower valuation no longer apply to inventories that have formerly been written down and the net selling price has therefore risen, the reversal of the write-down is recognized as a reduction of the cost of materials.

Financial instruments

Basic information

A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments are recognized when Heidelberg becomes party to a contract for the financial instrument. If the trade date and settlement date differ for standard purchases or sales, financial instruments are recognized at the settlement date. First-time measurement of financial assets and liabilities is at fair value. The carrying amount of financial instruments not measured at fair value through profit or loss includes the directly attributable transaction costs. Subsequent measurement of financial instruments is in line with the measurement categories defined in IFRS 9: Financial Instruments. Under IFRS 9, on first-time recognition financial assets and liabilities can be designated as financial instruments in the fair value through profit and loss category. Heidelberg did not exercise this option.

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

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

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

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

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

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

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

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

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

Expected credit losses for receivables from sales financing are calculated on the basis of the credit risk assessment for each individual receivable. This calculation takes into account all receivables not already impaired. The key inputs are the internally calculated individual probability of default for the receivable and the expected loss given default. In order to draw conclusions about the customer's future sales and earnings performance, pieces of forward-looking information, including estimates of the expected development of the macroeconomic environment and demand on the relevant market derived from the internal customer risk assessment, are taken into consideration. Impairment is recognized on the receivable if its credit risk has increased significantly since initial recognition. Receivables from sales financing are not impaired if the value of the collateral held exceeds the amount of the receivable given default. For trade receivables, in line with the simplified approach chosen to calculate write-downs in accordance with IFRS 9, the lifetime expected credit losses are recognized from initial recognition of the receivables. The trade receivables portfolio is clustered by country and number of days past due to calculate the expected credit losses. Historical loss experience is used to calculate a provision matrix which is adjusted by a forward-looking factor that reflects the expected development of country risk. The theoretical maximum remaining risk of default of financial assets, disregarding collateral, is the same as their recognized carrying amounts. Impairment is recognized in the amount of the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. Trade receivables are not impaired if the value of the collateral held exceeds the amount of the receivable given default.

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

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

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

Financial assets

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

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

The appropriate classification of these securities is determined at the time of purchase and is reviewed as of the end of each reporting period.

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

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

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

Loans

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

Receivables from sales financing

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

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

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

Trade receivables

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

Receivables and other assets

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

Securities

Securities that represent an independent balance sheet item are measured both initially and subsequently at fair value.

Cash and cash equivalents

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

Financial liabilities

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

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

Derivative financial instruments

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

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

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

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

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

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

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

Hybrid financial instruments

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

Assets and liabilities held for sale

Non-current assets and liabilities are classified as held for sale when disposal is highly likely and the asset is available for immediate sale in its present condition. In addition, the owner must have resolved to sell the individual asset or disposal group within one year.

Assets held for sale are carried at the lower of the carrying amount and fair value less costs to sell. Assets held for sale are no longer subject to scheduled depreciation or amortization.

Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated in accordance with the liability method (IAS 12). Under this method, deferred taxes are recognized for all temporary differences between IFRS carrying amounts and the tax carrying amounts of the individual companies or Group companies and on corresponding consolidation adjustments. In addition, deferred tax assets for future benefits from tax loss carryforwards are also taken into account. Deferred tax assets for accounting differences and for tax loss carryforwards are recognized in the amount for which it is probable that taxable income will be available, i.e. for which utilization seems reasonably assured. Deferred taxes are measured on the basis of the income tax rates of the respective countries. A tax rate of 28.07 percent (previous year: 28.28 percent) is used to calculate domestic deferred taxes. In addition to the corporation tax of 15 percent and the solidarity surcharge of 5.5 percent, the average trade tax rate was also taken into account.

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

Provisions for pensions and similar obligations

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

For defined benefit plans, the pension obligations are calculated using the projected unit credit method (IAS 19). Under this method, expert actuarial reports are commissioned each year. The discount rate used for the present values of defined benefit obligations is based on the yields of high-quality corporate bonds with matching maturities and currencies and ratings of AA on the basis of the information provided by Bloomberg. This discount rate is also used to determine the net interest on the net liability/asset from defined benefit plans. Mortality and retirement rates are calculated in Germany according to the 2018 G Heubeck mortality tables and, outside Germany, according to comparable foreign mortality tables. Plan assets carried at fair value are offset against defined benefit obligations. The cash and cash equivalents of Heidelberg Pension-Trust e. V. are held in trust by the latter and serve to secure pension obligations as well as pension payments in case of delay; they do not qualify as plan assets in accordance with IAS 19.8. Current service cost and any past service cost is recognized immediately and reported under staff costs; the net interest expense, as the net total of interest expenses on benefit obligations and interest income on plan assets, is reported in the financial result. Gains or losses resulting from changed expectations with regard to life expectancy, future pension and salary increases and the discount rate from the actual developments during the period are recognized outside profit or loss directly in other comprehensive income in the statement of comprehensive income. Recognition of the gains or losses from remeasurements reported in other comprehensive income in profit or loss in later periods is not permitted. The difference between the (interest) income on plan assets calculated at the start of the period and the actual return on plan assets determined at the end of the period is also recognized outside profit or loss in other comprehensive income.

For defined contribution plans, compulsory contributions are offset directly as an expense. No provisions for pension obligations are recognized, as in these cases the Company does not have any obligation beyond that to pay premiums.

Other provisions

Other provisions are recognized when a past event gives rise to a current obligation, utilization is more likely than not and its amount can be reliably estimated. This means that the probability must exceed 50 percent. They are measured either at the most likely settlement amount or, if probabilities are equal, at the expected settlement amount. Provisions are only recognized for legal or constructive obligations in respect of third parties. Provisions are measured at full production cost, taking into consideration possible cost increases. Provisions for restructuring measures are recognized to the extent that the criteria of IAS 37 or IAS 19 respectively are met.

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

Income tax liabilities

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

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

Cash-settled share-based payment

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

Contract liabilities

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

Government grants

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

Contingent liabilities

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

7 Estimates and judgments

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

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

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

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

Goodwill impairment testing is based on the parameters listed in note 18. As in the previous year, a reduction in the growth factor used to calculate the perpetual annuity by 1 percentage point and a reduction in the result of operating activities of 5 percent would not result in any impairment requirement for the “Heidelberg Digital Technology” cash-generating unit or the “Heidelberg Lifecycle Solutions” cash-generating unit. Increasing the discount rate before taxes for the “Heidelberg Digital Technology” cash-generating unit by one percentage point to 9.6 percent (previous year: 7.4 percent) would have resulted in an impairment requirement of € 19,341 thousand in the year under review (previous year: 0); as in the previous year, increasing the discount rate before taxes for the “Heidelberg Lifecycle Solutions” cash-generating unit by one percentage point to 9.7 percent (previous year: 7.7 percent) would not have resulted in any impairment requirement. Increasing the discount rate before taxes for “Heidelberg Digital Technology” to 9.45 percent or higher would have resulted in an impairment requirement in the year under review.

The useful lives used throughout the Group for intangible assets – with the exception of goodwill – and for items of property, plant and equipment are subject to management assessments. In addition, the impairment test determines the recoverable amount of the asset or cash-generating unit to which the asset is attributed as the higher of fair value less costs to sell and value in use. The fair value here reflects the best estimate of the amount for which an independent third party would acquire the asset at the end of the reporting period. The value in use is the present value of the estimated future cash flows that can be anticipated from the continued use of the asset or cash-generating unit. A change in determining factors can change the fair value or the value in use and could result in the recognition or reversal of write-downs.

Credit and default risks arise for trade receivables and receivables from sales financing to the extent that customers do not meet their payment obligations and assets are lost as a result. The necessary write-downs (see also note 6, “Financial instruments”) are calculated on a forward-looking basis taking into account the credit rating of the respective customer, any collateral and experience of historical default rates. In particular, forward-looking factors include information on the expected development of credit ratings by country (trade receivables) and estimates of the expected development of the macroeconomic environment and demand on the relevant market derived from the internal customer risk assessment (receivables from sales financing). The customer’s actual default may differ from the expected default on account of the underlying factors.

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

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

Notes to the consolidated income statement

8 Net sales

In addition to income from the sale of machinery of € 1,373,503 thousand (previous year: € 1,502,716 thousand), income from the sale of consumables and spare parts of € 640,050 thousand (previous year: € 658,905 thousand) and income from services of € 318,453 thousand (previous year: € 316,424 thousand), net sales also include income from commissions, finance and operating leases of € 13,872 thousand (previous year: € 8,557 thousand) and interest income from sales financing and finance leases calculated using the effective interest method of € 3,572 thousand (previous year: € 3,889 thousand). Income of € 793 thousand from finance leases relates to the loss on disposal and € 151 thousand to financial income from the net investment in the lease. Income from operating leases amounted to € 8,627 thousand (previous year: € 4,483 thousand). Heidelberg's business activities are divided into the Heidelberg Digital Technology segment, comprising sheetfed offset, label printing, postpress and digital printing business, and the Heidelberg Lifecycle Solutions segment, which bundles Service and Consumables and Software Solutions business. Sales of machinery essentially comprise the sheetfed offset, label printing, post-press and digital printing business. The Heidelberg Financial Services segment comprises sales financing business.

Net sales of € 2,349,450 thousand (previous year: € 2,490,492 thousand) comprise revenue from contracts with customers in accordance with IFRS 15 of € 2,332,006 thousand (previous year: € 2,478,045 thousand) and other net sales of € 17,444 thousand (previous year: € 12,447 thousand).

Of the performance obligations not yet fulfilled as of the end of the reporting period (see note 29), € 102,319 thousand (previous year: € 115,199 thousand) relates to machinery not yet delivered and € 70,200 thousand (previous year: € 71,755 thousand) to maintenance and services not yet performed. Fulfillment of the former performance obligations is essentially expected within the next 12 months while fulfillment of the latter performance obligations is essentially expected within a short to medium-term period.

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

9 Other operating income

	2018/2019	**2019/2020**
Reversal of other provisions and accruals	35,094	34,062
Gain on deconsolidation of Hi-Tech Coatings	–	24,872
Hedging/exchange rate gains	7,690	6,191
Income from operating facilities	6,224	5,206
Recoveries on loans and other assets previously written down	4,520	4,290
Income from disposals of intangible assets, property, plant and equipment and investment property	1,999	961
Other income	26,906	23,767
	82,433	**99,349**

The items "Reversal of provisions/accruals" and "Other income" also include restructuring income totaling € 10,049 thousand (previous year: € 4,260 thousand) and € 2,126 thousand (previous year: € 2,565 thousand) respectively. In the reporting period, this resulted in part from the reversal of provisions for HR measures essentially recognized in connection with portfolio and capacity adjustments in the previous year of € 9,778 thousand (previous year: € 3,369 thousand).

10 Cost of materials

	2018/2019	**2019/2020**
Cost of raw materials, consumables and supplies, and of goods purchased and held for resale	1,033,018	985,666
Cost of purchased services	126,506	121,545
Interest expense of Heidelberg Financial Services	1,058	743
	1,160,582	**1,107,954**

The ratio of the cost of materials to total operating performance is 47.3 percent (previous year: 45.4 percent).

The "Cost of raw materials, consumables and supplies and of goods purchased and held for resale" item also includes restructuring expenses in connection with the discontinuation of production of Primefire and large-format printing presses in conjunction with the comprehensive package of measures announced on March 17, 2020 of € 56,983 thousand (previous year: € 0 thousand).

11 Staff costs and number of employees

	2018/2019	**2019/2020**
Wages and salaries	742,596	850,946
Cost of/income from pension scheme	20,218	15,969
Other social security contributions and expenses	128,168	130,163
	890,982	**997,078**

The item "Wages and salaries" also includes restructuring expenses totaling € 119,961 thousand (previous year: € 24,007 thousand). In the reporting period, they essentially relate to expenses in connection with the adjustment of personnel capacity at German production sites in connection with the package of measures announced on March 17, 2020 of € 106,582 thousand (previous year: € 19,948 thousand).

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

	Average		As of	
	2018/2019	**2019/2020**	31-Mar-2019	**31-Mar-2020**
Europe, Middle East and Africa	8,580	8,450	8,578	8,351
Asia/Pacific	1,653	1,650	1,639	1,661
Eastern Europe	485	510	494	520
North America	707	692	708	682
South America	102	102	103	102
	11,527	11,404	11,522	11,316
Trainees	348	358	329	326
	11,875	**11,762**	**11,851**	**11,642**

[1] Not including interns, graduating students, dormant employees and employees in the exemption phase of partial retirement

12 Depreciation and amortization

Depreciation and amortization including write-downs of € 166,424 thousand (previous year: € 79,816 thousand) relate to intangible assets of € 82,641 thousand (previous year: € 27,052 thousand), property, plant and equipment of € 83,681 thousand (previous year: € 52,644 thousand) and investment property of € 102 thousand (previous year: € 120 thousand). Depreciation and write-downs of € 19,628 thousand relate to right-of-use assets from leases reported under property, plant and equipment. These relate to land and buildings in the amount of € 11,140 thousand, technical equipment and machinery of € 47 thousand and other equipment, operating and office equipment of € 8,441 thousand.

Write-downs of € 72,695 thousand (previous year: € 7,396 thousand) primarily relate to capitalized development costs, which are predominantly attributable to the Heidelberg Digital Technology segment. Write-downs also include restructuring expenses of € 70,337 thousand (previous year: € 661 thousand); in the year under review, these primarily related to the discontinuation of production of Primefire and large-format printing presses in conjunction with the comprehensive package of measures announced on March 17, 2020.

13 Other operating expenses

	2018/2019	**2019/2020**
Other deliveries and services not included in the cost of materials	144,184	146,808
Special direct sales expenses including freight charges	103,088	91,326
Travel expenses	39,956	38,462
Additions to provisions and accruals relating to several types of expense	3,452	37,751
Bad debt allowances and impairment on other assets	12,993	23,244
Rent and leases	31,913	15,721
Insurance expense	10,345	10,464
Hedging/exchange rate losses	5,937	6,397
Costs of car fleet (excluding leases)	6,058	4,670
Other overheads	67,838	67,114
	425,764	**441,957**

The items “Other deliveries and services not included in the cost of materials”, “Additions to provisions and accruals relating to several types of expense” and “Bad debt allowances and impairment on other assets” also include restructuring expenses of € 10,148 thousand (previous year: € 0 thousand), € 26,000 thousand (previous year: € 1,957 thousand) and € 4,234 thousand (previous year: € 0 thousand). In the year under review, these primarily related to the discontinuation of production of Primefire and large-format printing presses in conjunction with the comprehensive package of measures announced on March 17, 2020.

As a result of the adoption of IFRS 16, the “Rents and leases” item now only includes the following amounts for leases in which the Heidelberg Group is the lessee:

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

14 Financial result

	2018/2019	**2019/2020**
Financial income	5,995	4,004
Financial expenses	54,896	56,389
Financial result	**– 48,901**	**– 52,385**

15 Financial income

	2018/2019	**2019/2020**
Interest and similar income	3,238	3,095
Income from financial assets/loans/securities	2,757	909
Financial income	**5,995**	**4,004**

“Income from financial assets/loans/securities” includes dividends of € 69 thousand (previous year: € 64 thousand) from securities at fair value through other comprehensive income in the reporting period.

16 Financial expenses

	2018/2019	**2019/2020**
Interest and similar expenses	51,780	51,042
of which: net interest cost of pensions	(10,168)	(10,965)
Expenses for financial assets/loans/securities	3,116	5,347
Financial expenses	**54,896**	**56,389**

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

Interest and similar expenses include interest expenses from leases of € 2,223 thousand (previous year: € 252 thousand). These interest expenses resulted exclusively from finance leases in the previous year.

The cost of financial assets/loans/securities includes write-downs of € 219 thousand (previous year: € 236 thousand).

17 Taxes on income

Taxes on income are broken down as follows:

	2018/2019	**2019/2020**
Current taxes	15,903	20,860
of which Germany	(4,285)	(1,944)
of which abroad	(11,618)	(18,916)
Deferred taxes	– 4,640	337
of which Germany	(– 1,513)	(1,170)
of which abroad	(– 3,127)	(– 833)
	11,263	**21,197**

As in the previous year, the adoption of amended or new standards did not result in any additional tax expenses or tax income.

Taxes on income comprise German corporate tax (15 percent) plus the solidarity surcharge (5.5 percent), trade tax (12.24 percent; previous year: 12.45 percent) and comparable taxes of the foreign subsidiaries. The nominal total German tax rate is 28.07 percent for the financial year (previous year: 28.28 percent).

No deferred tax liabilities were recognized for temporary differences on shares in subsidiaries of € 157,894 thousand (previous year: € 164,588 thousand) as it is unlikely that these differences will reverse in the foreseeable future or the corresponding effects are not subject to taxation. Any recognition of deferred taxes would be based on the respective applicable tax rates in line with local taxation on planned dividends.

Deferred tax income from the reversal of a previous write-down of deferred tax assets on temporary differences and deferred tax expenses resulting from the write-down in the reporting year amounted to € – 2,088 thousand (previous year: deferred tax expenses of € 175 thousand) and € 0 thousand (previous year: € 3,733 thousand) respectively.

Total tax loss carryforwards for which no deferred tax assets were recognized amount to € 1,771,770 thousand (previous year: € 1,291,922 thousand). Of these, € 2 thousand can be used by 2021 (previous year: € 0 thousand by 2020), € 3 thousand by 2022 (previous year: € 9,818 thousand by 2021) € 6 thousand by 2023 (previous year: € 3 thousand by 2022), € 0 thousand by 2024 (previous year: € 6 thousand by 2023), € 635 thousand by 2025 (previous year: € 574 thousand by 2024) and € 1,771,123 by 2026 and later (previous year: € 1,281,521 by 2025 and later).

For interest carryforwards amounting to € 109,651 thousand (previous year: € 91,345 thousand) no deferred tax assets were recognized.

Deferred tax assets are only recognized for tax loss carryforwards and interest carryforwards if their realization is guaranteed in the near future. Write-downs of deferred tax assets for loss carryforwards recognized in previous years were recognized in the amount of € 2,629 thousand in the year under review (previous year: € 206 thousand). Deferred tax assets totaling € 2,402 thousand (previous year: € 5,339 thousand) were recognized in the reporting year on tax loss carryforwards not previously recognized. In the reporting year deferred tax assets on current tax losses in the amount of € 1,620 thousand (previous year: € 9,414 thousand) were recognized in profit or loss.

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

Deferred tax assets of € 44,525 thousand (previous year: € 46,882 thousand) were capitalized at companies that generated a tax loss in the reporting year or in the prior financial year, as on the basis of tax planning it is assumed that positive taxable income will be available in the foreseeable future.

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

Unutilized tax credit for which no deferred tax assets have been recognized in the consolidated statement of financial position amounted to € 0 thousand (previous year: € 0 thousand).

Current taxes were reduced in the reporting year by € 875 thousand (previous year: € 415 thousand) as a result of deferred tax assets for tax loss carryforwards that had not previously been taken into account. In the reporting period, current income taxes included prior-period expenses of € 1,638 thousand (previous year: € 1,936 thousand).

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

	2018/2019	**2019/2020**
Net result before taxes	32,138	– 321,805
Theoretical tax rate in percent	28.28	28.07
Theoretical tax income/expense	**9,088**	**– 90,331**
Change in theoretical tax income/expense due to:		
Differing tax rate	– 3,255	3,047
Tax loss carryforwards [1]	8,093	138,451
Reduction due to tax-free income	– 6,503	– 11,854
Tax increase due to non-deductible expenses	9,132	10,397
Change in income tax liabilities for reassessment risks	1,828	1,033
Impairment/reversal of deferred tax assets on temporary differences	– 7,382	– 31,414
Other (incl. taxes on previous years)	262	1,868
Taxes on income	**11,263**	**21,197**
Tax rate in percent	**35.05**	**– 6.59**

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

Notes to the consolidated statement of financial position

18 Intangible assets

GOODWILL includes amounts arising from the takeover of businesses (asset deals) and from the acquisition of shares in companies (share deals). For the purpose of impairment testing, assets are allocated to cash-generating units. These are the same as the segments (see note 38). The carrying amounts of the goodwill associated with the cash-generating units Heidelberg Digital Technology and Heidelberg Lifecycle Solutions total € 63,125 thousand (previous year: € 63,192 thousand) and € 64,536 thousand (previous year: € 66,396 thousand) respectively.

According to IAS 36, as part of the impairment test the recoverable amount of the cash-generating units is determined based on the higher of the fair value less costs to sell and the value in use. The fair value here reflects the best estimate of the price independent market participants would receive under standard market conditions for the sale of the cash-generating units at the end of the reporting period. The value in use is the present value of the estimated future cash flows expected from the cash-generating unit. The calculation of the value in use by Heidelberg on the basis of the discounted cash flow method is based on the planning authorized by the Management Board, which in turn is based on medium-term planning for the result of operating activities for a period of five (previous year: five) financial years. This planning process is based on past experience, the corporate strategy, external information sources and expectations of future market development. Key assumptions on which the calculation of the value in use by the management is based include forecasts in the planning period of the development of sales, the costs taking into account the effects of Company-wide earnings improvement measures (EBIT), the costs of capital and the growth rate.

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

As a result, and as in the previous year, there were no impairment requirements for the Heidelberg Digital Technology, Heidelberg Lifecycle Solutions or Heidelberg Financial Services cash-generating units.

The calculated cash flows were discounted on the basis of market data using weighted average costs of capital (WACC) before taxes of 8.6 percent (previous year: 6.4 percent) for the Heidelberg Digital Technology cash-generating unit and of 8.7 percent (previous year: 6.7 percent) for the Heidelberg Lifecycle Solutions cash-generating unit. Sensitivity analyses were conducted as part of the impairment test in accordance with the requirements of IAS 36.134; an impairment loss was determined for the cash-generating unit Heidelberg Digital Technology if the discount rate before tax increased by 1 percentage point (see note 7).

Capitalized development costs mainly relate to developments in sheetfed offset printing presses in the Heidelberg Digital Technology and the Heidelberg Lifecycle Solutions segments. Non-capitalized development costs from all segments – including research expenses – amount to € 109,334 thousand in the reporting year (previous year: € 105,181 thousand).

19 Property, plant and equipment and investment property

In conjunction with the first remeasurement of land reported under property, plant and equipment in the 2019/2020 financial year, increases in value of € 169,823 thousand less deferred taxes of € 1,308 thousand were recognized in "Other comprehensive income" and write-downs of € 1,882 thousand were recognized in profit or loss. If this land had still been measured in accordance with the cost model, its carrying amount would have been € 22,895 thousand.

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

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

	1-Apr-2019	Additions	Depreciation and amortization	Disposals	Other changes	31-Mar-2020
Land and buildings	42,525	5,762	11,140	3,272	– 1,912	31,963
Technical equipment and machinery	313	1,255	47	0	–	1,521
Other equipment, operating and office equipment	16,331	7,763	8,441	162	– 217	15,274
	59,169	**14,780**	**19,628**	**3,434**	**– 2,129**	**48,758**

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

The carrying amounts of assets capitalized in non-current assets from operating leases in which we are the lessor are € 36,328 thousand (previous year: € 29,050 thousand). These assets are reported under technical equipment and machinery. These assets are printing presses leased to customers. The gross carrying amounts were € 54,268 thousand (previous year: € 41,030 thousand) and cumulative depreciation amounted to € 17,940 thousand (previous year: € 11,980 thousand). Depreciation of € 7,959 thousand (previous year: € 3,873 thousand) was recognized in the reporting year. Future lease income of € 21,185 thousand (previous year: € 19,894 thousand) is anticipated from operating leases. These undiscounted lease payments are due as follows:

	31-Mar-2020
Up to 1 year	5,657
Between 1 and 2 years	5,138
Between 2 and 3 years	4,737
Between 3 and 4 years	3,769
Between 4 and 5 years	1,260
More than 5 years	624
	21,185

In connection with the refinancing of the Heidelberg Group (see note 28), property, plant and equipment and investment property were pledged as collateral by way of assignment and the appointment of a collective land charge. The carrying amounts of this collateral as of the end of the reporting period were € 477,696 thousand (previous year: € 404,323 thousand) and € 5,063 thousand (previous year: € 5,080 thousand).

The carrying amounts of property, plant and equipment that are partially unused or are no longer used are of minor significance.

For property, plant and equipment leased to customers of the Heidelberg Group in finance leases, corresponding receivables have been capitalized in the amount of the discounted future minimum lease payments. Leased items are therefore not reported under non-current assets.

The fair value of investment property (IAS 40: Investment Property) corresponds to the second level in the measurement hierarchy according to IFRS 13 and is € 9,680 thousand (previous year: € 10,712 thousand). Investment property with a fair value of € 2,861 thousand (previous year: € 3,498 thousand) was measured by non-Group independent experts in line with internationally acknowledged valuation methods. The other fair values were derived from current market prices of comparable real estate.

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

20 Financial assets and assets held for sale

Financial assets include shares in subsidiaries totaling € 4,306 thousand (previous year: € 663 thousand), other investments of € 5,142 thousand (previous year: € 3,378 thousand) and securities of € 2,279 thousand (previous year: € 3,062 thousand). Please see note 33 for information on securities and their fair value.

The assets classified as held for sale in accordance with IFRS 5 as of March 31, 2020 predominantly relate to three plots of developed land whose sale is planned and has been initiated. The assets are essentially allocated to the Heidelberg Digital Technology segment.

21 Receivables and other assets

	31-Mar-2019			31-Mar-2020		
	Current	Non-current	Total	Current	Non-current	**Total**
Receivables from sales financing	**29,475**	**30,361**	**59,836**	**18,999**	**24,417**	**43,416**
Trade receivables	**359,706**	**–**	**359,706**	**298,873**	**–**	**298,873**
Other receivables and other assets						
Other tax assets	12,150	4	12,154	12,633	3	12,636
Cash and cash equivalents of Heidelberg Pension-Trust e.V.	–	–	–	–	15,025	15,025
Loans	129	1,630	1,759	105	2,067	2,172
Derivative financial instruments	3,155	–	3,155	4,399	–	4,399
Contract assets	–	–	–	434	913	1,347
Deferred income	11,147	691	11,838	8,070	861	8,931
Other assets	44,800	5,715	50,515	50,817	6,171	56,988
	71,381	**8,040**	**79,421**	**76,458**	**25,040**	**101,498**

Receivables from sales financing (not including lease receivables from finance leases) and trade receivables result from contracts with customers and amounted to € 418,133 thousand as of April 1, 2019 and € 341,391 thousand as of March 31, 2020.

In the reporting year, plan assets of € 266 thousand (previous year: € 1,659 thousand) are included in current other assets (see note 26).

In connection with the refinancing of the Heidelberg Group (see note 28), trade receivables, receivables from sales financing and other receivables and other assets were assigned as collateral by way of undisclosed assignment. The carrying amounts of this collateral as of the end of the reporting period were € 41,345 thousand (previous year: € 63,506 thousand), € 366 thousand (previous year: € 1,677 thousand) and € 47 thousand (previous year: € 0 thousand) respectively.

Receivables from sales financing

RECEIVABLES FROM SALES FINANCING are shown in the following table:

Contract currency	Carrying amount 31-Mar-2019 in € thousands	Remaining term in years	Effective interest rate in percent	Carrying amount **31-Mar-2020** in € thousands	Remaining term in years	Effective interest rate in percent
EUR	29,120	to 7	to 14	23,893	to 9	to 14
KRW	16,543	to 7	to 9	12,476	to 7	to 9
AUD	4,138	to 6	to 10	2,440	to 7	to 9
USD	6,106	to 3	to 12	290	to 2	to 12
Various	3,929			4,317		
	59,836			**43,416**		

The effective interest rates correspond to the agreed nominal interest rates.

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

The derived market value of the collateral held for receivables from sales financing was € 42,425 thousand (previous year: € 54,116 thousand) as of the end of the reporting period. This collateral is essentially reservations of title, with the amount of security varying from region to region.

Impairment on receivables from sales financing developed as follows in the reporting year; the higher level of additions is due primarily to the impact of the global COVID-19 pandemic:

	2018/2019			2019/2020		
	Stage 1 – twelve-month expected credit losses	Stage 2 – lifetime expected credit losses	Stage 3 – lifetime expected credit losses	Stage 1 – twelve-month expected credit losses	Stage 2 – lifetime expected credit losses	Stage 3 – lifetime expected credit losses
As of the start of the financial year (IFRS 9)	593	–	6,698	655	–	6,295
Additions	232	–	1,161	1,042	–	1,509
Utilization	–	–	– 199	–	–	– 984
Reversals	– 132	–	– 1,404	– 350	–	– 830
Change in scope of consolidation, currency adjustments, other changes	– 38	–	39	– 9	–	– 125
As of the end of the financial year	**655**	**–**	**6,295**	**1,338**	**–**	**5,865**

There were no significant modifications to receivables from sales financing in the reporting year.

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

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

	2018/2019			2019/2020		
Gross carrying amounts	Stage 1 – twelve-month expected credit losses	Stage 2 – lifetime expected credit losses	Stage 3 – lifetime expected credit losses	Stage 1 – twelve-month expected credit losses	Stage 2 – lifetime expected credit losses	Stage 3 – lifetime expected credit losses
Low risk	20,155	–	578	8,447	–	–
Medium risk	26,916	–	2,673	23,473	–	4,991
High risk	5,930	–	10,535	3,954	–	9,753
Total	**53,001**	**–**	**13,786**	**35,874**	**–**	**14,744**

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

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

	31-Mar-2020
Up to 1 year	549
Between 1 and 2 years	186
Between 2 and 3 years	142
Between 3 and 4 years	59
Between 4 and 5 years	23
More than 5 years	20
Undiscounted lease payments	**979**
Unearned finance income	81
Net investment in the lease	**898**

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

Trade receivables

In accordance with the simplified approach for calculating write-downs on trade receivables, the following provision matrix was used to calculate the expected loss on receivables not impaired as of March 31, 2020:

	2018/2019			**2019/2020**		
	Default ratio	Gross carrying amount	Expected loss	Default ratio	Gross carrying amount	Expected loss
Receivables neither past due nor impaired	0.3 %	259,252	773	3.04 %	214,771	6,531
Receivables past due but not impaired						
less than 30 days	1.44 %	40,337	579	3.85 %	39,897	1,536
between 30 and 60 days	3.83 %	18,245	699	5.99 %	17,201	1,031
between 60 and 90 days	5.62 %	10,008	562	6.96 %	9,750	678
between 90 and 180 days	5.69 %	8,660	493	7.85 %	8,753	687
more than 180 days	9.32 %	7,696	717	13.38 %	5,101	682
Total		**344,198**	**3,823**		**295,473**	**11,145**

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

The expected credit losses on trade receivables with a gross carrying amount of € 295,473 thousand as of the end of the reporting period are calculated on a collective basis.

The derived market value of the collateral held for receivables from machinery sales was € 151,057 thousand (previous year: € 178,889 thousand) as of the end of the reporting period. This collateral is essentially reservations of title, with the amount of security varying from region to region.

Total write-downs in the period for trade receivables amounted to € 20,221 thousand (previous year: € 7,042 thousand); the increase in expected losses was due primarily to the impact of the global COVID-19 pandemic. Of this, write-downs booked to allowance accounts developed as follows in the reporting year:

	2018/2019		**2019/2020**	
	Expected losses	Impairment	Expected losses	Impairment
As of the start of the financial year (IFRS 9)	3,474	14,049	3,823	14,265
Additions	1,732	4,469	8,397	9,848
Utilization	–	– 2,058	–	– 1,968
Reversals	– 1,258	– 1,804	– 1,045	– 2,696
Change in scope of consolidation, currency adjustments, other changes	– 125	– 391	– 30	– 214
As of the end of the financial year	**3,823**	**14,265**	**11,145**	**19,235**

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

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

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

Other receivables and other assets

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

The cash and cash equivalents of Heidelberg Pension-Trust e. V. in the amount of € 15,025 thousand (previous year: € 0 thousand) are held in trust by the latter (see note 26). These instruments serve to secure all pension obligations. They are currently sufficient to satisfy in full the pension obligations not already covered by the Pensions-Sicherungs-Verein (pension guarantee association) in the event of a corresponding claim while also providing a liquidity buffer for any delayed pension payments.

Specific allowances for impairment losses of € 224 thousand (previous year: € 4,663 thousand) and € 8,333 thousand (previous year: € 8,531 thousand) relate to loans (gross carrying amount: € 2,396 thousand; previous year: € 6,422 thousand) and other financial assets (gross carrying amount: € 46,605 thousand; previous year: € 40,605 thousand) respectively.

Of the impairment recognized on loans in the previous year, € 4,343 thousand (previous year: € 34 thousand) was utilized and € 0 thousand (previous year: € 0 thousand) was reversed. Additions to impairment losses of € 0 thousand were required (previous year: € 126 thousand). Of the impairment recognized on other financial assets in the previous year, € 654 thousand (previous year: € 440 thousand) was utilized and € 24 thousand (previous year: € 121 thousand) was reversed. Additions of € 452 thousand were required (previous year: € 4,422 thousand).

€ 3,399 thousand (previous year: € 1,152 thousand) of unimpaired loans and other financial assets were past due by more than 180 days.

Derivative financial instruments include asset cash flow hedges of € 2,341 thousand (previous year: € 883 thousand) and asset fair value hedges of € 2,058 thousand (previous year: € 2,272 thousand).

22 Deferred tax assets and deferred tax liabilities

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

	31-Mar-2019		**31-Mar-2020**	
	Assets	Liabilities	Assets	Liabilities
Tax loss carry-forwards	34,864	–	30,741	–
Assets:				
Intangible assets/ property, plant and equipment/ investment property/ financial assets	2,755	6,809	3,936	47,762
Inventories, receivables and other assets	13,244	2,089	10,617	3,946
Securities	83	1	12	–
Liabilities:				
Provisions	16,568	62	60,420	148
Liabilities	13,533	647	12,223	1,928
Gross amount	81,047	9,608	117,949	53,784
Offsetting	4,990	4,990	49,306	49,306
Carrying amount	**76,057**	**4,618**	**68,643**	**4,478**

Deferred tax assets include non-current deferred taxes of € 51,671 thousand (previous year: € 50,729 thousand). Deferred tax liabilities include non-current deferred taxes of € 4,128 thousand (previous year: € 3,524 thousand).

As a result of currency translation, deferred tax assets increased by € 210 thousand (previous year: increased by € 4,141 thousand) in the reporting year. Owing to the change in the consolidated group, deferred tax assets increased by € 717 thousand (previous year: increased by € 588 thousand).

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

			2018/2019			**2019/2020**
	Before income taxes	Income taxes	After income taxes	Before income taxes	Income taxes	After income taxes
Remeasurement of defined benefit pension plans and similar obligations	– 49,857	2,333	– 47,524	– 9,354	– 6,556	– 15,910
Remeasurement of land	–	–	–	169,823	– 1,308	168,515
Currency translation	17,587	–	17,587	– 5,234	–	– 5,234
Fair value of other financial assets	7	– 3	4	– 450	138	– 312
Cash flow hedges	1,195	– 179	1,016	2,092	– 140	1,952
Total other comprehensive income	**– 31,068**	**2,151**	**– 28,917**	156,877	– 7,866	149,011

23 Inventories

	31-Mar-2019	**31-Mar-2020**
Raw materials and supplies	115,282	110,410
Work and services in progress	317,755	265,439
Finished goods and goods for resale	246,139	275,007
Advance payments	5,681	9,291
	684,857	**660,147**

In order to adjust inventories to the net realizable value, write-downs of € 73,281 thousand were recognized in the year under review (previous year: € 3,256 thousand). These primarily relate to the discontinuation of production of Primefire and large-format printing presses in conjunction with the comprehensive package of measures announced on March 17, 2020. Remarketed equipment was repossessed as collateral owing to the insolvency of customers.

The carrying amount of the inventories pledged as collateral in connection with the refinancing of the Heidelberg Group (see note 28) was € 366,166 thousand (previous year: € 409,288 thousand).

24 Securities and cash and cash equivalents

Securities in the amount of € 55,760 thousand (previous year: 0) relate entirely to fund units. They relate to the retransfer of almost all the trust assets of Heidelberg Pension-Trust e. V., which were previously administered by Heidelberg Pension-Trust e. V. under the contractual trust arrangement (CTA) of Heidelberger Druckmaschinen Aktiengesellschaft and Heidelberger Druckmaschinen Vertrieb Deutschland GmbH (see note 26, where information on the allocation of funds of these securities is also provided). In accordance with IFRS 9, they are classified as financial assets at fair value through profit or loss. Please see note 33 for information on the fair value of securities.

Cash and cash equivalents consist of cash on hand and bank balances; their carrying amount is to be taken as an appropriate estimate of the fair value. Restrictions on disposal of cash and cash equivalents due to foreign exchange restrictions amount to € 13,794 thousand (previous year: € 30,891 thousand). Bank balances are exclusively held for short-term cash management purposes.

25 Equity

Share capital/number of shares outstanding/treasury stock

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

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

As of March 31, 2020, the Company holds 142,919 shares, as in the previous year. The amount of these shares allocated to share capital is € 366 thousand, as in the previous year, with a notional share of share capital of 0.05 percent as of March 31, 2020 (previous year: 0.05 percent).

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

Contingent capital

Contingent Capital 2014

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

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

From April 20, 2018, Heidelberger Druckmaschinen Aktiengesellschaft is entitled to repay the convertible bond ahead of schedule in full at the nominal value plus accrued interest. This requires that the share price multiplied by the applicable conversion ratio on 20 of the 30 consecutive trading days on the Frankfurt Stock Exchange before the announcement of the date of the early repayment exceeds 130 percent of the nominal value as of each of these 20 trading days. Each holder of the convertible bond is entitled to demand the repayment of all or some of his/her bonds for which the conversion right was not exercised and for which early repayment was announced by Heidelberger Druckmaschinen Aktiengesellschaft as of March 30, 2020 at the set nominal amount plus interest incurred by March 30, 2020 (exclusively).

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

Contingent Capital 2019

On July 25, 2019, 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 the above instruments (collectively referred to as bonds) up to a total nominal amount of € 200,000,000, dated or undated, on one or several occasions by July 24, 2024, and to grant the bearers or creditors of the bonds options or conversion rights to up to 30,447,925 bearer shares of the Company with a pro rata amount of share capital of up to € 77,946,688 in total, in accordance with the further conditions of the bonds. Shareholders' pre-emption rights can be disapplied in accordance with the further conditions of this authorization. The share capital of Heidelberger Druckmaschinen Aktiengesellschaft was contingently increased by up to € 77,946,688 for this purpose (CONTINGENT CAPITAL 2019); details of Contingent Capital 2019 can be found in Article 3 (4) of the Articles of Association. In addition, the Annual General Meeting on July 25, 2019 resolved to cancel Contingent Capital 2015. The resolutions became effective on entry of the amendment of the Articles of Association in the commercial register of the Mannheim Local Court on September 6, 2019.

Authorized capital

In accordance with the resolution of the Annual General Meeting on July 25, 2019, the Management Board was authorized, with the approval of the Supervisory Board, to increase the share capital of the Company by up to € 185,609,612.80 on one or more occasions by issuing up to 72,503,755 new shares against cash or non-cash contributions by July 24, 2024 (AUTHORIZED CAPITAL 2019). Shareholders' pre-emption rights can be disapplied in accordance with the further conditions of this authorization.

The Management Board was authorized, with the approval of the Supervisory Board, to determine the further content of share rights and the conditions for issuing shares. Details on Authorized Capital 2019 can be found in Article 3 (5) of the Articles of Association. The resolutions became effective on entry of the amendment of the Articles of Association in the commercial register of the Mannheim Local Court on September 6, 2019.

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).

In the previous year, with the approval of a committee formed by the Supervisory Board for these purposes and acting in place of the Supervisory Board, the Management Board resolved to partially utilize Authorized Capital 2015 and to increase the company's share capital by issuing 25,743,777 new bearer shares against cash contributions with shareholders' pre-emption rights disapplied. This corresponds to an increase of the existing share capital of around 9.2 percent. The issue price was € 2.68 per new share. The issue proceeds of € 68,993 thousand were reduced by issue costs of € 532 thousand. Masterwork Machinery S.a.r.l., Luxembourg, Luxembourg, was exclusively permitted to subscribe to and acquire the new shares. Masterwork Machinery S.a.r.l. is a wholly owned subsidiary of Masterwork Group Co., Ltd., Tianjin, China. The capital increase became effective on being entered in the commercial register of the Mannheim Local Court on March 22, 2019. The share capital was thus increased by € 65,904,069.12 to € 779,466,887.68 and has since been divided into 304,479,253 shares.

Authorized Capital 2015 was reduced accordingly from € 131,808,140.80 to € 65,904,071.68.

The Annual General Meeting on July 25, 2019 resolved to cancel Authorized Capital 2015 when Authorized Capital 2019 became effective, to the extent that it had not yet been utilized.

Capital reserves

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

Retained earnings

The retained earnings include the earnings generated by consolidated subsidiaries in previous years, the effects of consolidation and the effects of the remeasurement of net liabilities (assets) under defined benefit pension plans.

Other retained earnings

The other retained earnings include exchange rate effects, IFRS 9 fair value changes outside profit or loss and the revaluation of land recognized in accordance with IAS 16.

Appropriation of the net result of Heidelberger Druckmaschinen Aktiengesellschaft

The HGB net loss for the 2018/2019 financial year of € 88,309,436.22 was carried forward to new account in full.

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

26 Provisions for pensions and similar obligations

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

Notes on significant pension commitments

HEIDELBERGER DRUCKMASCHINEN AKTIENGESELLSCHAFT (BASED IN HEIDELBERG, GERMANY), HEIDELBERGER DRUCKMASCHINEN VERTRIEB DEUTSCHLAND GMBH, HEIDELBERG POSTPRESS DEUTSCHLAND GMBH and HEIDELBERG MANUFACTURING DEUTSCHLAND GMBH (EACH BASED IN WIESLOCH, GERMANY) accounted for € 956 million (previous year: € 958 million) of the present value of the defined benefit obligation (DBO) and € 28 million (previous year: € 437 million) of plan assets.

Until financial year 2014/2015, benefit commitments essentially comprised retirement, disability and surviving dependents benefits (widows', widowers' and orphans' pension) plus an age bonus and death benefits. The amount of retirement and disability pensions was based on the pension group to which the employee is assigned on the basis of his/her pensionable income and the eligible years of service. In the event of disability this also takes into account creditable additional periods of coverage. Pensionable years of service are all years of service spent by the employee at the Company, starting from the age of 20, until the pension begins.

The funded, defined benefit plans financed at Heidelberger Druckmaschinen Aktiengesellschaft and Heidelberger Druckmaschinen Vertrieb Deutschland GmbH were closed to new entrants on February 28, 2006.

The employees of Heidelberger Druckmaschinen Aktiengesellschaft and Heidelberger Druckmaschinen Vertrieb Deutschland GmbH who joined the Company after March 1, 2006 were assigned to an employer-financed defined contribution policy offered by an insurance provider.

By way of agreement with the Group Works Council of February 27, 2015, Heidelberger Druckmaschinen Aktiengesellschaft and Heidelberger Druckmaschinen Vertrieb Deutschland GmbH introduced a new pension system effective from January 1, 2015, with greater incentives for private retirement provision. This agreement changed the defined benefit plan described above to a defined contribution plan, which also still includes retirement, disability and surviving dependents benefits (widows', widowers' and orphans' benefits). The new general works agreement applies to future pensions for active employees at Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberger Druckmaschinen Vertrieb Deutschland GmbH and Heidelberg Manufacturing Deutschland GmbH, which was spun off effective April 1, 2015. The pension components vested in accordance with the old system were transferred in the form that a corresponding initial component was credited to the pension account of the respective employee as of April 1, 2015, for the pension commitments as of March 31, 2015 (transfer date). The amount of this initial component is based on the monthly pension achieved by March 31, 2015, multiplied by a flat-rate capitalization factor. The annual pension contribution is determined based on the employee's completed years of service on the basis of the respective eligible remuneration. In addition, for each active employee with a deferred compensation plan, the employer will provide a further annual contribution to the employee's pension account based on his/her supplementary benefit contribution and amounting to a quarter of the cumulative deferred compensation amount of the employee per financial year and capped at a maximum amount. The pension credit is paid out in 12 annual installments, or optionally the employee can choose 14 annual installments with an increased initial installment. Alternatively, the employee can access his/her pension credit as a pension for life and, under certain conditions, have this paid out as a one-time capital payment. The installment/annuity payment option of 60 percent/40 percent constitutes a further actuarial assumption for calculation of the present value of the defined benefit obligation in Germany.

As part of a contractual trust arrangement (CTA) at Heidelberger Druckmaschinen Aktiengesellschaft and Heidelberger Druckmaschinen Vertrieb Deutschland GmbH set up in March 2006, assets were transferred to a trustee, Heidelberg Pension-Trust e.V., Heidelberg, which is legally independent from the Company. The respective trust agreement establishes a management trust between the respective company and the trustee and a security trust between the trustee and the beneficiaries (dual trust). The purpose of the CTA is to finance all pension obligations. The respective trust assets are managed by the trustee in accordance with the respective trust agreement. This previously qualified as plan assets.

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

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

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

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

As of March 1, 2006 a defined contribution plan was introduced for key executives. This provides for interest on contributions based on salary and EBIT at rates based on the respective maximum permissible interest rate for life assurance companies in Germany and the investment of the previous CTA's assets. This plan provides for a capital payout with the option of conversion into a pension for life. Furthermore, this group of persons has the option of deferred compensation to increase the employer-funded benefit scheme.

In Germany there are no legal or regulatory minimum allocation obligations.

For details of the pension commitments for members of the Management Board of Heidelberger Druckmaschinen Aktiengesellschaft please see the remuneration report in the Group management report.

The HEIDELBERG GROUP PENSION SCHEME in the UK comprises a defined benefit and a defined contribution plan. The Heidelberg Pension Scheme accounts for € 227 million (previous year: € 256 million) of the present value of the defined benefit obligation (DBO) and € 210 million (previous year: € 230 million) of plan assets. The defined benefit portion is based on final salary with a guaranteed pension level. The pension level is dependent on the length of employment and the respective salary before retiring. Pension payments are adjusted based on the development of the retail price index. This plan is subject to the statutory funding objective under the UK Pension Act 2004. The necessary financing is performed at least every three years by way of so-called technical assessments. These determine whether the statutory funding objective has been complied with. The defined benefit plan is managed by a trustee, the board of which is elected partly by the Company and partly by the members of the plan. The trustee is responsible for obtaining the assessment, the pension payments and investing the plan assets; if necessary these functions are transferred to professional advisors. The last assessment of technical funding took place as of March 31, 2018 and – on the basis of the assumptions at this date determined by the trustee – identified a technical funding deficit of GBP 13.0 million. On the basis of this, the agreement reached in July 2013 between Heidelberg and the trustee for annual payments over ten years of GBP 2.47 million, commencing in July 2013 until 31 January 2024, will continue.

The **PENSION FUNDS OF THE SWISS COMPANIES**, which manage pension assets as foundations independent of the Company and are subject to Swiss legislation on occupational pensions, accounted for € 136 million (previous year: € 145 million) of the present value of the defined benefit obligation (DBO) and € 130 million (previous year: € 143 million) of plan assets. These obligations are based on retirement, disability and surviving dependents benefits. The retirement benefits are usually a pension. This is determined based on the individual pension credit saved by the employee by the time of retirement and the regulatory conversion rates. However, at the discretion of the employee, pension credit can also be drawn in the form of a lump-sum payment. Disability and surviving dependents benefits are calculated from the pension credit projected at regulatory retirement age or are defined as a percentage of the pay insured. For each insured employee, the Swiss companies pay an annual employer's contribution to the respective pension fund. The amount of this is determined in the respective pension regulations as a percentage of the pay insured and can be adjusted by the pension fund board of trustees, which consists of equal numbers of employer and employee representatives. In the event of a severe deficit the pension fund board of trustees can resolve to impose recapitalization contributions, if there are no other measures to remedy the deficit. In such an event, the Swiss companies would be legally required to pay at least as much as the respective employee contributions.

The **HEIDELBERG AUSTRALIA SUPERANNUATION FUND** in Australia comprises defined benefit and defined contribution plans. The Heidelberg Australia Superannuation Fund accounts for € 7 million (previous year: € 8 million) of the present value of the defined benefit obligation (DBO) and € 7 million (previous year: € 9 million) of plan assets. The defined benefit component is based on the average final salary and the length of employment. As their pension benefit, some entitled members of this plan receive the higher of the respective defined benefit obligation and an obligation accrued during the qualifying period based on the individual contributions by the employee and corresponding capital gains; entitlement to this is dependent on when employees joined the plan. The Heidelberg Australia Superannuation Fund is subject to the statutory minimum benefit obligation as per the superannuation guarantee legislation, which provides for a gradual increase in minimum obligations from July 1, 2013. It is managed by an independent trustee, the board of which is equally appointed by the Company and elected by the members of the plan. The trustee is required to act in the best interests of the plan members.

Notes on risks

In addition to the standard actuarial risks, the defined benefit obligations are exposed in particular to financial risks in connection with plan assets, which above all can comprise counterparty and market price risks.

The plan assets serve exclusively to satisfy defined benefit obligations. The funding of these defined benefit obligations with assets constitutes a reserve for future cash outflows in the form of pension payments, which is based on the statutory regulations in place in some countries and is voluntary in others, such as Germany.

The ratio of the fair value of plan assets and the present value of the defined benefit obligations is referred to as the funding ratio of the respective pension plan. If the defined benefit obligations (DBO) exceed the plan assets, this is a plan deficit; the reverse is an excess.

However, it should be noted that both the defined benefit obligations and the plan assets fluctuate over time. This gives rise to the risk of a growing plan deficit. Depending on the statutory regulations in the respective countries, there is a legal obligation to reduce this deficit by contributing additional funding. Fluctuations can arise in the measurement of defined benefit obligations in that the underlying actuarial assumptions, such as discounting rates, the development of pensions and salaries or life expectancy, are subject to adjustments that can materially influence the amount of defined benefit obligations.

The return on plan assets is assumed in the amount of discounting rates, which are also used in determining the defined benefit obligations and are based on corporate bonds rated AA. If the actual return on plan assets is less than the discounting rates applied the net liability under defined benefit plans increases. However, given the equity backing ratio it is assumed that the actual return can contribute to greater volatility in the fair value of plan assets in the medium and long term. Possible inflation risks, which could lead to a rise in defined benefit obligations, exist to the extent that some plans are based on final salary. The material German and international pension plans in the Heidelberg Group are subject to actuarial risks such as investment risk, interest rate risk, longevity risk and risks of pay increases. The Swiss pension funds are also exposed to the risk that, in the event of a severe deficit, the effectiveness of recapitalization would be limited to the extent that this would have to be covered by future pension beneficiaries and the employer as it is legally prohibited to include current pensioners in the recapitalization.

The information on pensions is structured as follows:

1) Composition and development of the net carrying amounts
2) Development of net liability from defined benefit plans
3) Composition of plan assets
4) Cost of defined contribution plans
5) Sensitivity analysis
6) Forecast contributions to plan assets, future forecast pension payments and duration

1) The net carrying amounts broke down as follows at the end of the financial year:

	31-Mar-2019	**31-Mar-2020**
Provisions for pensions and similar obligations	582,159	985,620
Assets from defined benefit pension plans	1,659	266
Net carrying amounts at the end of the financial year	**580,500**	**985,354**

The assets from defined benefit pension plans are reported under non-current other assets.

2) The net liability under defined benefit plans developed as follows:

	Funded benefit obligations	Unfunded benefit obligations	Present value of the defined benefit obligations	Fair value of plan assets	Total
As of April 1, 2018	**1,295,667**	**71,594**	**1,367,261**	**– 845,716**	**521,545**
Current service cost	7,332	1,995	9,327	–	9,327
Interest expense (+)/income (–)	26,047	1,030	27,077	– 16,891	10,186
Past service cost/gains (–)/losses (+) from settlements and curtailments[1]	2,042	–	2,042	–	2,042
Remeasurements:	42,011	1,225	43,236	6,621	49,857
Gains (–)/losses (+) from changes in demographic assumptions	6,115	65	6,180	–	6,180
Gains (–)/losses (+) from changes in financial assumptions	31,970	1,083	33,053	–	33,053
Gains (–)/losses (+) from experience-based adjustments	3,926	77	4,003	–	4,003
Difference between interest income recognized in profit or loss and actual income from plan assets	–	–	–	6,621	6,621
Currency translation differences	12,429	897	13,326	– 11,790	1,536
Contributions:	3,729	259	3,988	– 7,212	– 3,224
Employers	–	–	–	– 5,162	– 5,162
Pension plan participants	3,729	259	3,988	– 2,050	1,938
Payments made	– 53,599	– 4,014	– 57,613	46,820	– 10,793
Changes in the scope of consolidation, other changes	1,805	– 1,731	74	– 50	24
As of March 31, 2019	**1,337,463**	**71,255**	**1,408,718**	**– 828,218**	**580,500**

[1] This essentially includes expenses for benefits resulting from the recent legal requirement in the UK to equalize the guaranteed minimum pensions between men and women.

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

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

In percent	2018/2019		2019/2020	
	Domestic	Foreign	Domestic	Foreign
Discount rate	2.00	1.73	1.80	1.66
Expected future salary increases	2.75	0.49	2.75	0.49
Expected future pension increases	1.60	1.90	1.40	1.59

The figures for international companies are average values weighted with the present value of the respective defined benefit obligation.

3) The fair value of plan assets breaks down by the following asset classes as follows:

	2018/2019	of which:		**2019/2020**	of which:	
		with a market price quoted on an active market	without a market price quoted on an active market		with a market price quoted on an active market	without a market price quoted on an active market
Cash and cash equivalents	12,593	12,524	69	3,427	3,352	75
Equity instruments	156,431	156,040	391	80,102	79,679	423
Debt instruments	298,055	285,170	12,885	159,678	150,735	8,943
Real estate	19,701	–	19,701	19,055	0	19,055
Derivatives	– 1,014	126	– 1,140	0	0	0
Securities funds	292,871	229,599	63,272	85,028	68,419	16,609
Qualifying insurance policies	28,405	–	28,405	27,993	0	27,993
Other	21,176	21,176	–	9,408	9,408	–
	828,218	**704,635**	**123,583**	**384,691**	**311,593**	**73,098**

As in the previous year, the plan assets contain no financial instruments of companies of the Heidelberg Group or real estate or other assets used by companies of the Heidelberg Group.

4) The cost of defined contribution plans amounted to € 49,434 thousand (previous year: € 50,299 thousand) in the reporting year and essentially included contributions to statutory pension insurance.

5) The following table shows how the present value of material defined benefit obligations in Germany and abroad would have been affected by changes in the main actuarial assumptions:

	31-Mar-2019	Change in %	**31-Mar-2020**	Change in %
Present value of the material defined benefit obligations [1]	1,366,619		1,325,771	
Present value of the material defined benefit obligations assuming that				
the discount rate was				
0.50 percentage points higher	1,266,816	–7.3 %	1,232,788	–7.0 %
0.50 percentage points lower	1,479,510	8.3 %	1,430,144	7.9 %
the expected future salary increase was				
0.25 percentage points higher	1,367,086	0.0 %	1,326,816	0.1 %
0.25 percentage points lower	1,366,203	0.0 %	1,325,238	0.0 %
the expected future pension increase was				
0.25 percentage points higher	1,403,573	2.7 %	1,358,246	2.4 %
0.25 percentage points lower	1,335,170	–2.3 %	1,298,296	–2.1 %
Increase in life expectancy per entitled beneficiary [2]	1,426,084	4.4 %	1,382,885	4.3 %

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

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

6) The forecast contributions to plan assets are expected to amount to € 7 million in financial year 2020/2021 (previous year: € 8 million). With regard to the material defined benefit obligations, undiscounted pension payments amounting to € 46 million (previous year: € 44 million) are anticipated for financial year 2020/2021. The weighted average duration of the material defined benefit obligations is 16 years (previous year: 16 years).

27 Other provisions

			31-Mar-2019			**31-Mar-2020**
	Current	Non-current	Total	Current	Non-current	**Total**
Staff obligations	55,807	14,290	70,097	55,379	14,993	70,372
Sales obligations	62,068	5,582	67,650	68,534	5,729	74,263
Other	75,614	23,806	99,420	201,989	5,793	207,782
	193,489	43,678	**237,167**	325,902	26,515	**352,417**

	As of 1-Apr-2019	Change in scope of consolidation, currency adjustments, reclassification	Utilization	Reversal	Addition	**As of 31-Mar-2020**
Staff obligations	70,097	–209	42,280	6,702	49,466	70,372
Sales obligations	67,650	–65	27,811	15,911	50,400	74,263
Other	99,420	–1,201	36,208	11,787	157,558	207,782
	237,167	–1,475	106,299	34,400	257,424	**352,417**

As a result of the mandatory introduction of IFRIC Interpretation 23: Uncertainty over Income Tax Treatments and the related decision by the IFRS Interpretations Committee (IFRS IC) of September 17, 2019, uncertain tax positions previously recognized under tax provisions are now reported under "Income tax liabilities" in the consolidated statement of financial position; the previous year's figures have been restated accordingly.

Additions include accrued interest and the effects of the change in discount rates of € 2,730 thousand (previous year: € 1,767 thousand). These relate to expenses of € 1,100 thousand (previous year: € 241 thousand) for staff obligations, € 3 thousand (previous year: € 17 thousand) for sales obligations and expenses of € 1,627 thousand (previous year: € 1,509 thousand) for miscellaneous other provisions.

STAFF PROVISIONS essentially relate to bonuses (€ 23,460 thousand; previous year: € 31,883 thousand) and the cost of early retirement payments and partial retirement programs (€ 22,677 thousand; previous year: € 11,778 thousand).

SALES PROVISIONS mainly relate to warranties, reciprocal liability and buyback obligations (€ 47,431 thousand; previous year: € 41,359 thousand). The provisions for warranty obligations and obligations to provide subsequent performance and product liability serve to cover risks that are either not insured or which go beyond insurable risks. Utilization of these provisions in Germany is predominantly expected over a short- to medium-term horizon. The reciprocal liability and buyback obligations of € 1,180 thousand (previous year: € 574 thousand) relate entirely to financial guarantees generally issued to finance partners of our customers for sales financing. The maximum risk of default of these financial guarantees that can result in cash outflows in the subsequent financial year is € 14,654 thousand (previous year: € 16,985 thousand). Utilization of the provisions for reciprocal liability and buyback obligations is predominantly expected over a short-term horizon. In connection with the finance guarantees for sales financing, there are claims against third parties for the transfer of machinery. Outstanding claims were not capitalized.

MISCELLANEOUS OTHER PROVISIONS predominantly include provisions for our portfolio and cost efficiency measures of € 174,739 thousand (previous year: € 59,810 thousand), provisions for onerous contracts of € 2,180 thousand (previous year: € 649 thousand) and provisions for legal disputes of € 13,871 thousand (previous year: € 19,479 thousand). Utilization of these provisions is primarily expected over a short- to medium-term horizon.

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

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

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

28 Financial liabilities

				31-Mar-2019				**31-Mar-2020**
	Up to 1 year	Between 1 and 5 years	More than 5 years	Total	Up to 1 year	Between 1 and 5 years	More than 5 years	**Total**
Corporate bond [1]	4,533	145,776	–	150,309	4,533	146,976	–	151,509
Amounts due to banks [1]	30,333	209,877	8,995	249,205	82,358	153,548	5,782	241,688
Convertible bond [1]	57,574	–	–	57,574	5	17,200	–	17,205
From finance leases [2]	2,053	1,793	–	3,846	20,065	31,878	2,012	53,955
Other	4,075	–	–	4,075	7,060	–	–	7,060
	98,568	357,446	8,995	**465,009**	114,021	349,602	7,794	**471,417**

[1] Including deferred interest
[2] Exclusively from finance leases in the previous year

Financial liabilities developed as follows:

	As of 1-Apr-2019	Cash changes		Non-cash changes			**As of 31-Mar-2020**
		Free cash flow	From financing activities	Change in scope of consolidation	Currency adjustments	Other	
Corporate bond	204,320	–16,829	–53,563	–	–	16,381	150,309
Amounts due to banks	169,891	–11,986	89,808	215	18	1,259	249,205
Convertible bond	55,890	–3,076	–	–	-	4,760	57,574
From finance leases	4,648	–	-2,682	–	232	1,648	3,846
Other	3,271	–	792	–	12	–	4,075
	438,020	–31,891	34,355	215	262	24,048	**465,009**

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

[1] Lease liabilities restated as of April 1, 2019 due to IFRS 16.

Corporate bond

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

The fair value of the corporate bond on the basis of the stock exchange listing is € 116,990 thousand (previous year: € 154,725 thousand) compared to the carrying amount of € 151,509 thousand (previous year: € 150,309 thousand). The fair values correspond to level 1 of the measurement hierarchy set out in IFRS 13, as only quoted prices observed on active markets are used in measurement.

Convertible bond

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

From April 20, 2018, Heidelberger Druckmaschinen Aktiengesellschaft is entitled to repay the convertible bond ahead of schedule in full at the nominal value plus accrued interest. This requires that the share price multiplied by the applicable conversion ratio on 20 of the 30 consecutive trading days on the Frankfurt Stock Exchange before the announcement of the date of the early repayment exceeds 130 percent of the nominal value as of each of these 20 trading days. Each holder of the convertible bond is entitled to demand the repayment of all or some of his/her bonds for which the conversion right was not exercised and for which early repayment was announced by Heidelberger Druckmaschinen Aktiengesellschaft as of March 30, 2020 at the set nominal amount plus interest incurred by March 30, 2020 (exclusively).

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

The liability component of the convertible bond was recognized at present value on issue, taking into account a market interest rate, and is increased at the end of each reporting period by the interest portion of that period in line with the effective interest rate method. The amount of interest accrued, which results from the difference between the coupon and the effective interest rate, was € 1,392 thousand (previous year: € 1,293 thousand) in the year under review.

The fair value of the convertible bond on the basis of the stock exchange listing corresponds to the first level of the IFRS 13 measurement hierarchy and is € 14,405 thousand (previous year: € 58,221 thousand) compared to the carrying amount of € 17,205 thousand (previous year: € 57,574 thousand)

Amounts due to banks

Amounts due to banks are shown in the table below:

Type	Contract currency	Carrying amount 31-Mar-2019 in € thousands	Remaining term in years	Effective interest rate in %	Carrying amount **31-Mar-2020** in € thousands	Remaining term in years	Effective interest rate in %
Loans	EUR	238,295	up to 8	up to 5.10	227,877	up to 7	up to 5.10
Loans	Various	9,891	up to 1	up to 25.00	13,252	up to 1	up to 12.50
Other	Various	1,019	up to 1	up to 2.50	559	up to 1	up to 2.50
		249,205			**241,688**		

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

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

The Heidelberg Group was able to meet its financial obligations due at all times in the reporting year. The CREDIT LINES not yet fully utilized in our Group of € 139,870 thousand (previous year: € 268,422 thousand) can be used as financing for general business purposes and for our portfolio and cost efficiency measures.

The revolving credit facility that came into force in 2011 with an original term until the end of 2014 was extended ahead of schedule in December 2013 until mid-2017 and ahead of schedule in July 2015 until June 2019.

In March 2018, this revolving credit facility with a banking syndicate was newly agreed at improved conditions with a volume of € 320 million and a term to March 2023. It was agreed with the syndicate in March 2020 to reduce the facility to around € 266.5 million.

An amortizing loan funded by the KfW in the amount of € 5 million maturing in September 2020 was issued in December 2015. Its fair value is € 499 thousand (previous year: € 1,766 thousand) compared to its carrying amount of € 500 thousand (previous year: € 1,750 thousand).

On March 31, 2016, a loan of € 100 million with a staggered term until March 2024 was agreed with the European Investment Bank to support Heidelberg's research and development activities, especially with regard to digitization, and the expansion of the digital printing portfolio. The development loan is available in callable tranches, each with a term of seven years. In April 2016, Heidelberger Druckmaschinen Aktiengesellschaft called an initial tranche of € 50 million from this loan; this will amortize by April 2023. The remainder was called in January and March 2017 via further tranches of € 20 million and € 30 million respectively; these will amortize accordingly over terms until January 2024 and March 2024 respectively. The fair value of the loan is € 65,375 thousand (previous year: € 93,716 thousand) compared to its carrying amount of € 69,408 thousand (previous year: € 100,739 thousand).

To finance the investment in relocating our research and development activities to our Wiesloch-Walldorf production site, a development loan of € 42.1 million maturing in September 2024 was arranged with a syndicate of banks refinanced by KfW ("Energy Efficiency Program – Energy-efficient Construction and Renovation"). The funding was paid over the course of construction. Heidelberger Druckmaschinen Aktiengesellschaft called an initial tranche of € 5.1 million from this development loan in March 2017, a second tranche of € 20.7 million in March 2018 and a third tranche of € 16.3 million in June 2018. Its fair value is € 22,171 thousand (previous year: € 30,363 thousand) compared to its carrying amount of € 22,947 thousand (previous year: € 31,730 thousand).

A loan of € 25.7 million amortizing by the end of June 2027 was borrowed in May 2017. It is secured by the lender's equal participation in the existing collateral concept. The fair value of this loan is € 17,493 thousand (previous year: € 20,391 thousand) compared to its carrying amount of € 18,634 thousand (previous year: € 22,044 thousand).

In connection with the purchase/sale of the research and development center in Heidelberg in the first quarter of the reporting year, a loan of around € 32.5 million was taken over, which will be amortized by March 2022. The fair value of this loan is € 27,395 thousand (previous year: € 27,488 thousand) compared to its carrying amount of € 29,893 thousand (previous year: € 27,993 thousand).

A KfW loan of € 6 million was granted in July 2019 to finance investment in our IT landscape, and will be amortized until July 2024. The fair value of this loan is € 4,902 thousand (previous year: € 0 thousand) compared to its carrying amount of € 5,101 thousand (previous year: € 0 thousand).

In July and August 2019, two loans funded by KfW totaling € 4.2 million and € 3.8 million were borrowed to finance investments in two buildings at our Wiesloch-Walldorf production site, which will also be amortized over a term until July 2024. The fair values of these loans are € 3,431 thousand (previous year: € 0 thousand)/€ 3,098 thousand (previous year: € 0 thousand), as compared to their carrying amounts of € 3,570 thousand (previous year: € 0 thousand)/€ 3,230 thousand (previous year: € 0 thousand).

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

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

The existing diversified financing structure with a maturity profile until 2023 provides Heidelberg with a stable financing base.

The carrying amounts of the collateral pledged in connection with the loan agreements as part of a collateral pool concept is shown under the appropriate notes.

The carrying amount of the other amounts due to banks and other financial liabilities is primarily to be taken as an appropriate estimate of the fair value.

Liabilities from leases

Liabilities from leases as per the statement of financial position are as follows:

	31-Mar-2019 [1]	**31-Mar-2020**
Current	2,053	20,065
Non-current	1,793	33,890
Lease liabilities	**3,846**	**53,955**

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

	31-Mar-2019 [1]	**31-Mar-2020**
Up to 1 year	2,149	20,468
Between 1 and 5 years	1,856	31,374
More than 5 years	–	5,798
Total	**4,005**	**57,640**

[1] Finance lease liabilities in the previous year

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

There were lease obligations from short-term leases of € 590 thousand as of March 31, 2020.

29 Contract liabilities

Contract liabilities essentially comprise advance payments on orders and prepayments for future maintenance and services and amounted to € 172,519 thousand (March 31, 2019: € 186,954 thousand). These amounts are reversed to profit or loss over the term of the agreement. The contract liabilities in place as of April 1, 2019 resulted in net sales of € 156,348 thousand in the year under review.

30 Trade payables

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

31 Other liabilities

				31-Mar-2019				**31-Mar-2020**
	Up to 1 year	Between 1 and 5 years	More than 5 years	Total	Up to 1 year	Between 1 and 5 years	More than 5 years	**Total**
Accruals (staff)	56,897	–	–	56,897	57,550	–	–	57,550
From derivative financial instruments	2,246	3,995	–	6,241	3,586	2,698	–	6,284
From other taxes	28,764	82	–	28,846	21,878	42	–	21,920
For social security contributions	7,127	208	–	7,335	7,680	–	–	7,680
Deferred income	3,113	2,208	6,183	11,504	4,389	2,261	5,951	12,601
Other	32,789	6	–	32,795	26,554	1,896	–	28,450
	130,936	6,499	6,183	**143,618**	121,637	6,897	5,951	**134,485**

Derivative financial instruments

Derivative financial instruments include liabilities from cash flow hedges of € 3,694 thousand (previous year: € 5,939 thousand) and from fair value hedges of € 2,590 thousand (previous year: € 303 thousand).

Deferred income

Deferred income includes taxable investment subsidies of € 7,663 thousand (previous year: € 7,937 thousand), tax-free investment allowances of € 107 thousand (previous year: € 197 thousand) and other deferred income of € 4,831 thousand (previous year: € 3,370 thousand).

In the reporting year, TAXABLE SUBSIDIES essentially include a subsidy for our investments to relocate our research and development activities to our Wiesloch-Walldorf production site.

TAX-FREE ALLOWANCES include allowances under the German Investment Allowance Act of 1999/2005/2007/2010 of € 107 thousand (previous year: € 197 thousand) for the Brandenburg production site.

Miscellaneous other liabilities

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

32 Income tax liabilities

As a result of the mandatory introduction of IFRIC Interpretation 23: Uncertainty over Income Tax Treatments and the related decision by the IFRS Interpretations Committee (IFRS IC) of September 17, 2019, uncertain tax positions of € 56,244 thousand (previous year: € 60,601 thousand) previously recognized under tax provisions are now reported under "Income tax liabilities" in the consolidated statement of financial position; the previous year's figures have been restated accordingly.

As in previous years, uncertain tax positions mainly relate to the risks of reassessment.

33 Disclosures on financial instruments

Carrying amounts of financial instruments

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

Reconciliation > Assets

Items in statement of financial position	IFRS 9 measurement category [1]	Carrying amounts			Carrying amounts		
				31-Mar-2019			**31-Mar-2020**
		Current	Non-current	Total	Current	Non-current	**Total**
Financial assets							
Shares in affiliated companies	n. a.	–	663	663	–	4,306	4,306
Other investments	n. a.	–	3,378	3,378	–	5,142	5,142
Securities	FVOCI	–	3,062	3,062	–	2,279	2,279
		–	7,103	7,103	–	11,727	11,727
Receivables from sales financing							
Receivables from sales financing not including finance leases	AC	28,961	29,466	58,427	18,482	24,035	42,517
Receivables from finance leases	n. a.	514	895	1,409	517	382	899
		29,475	30,361	59,836	18,999	24,417	43,416
Trade receivables	AC	359,706	–	359,706	298,873	–	298,873
Other receivables and other assets							
Derivative financial instruments	n. a. [2]	3,155	–	3,155	4,399	–	4,399
Miscellaneous financial assets	AC	30,846	2,988	33,834	36,827	18,377	55,204
		34,001	2,988	36,989	41,226	18,377	59,603
Miscellaneous other assets		37,380	5,052	42,432	35,232	6,663	41,895
		71,381	8,040	79,421	76,458	25,040	101,498
Securities	FVTPL	–	–	–	55,760	–	55,760
Cash and cash equivalents	AC	215,015	0	215,015	372,719	–	372,719

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

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

Reconciliation > Equity and liabilities

Items in statement of financial position	IFRS 9 measurement category[1]	Carrying amounts			Carrying amounts		
				31-Mar-2019			**31-Mar-2020**
		Current	Non-current	Total	Current	Non-current	**Total**
Financial liabilities							
High-yield bond	FLaC	4,533	145,776	150,309	4,533	146,976	151,509
Convertible bond	FLaC	57,574	–	57,574	5	17,200	17,205
Amounts due to banks	FLaC	30,333	218,872	249,205	82,358	159,330	241,688
Lease liabilities[2]	n. a.	2,053	1,793	3,846	20,065	33,890	53,955
Other financial liabilities	FLaC	4,075	–	4,075	7,060	–	7,060
		98,568	366,441	465,009	114,021	357,396	471,417
Trade payables	FLaC	245,389	–	245,389	212,195	–	212,195
Other liabilities							
Derivative financial instruments	n. a.[3]	2,246	3,995	6,241	3,586	2,698	6,284
Miscellaneous financial liabilities	FLaC	89,575	214	89,789	86,684	1,896	88,580
		91,821	4,209	96,030	90,270	4,594	94,864
Miscellaneous other liabilities		39,115	8,473	47,588	31,367	8,254	39,621
		130,936	12,682	143,618	121,637	12,848	134,485

[1] IFRS 9 measurement categories:
FLaC: financial liabilities at amortized cost
n. a.: no IFRS 9 measurement category
[2] Exclusively from finance leases in the previous year
[3] As in the previous year, derivative financial instruments do not include short-term hedges assigned to the IFRS-9 measurement category of financial liabilities at fair value through profit or loss.

Liquidity risk from non-derivative financial liabilities

The following table shows the contractually agreed, undiscounted cash flows of non-derivative financial liabilities. The yield curves of the respective currencies valid as of the end of the reporting period were used to determine the variable interest payments from financial instruments. Where necessary, foreign currencies were translated at closing rates. Financial liabilities repayable on demand are always assigned to the earliest time band. Utilization of the syndicated credit facility is on a short-term basis. The period of utilization is normally not more than three months. These loans have therefore been assigned to the "Up to 1 year" column, although the agreements on which they are based run until the end of March 2023.

	31-Mar-2019	**31-Mar-2020**
Up to 1 year	455,978	439,364
Between 1 and 5 years	408,916	379,411
More than 5 years	9,664	11,844
	874,558	**830,619**

Net gains and losses

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

	2018/2019	**2019/2020**
Financial liabilities at amortized cost	– 36,651	– 30,864
Financial assets at fair value through profit or loss	391	69
Financial investments in equity instruments at fair value through other comprehensive income	7	– 450
Financial assets at amortized cost	– 6,091	– 17,620

Net gains and losses include € 2,890 thousand (previous year: € 3,236 thousand) of interest income and € 32,130 thousand (previous year: € 36,651 thousand) of interest expenses for financial assets and financial liabilities measured at amortized cost.

The derecognition of financial assets measured at amortized cost gave rise to gains and losses of € 0 thousand (previous year: € 0 thousand) and € 1,997 thousand (previous year: € 850 thousand) respectively in the reporting period.

No securities were sold in the reporting year (previous year: € 17 thousand). There was a loss on disposal of € 14 thousand in the previous year..

Derivative financial instruments

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

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

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

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

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

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

The positive and negative fair values of the derivative financial instruments designated as hedging instruments are offset by opposing value developments in the hedged items. All derivative financial instruments are carried as assets or liabilities at their corresponding fair values.

	Nominal volumes		Fair values	
	31-Mar-2019	**31-Mar-2020**	31-Mar-2019	**31-Mar-2020**
Currency hedging				
Cash flow hedge				
Forward exchange transactions	155,582	151,683	–1,061	1,345
of which: assets	56,334	98,969	883	2,341
of which: liabilities	99,248	52,714	–1,943	–996
Fair value hedge				
Forward exchange transactions	261,307	303,225	1,970	–532
of which: assets	190,838	133,629	2,272	2,058
of which: liabilities	70,469	169,596	–303	–2,590
Interest rate hedging				
Cash flow hedge				
Interest rate swap	31,234	29,893	–3,996	–2,698
of which: assets	–	–	–	–
of which: liabilities	31,234	29,893	–3,996	–2,698

The following table shows the contractually agreed, undiscounted incoming and outgoing payments for derivative financial instruments. The yield curves of the respective currencies valid as of the end of the reporting period were used to determine the variable interest payments from financial instruments. Where necessary, foreign currencies were translated at closing rates.

	31-Mar-2019				31-Mar-2020			
	Up to 1 year	Between 1 and 5 years	More than 5 years	Total undis-counted cash flows	Up to 1 year	Between 1 and 5 years	More than 5 years	Total undis-counted cash flows
Derivative financial liabilities								
Outgoing payments	−172,871	−2,695	–	−175,566	−225,152	−1,325	–	−226,477
Associated incoming payments	168,692	–	–	168,692	220,226	–	–	220,226
Derivative financial assets								
Outgoing payments	−246,984	–	–	−246,984	230,472	–	–	230,472
Associated incoming payments	250,344	–	–	250,344	234,694	–	–	234,694

Currency hedging

Hedging strategy

CURRENCY RISKS arise in particular as a result of exchange rate fluctuations in connection with net risk positions in foreign currency. These occur for receivables and liabilities, anticipated cash flows and onerous contracts. The highly probable underlying transactions to be hedged are always fully designated. The extent of the risk hedged is equal to the nominal volume shown in the table on page 143. Only forward exchange transactions are used as hedging instruments at this time. Hedge effectiveness is calculated using the critical terms match method. Only the spot component of the hedging transaction is designated. Only discontinued hedged items can lead to ineffectiveness in this respect. As in the previous year, no cash flow hedges of interest rate risk were terminated early in the reporting year and no hedge reserve expenses were transferred to the financial result.

The forward exchange transactions outstanding as of the end of the reporting period of € 151,683 thousand essentially hedge highly likely currency risks expected from purchase volumes of our subsidiaries over the next 12 months. Therefore, the remaining term of these derivatives at the end of the reporting period was up to one year. As of the end of the reporting period, a net volume of € 40,153 thousand from hedges relates to the Swiss franc and a net volume of € 30,896 thousand relates to US dollar. The average hedging rate for these transactions was CHF 1.08/EUR and USD 1.11/EUR.

Cash flow hedge

The underlying transactions hedged against currency risks as part of cash flow hedges and recognized in the cash flow hedge reserve relate exclusively to active hedges amounting to € −723 thousand as of the end of the reporting period.

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

As of the end of the reporting period, hedges resulted in total assets of € 2,341 thousand (previous year: € 883 thousand) and liabilities of € 996 thousand (previous year: € 1,943 thousand). The change in value of the designated portion of the hedge was recognized outside profit and loss and will be recognized in the result of operating activities over the subsequent 12 months. No cash flow hedges were terminated early and no expenses were transferred from the hedge reserve to the financial result because the forecast purchasing volumes of our subsidiaries were no longer considered highly likely (previous year: € 0 thousand).

Fair value hedge

This is essentially the exchange rate hedge for loan receivables and liabilities in foreign currencies within the Group. The net results on the fair value of hedges of € 1,910 thousand (previous year: € 9,429 thousand) and the translation of hedged items at closing rates of € 2,309 thousand (previous year: € 9,327 thousand) are reported in the consolidated income statement.

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

Interest rate hedging

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

Cash flow hedge

The Heidelberg Group limits the risk from increasing interest expenses for refinancing by using interest rate swaps, under which Heidelberg receives variable-rate interest and pays fixed interest (payer interest rate swap). In connection with the purchase/sale of the research and development center in Heidelberg in the first quarter of the previous year, in addition to a loan, an interest rate swap of the same nominal amount was entered into to hedge against rising interest rates. As of the end of the reporting period, the interest rate swap had a nominal volume of € 29,893 thousand, a remaining term of two years and a negative fair value of € 2,698 thousand (previous year: € 3,996 thousand). The hedging interest rate is 4.39 percent. A total of € 293 thousand has been recognized in other comprehensive income and will be reclassified to the financial result over the term of the hedge.

No cash flow hedges of interest rate risk were terminated early in the reporting year and no hedge reserve expenses were reclassified to financial result (previous year: € 0 thousand). The underlying transactions hedged against interest rate risks as part of cash flow hedges and recognized in the cash flow hedge reserve relate exclusively to active hedges amounting to € 293 thousand as of the end of the reporting period.

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

	2018/2019	**2019/2020**
As of April 1	–1,952	–936
Effective portion of changes in value		
Currency risks	–1,642	–61
Interest rate risks	296	293
Reclassification to the income statement due to the recognition of the hedged item		
Currency risks	2,541	1,860
Interest rate risks	–	–
Reclassification to the income statement due to non-occurrence of expected cash flows		
Currency risks	–	–
Interest rate risks	–	–
Tax effect from the change in reserves	–179	–140
As of March 31	–936	1,016

Sensitivity analysis

In order to clearly show the effects of currency and interest rate risks on the consolidated income statement and the equity, the impact of hypothetical changes in exchange rates and interest is shown below in the form of sensitivity analyses. It is assumed here that the position at the end of the reporting period is representative for the financial year.

Recognized CURRENCY RISKS as defined by IFRS 7 are caused by monetary financial instruments not in the functional currency. The portfolio of primary monetary financial instruments is mainly held directly in the functional currency or transferred to the functional currency through the use of derivatives. It is therefore assumed in this analysis that changes in exchange rates show no influence on income or equity with regard to this portfolio. The impact of the translation of the subsidiaries' financial statements into the Group currency (translation risk) is not taken into account either. Accordingly, the analysis includes those derivative financial instruments that were concluded in order to hedge highly probable future cash flows in a foreign currency (cash flow hedge).

Assuming a 10 percent increase in the value of the euro against all currencies in which hedges are held, the hedge reserve would have been € 699 thousand (previous year: € 4,174 thousand) lower as of the end of the reporting period and the financial result would have been

€ 2 thousand higher (previous year: € 32 thousand lower). Assuming a 10 percent decrease in the value of the euro, the hedge reserve would have been € 855 thousand (previous year: € 5,102 thousand) higher and the financial result would have been € 2 thousand lower (previous year: € 39 thousand higher).

In accordance with IFRS 7, recognized **INTEREST RATE RISKS** of the Heidelberg Group must also be shown. These are partly due to the portion of primary floating rate financial instruments that were not hedged through the use of derivative financial instruments within cash flow hedges. In addition, a hypothetical change in market interest rates with regard to derivative financial instruments would result in changes to the hedge reserve in the cash flow hedge. However, fixed-income financial instruments carried at amortized cost and floating rate financial instruments hedged within cash flow hedges are not subject to any recognized interest rate risk. These financial instruments are therefore not taken into account. Assuming an increase of 100 basis points in the market interest rate across all terms, the hedge reserve would have been € 498 thousand (previous year: € 798 thousand) higher as of the end of the reporting period and the financial result would have been € 396 thousand (previous year: € 327 thousand) lower. Assuming a decrease of 100 basis points in the market interest rate across all terms, the hedge reserve would have been € 509 thousand (previous year: € 824 thousand) lower and the financial result would have been € 396 thousand (previous year: € 327 thousand) higher.

Risk of default

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

Fair values of securities, loans and derivative financial instruments

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

The individual levels are defined as follows:

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

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

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

Securities are classified as financial assets at fair value through other comprehensive income in the amount of € 2,279 thousand (previous year: € 3,062 thousand) and financial assets at fair value through profit or loss in the amount of € 55,760 thousand (previous year: € 0 thousand); the securities were recognized at fair value. Some of the securities were classified as financial assets at fair value through other comprehensive income in line with the strategic orientation of these financial investments. The underlying quoted prices for the measurement of the vast majority of securities correspond to level 1 of the fair value hierarchy set out in IFRS 13, as only quoted prices observed on active markets are used in measurement. If the fair value of securities cannot be reliably determined, they are carried at cost.

The fair values applied in measuring the securities classified as financial assets at fair value through profit or loss correspond to level 2 of the fair value hierarchy set out in IFRS 13, as only input data observable on the market, such as mutual fund prices, exchange rates and quoted prices, was used.

The fair values of derivative financial instruments correspond to changes in value arising from a notional revaluation taking into consideration market parameters applicable at the end of the reporting period. The fair values are calculated using standardized measurement procedures (discounted cash flow and option pricing models). This corresponds to level 2 of the fair value hierarchy set out in

IFRS 13, as only input data observable on the market, such as exchange rates, exchange rate volatilities and interest rates, is used.

The financial assets and financial liabilities recognized at fair value were assigned to the IFRS 13 fair value hierarchy as follows on March 31, 2020:

				31-Mar-2019				**31-Mar-2020**
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	**Total**
Securities	3,062	–	–	3,062	2,279	55,760	–	58,039
Derivative financial assets	–	3,155	–	3,155	–	4,399	–	4,399
Assets carried at fair value	**3,062**	**3,155**	–	**6,217**	**2,279**	**60,159**	–	**62,438**
Derivative financial liabilities	–	6,241	–	6,241	–	6,284	–	6,284
Liabilities carried at fair value	–	**6,241**	–	**6,241**	–	**6,284**	–	**6,284**

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

Offsetting financial assets and financial liabilities

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

	Gross amount	Offsetting implemented	Reported net amount	Amounts not offset	Net amount
31-Mar-2019					
Derivative financial instruments (assets)	3,155	–	3,155	−1,018	2,137
Trade receivables	361,106	−1,400	359,706	–	359,706
Derivative financial instruments (liabilities)	6,241	–	6,241	−1,018	5,223
Trade payables	246,789	−1,400	245,389	–	245,384
31-Mar-2020					
Derivative financial instruments (assets)	4,399	–	4,399	−1,985	2,415
Trade receivables	300,109	−1,236	298,873	–	298,873
Derivative financial instruments (liabilities)	6,284	–	6,284	−1,985	4,299
Trade payables	213,431	−1,236	212,195	–	212,195

34 Guarantees and contingent liabilities

Contingent liabilities from warranties and guarantees, amounting to € 5,736 thousand as of March 31, 2020 (previous year: € 5,726 thousand), comprise among others reciprocal liability and buyback obligations for third-party liabilities in connection with long-term sales financing, which in turn largely correspond to rights of recourse on the delivered products.

The contingent liabilities in connection with legal disputes are immaterial.

35 Other financial liabilities

Other financial liabilities break down as follows:

				31-Mar-2019				**31-Mar-2020**
	Up to 1 year	Between 1 and 5 years	More than 5 years	Total	Up to 1 year	Between 1 and 5 years	More than 5 years	**Total**
Investments and other purchasing commitments	18,048	8,230	–	26,278	13,260	9,027	–	22,287

The figures shown are nominal values.

In the reporting year, other financial obligations relate to investments and other purchasing commitments. The latter include financial obligations in connection with orders of property, plant and equipment totaling € 7,282 thousand (previous year: € 12,576 thousand) and obligations for the purchase of raw materials, consumables and supplies amounting to € 15,005 thousand (previous year: € 13,702 thousand).

In line with the first-time application of IFRS 16, other financial liabilities no longer include any lease or rental liabilities (March 31, 2019: € 72,147 thousand).

Additional information

36 Earnings per share in accordance with IAS 33

	2018/2019	**2019/2020**
Net result after taxes (€ thousands)	20,875	– 343,002
Number of shares in thousands (weighted average)	279,227	304,336
Basic earnings per share (€)	0.07	– 1.13
Diluted earnings per share (€)	0.07	– 1.13

The basic earnings per share are calculated by dividing the net result after taxes by the weighted average number of the shares outstanding in the reporting year of 304,336 thousand (previous year: 279,227 thousand). The weighted number of shares outstanding was influenced by the cash capital increase (see note 25) and holdings of treasury shares. As in the previous year, there were still 142,919 treasury shares as of March 31, 2020.

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

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

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

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

37 Information on the consolidated statement of cash flows

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

€ 24,492 thousand (previous year: € 32,770 thousand) of investments in intangible assets, property, plant and equipment and investment property relate to intangible assets, € 71,034 thousand (previous year: € 92,117 thousand) to property, plant and equipment. Investments do not include additions from leases of € 14,137 thousand (previous year: finance leases of € 1,648 thousand). The income from company disposals relates to the sale of Hi-Tech Coatings International B.V. and Hi-Tech Coatings International Limited.

Income of € 102 thousand (previous year: € 96 thousand) from the disposal of intangible assets, property, plant and equipment and investment property relates to intangible assets and € 21,710 thousand (previous year: € 20,655 thousand) to property, plant and equipment.

The cash outflows for leases in which Heidelberg is the lessee amounted to € 22,153 thousand in the 2019/2020 financial year. Payments from leases for short-term or low-value assets are shown entirely under operating activities. The payments from all other leases in which Heidelberg is the lessee are divided into the principal component and the interest component in the consolidated statement of cash flows. The principal portion of lease installments is reported under financing activities. The interest portion of lease installments is shown under operating activities.

Payments received from operating and finance leases in which Heidelberg is the lessor are reported under changes in cash from operating activities.

The income from the retransfer of trust assets of Heidelberg Pension-Trust e. V. relates to the contractual trust arrangement (CTA) of Heidelberger Druckmaschinen Aktiengesellschaft and Heidelberger Druckmaschinen Vertrieb Deutschland GmbH (see note 26). These retransferred assets were previously held in trust by Heidelberg Pension-Trust e. V.; they are reported under changes in cash from investing activities.

The carrying amounts of the collateral pledged in connection with the loan agreements as part of a collateral pool concept is shown under the appropriate notes. Please see note 28 for information on the unutilized credit lines.

Cash and cash equivalents include cash and cash equivalents only (€ 372,719 thousand; previous year: € 205,015 thousand). For foreign exchange restrictions please see note 24.

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

38 Information on segment reporting

	Heidelberg Digital Technology		Heidelberg Lifecycle Solutions		Heidelberg Financial Services		**Heidelberg Group**	
	1-Apr-2018 to 31-Mar-2019	**1-Apr-2019 to 31-Mar-2020**	1-Apr-2018 to 31-Mar-2019	**1-Apr-2019 to 31-Mar-2020**	1-Apr-2018 to 31-Mar-2019	**1-Apr-2019 to 31-Mar-2020**	1-Apr-2018 to 31-Mar-2019	**1-Apr-2019 to 31-Mar-2020**
External sales	1,534,840	1,413,954	951,386	930,554	4,266	4,942	2,490,492	2,349,450
EBITDA excluding restructuring result [1] (segment result)	53,417	– 10,869	122,244	111,816	4,333	1,208	179,994	102,155
Depreciation and amortization excluding depreciation and amortization due to restructuring [2]	62,137	70,963	16,385	24,453	633	671	79,155	96,087
EBIT excluding restructuring result	– 8,720	–81,832	105,859	87,363	3,700	537	100,839	6,068
Non-cash expenses	181,031	379,821	48,882	56,084	2,588	3,624	232,501	439,529

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

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

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

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

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

Notes on segment data

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

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

Inter-segment sales are of minor financial significance.

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

	1-Apr-2018 to 31-Mar-2019	**1-Apr-2019 to 31-Mar-2020**
EBITDA excluding restructuring result (segment result)	179,994	105,155
Depreciation and amortization excluding depreciation and amortization due to restructuring	79,155	96,087
EBIT excluding restructuring result	100,839	6,068
Restructuring result	– 19,800	– 275,488
Result of operating activities	81,039	– 269,420
Financial income	5,995	4,004
Financial expenses	54,896	56,389
Financial result	– 48,901	– 52,385
Net result before taxes	**32,138**	**– 321,805**

Information by region

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

	Heidelberg Digital Technology		Heidelberg Lifecycle Solutions		Heidelberg Financial Services		**Heidelberg Group**	
	1-Apr-2018 to 31-Mar-2019	**1-Apr-2019 to 31-Mar-2020**	1-Apr-2018 to 31-Mar-2019	**1-Apr-2019 to 31-Mar-2020**	1-Apr-2018 to 31-Mar-2019	**1-Apr-2019 to 31-Mar-2020**	1-Apr-2018 to 31-Mar-2019	**1-Apr-2019 to 31-Mar-2020**
Europe, Middle East and Africa								
Germany	249,146	200,314	126,663	120,684	2,300	2,180	378,110	323,178
Other Europe, Middle East and Africa region	378,396	311,826	293,641	276,280	287	237	672,323	588,343
	627,542	512,140	420,304	396,964	2,587	2,417	1,050,433	911,521
Asia/Pacific								
China	279,130	280,228	45,307	45,423	18	85	324,454	325,736
Other Asia/Pacific region	207,081	183,904	154,074	154,392	1,451	1,344	362,607	339,640
	486,211	464,132	199,381	199,815	1,469	1,429	687,061	665,376
Eastern Europe	135,616	159,710	106,168	108,089	135	493	241,919	268,292
North America								
USA	187,018	199,490	146,975	149,884	13	410	334,006	349,784
Other North America region	42,157	45,859	51,207	50,691	18	178	93,382	96,728
	229,175	245,349	198,182	200,575	31	588	427,388	446,512
South America	56,296	32,623	27,351	25,111	44	15	83,691	57,749
	1,534,840	**1,413,954**	**951,386**	**930,554**	**4,266**	**4,942**	**2,490,492**	**2,349,450**

Of the non-current assets, which comprise intangible assets, property, plant and equipment and investment property, € 704,140 thousand (previous year: € 634,802 thousand) relate to Germany and € 236,775 thousand (previous year: € 203,838 thousand) to other countries.

39 Capital management

In the context of implementing the holistic management approach, it is the task of capital management to provide the best possible support in the attainment of the Heidelberg Group's goals. The focus here is on ensuring liquidity and creditworthiness of the Heidelberg Group.

For the Heidelberg Group, capital management prioritizes reducing the commitment of capital, strengthening the equity and securing liquidity. In the year under review, the equity of the Heidelberg Group decreased from € 399,397 thousand to € 202,423 thousand. In relation to total assets, the equity ratio is lower than the previous year's level at 7.8 percent (previous year: 17.2 percent).

Owing to the positive free cash flow in the year under review, net debt was down year-on-year at € 42,938 thousand (previous year: € 249,994 thousand). The net debt is total financial liabilities less cash and cash equivalents and current securities.

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

As of March 31, 2020, the financing of the Heidelberg Group mainly consists of an unsecured corporate bond with a maturity of seven years in a nominal amount of € 150 million (corporate bond), a promotional loan from the European Investment Bank of € 100 million with a staggered maturity until March 2024, a convertible bond totaling € 58.6 million with a maturity of seven years (convertible bond), a promotional loan of € 42.1 million maturing in September 2024 arranged with a syndicate of banks refinanced by KfW, a loan of around € 32.5 million maturing by March 2022 assumed in connection with the purchase/sale of the research and development center in Heidelberg, a loan of € 25.7 million borrowed in May 2017 and maturing at the end of June 2027, a loan funded by KfW of € 6 million borrowed in July 2019 and maturing in July 2024, two loans funded by KfW of € 4.2 million and € 3.8 million borrowed in July and August 2019 and maturing in July 2024, and a revolving credit facility with a banking syndicate totaling around € 266.5 million maturing in March 2023.

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

The present diversified financing structure with a maturity profile up to 2023 provides Heidelberg with a stable financing base. For further details regarding the financing instruments, please refer to note 28.

40 Declaration of compliance in accordance with section 161 AktG

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

41 Executive bodies of the Company

The basic characteristics of the compensation system and amounts of compensation for the members of the Management Board and Supervisory Board are presented in the remuneration report. The remuneration report is part of the Group management report (see pages 66 to 76) and the corporate governance report.

The members of the Supervisory Board and the Management Board are listed in the separate overview presented on pages 172 to 173 (Supervisory Board) and 174 (Management Board).

By resolution of the Supervisory Board of June 4, 2020 the "One-year variable compensation for financial year 2019/2020" for Rainer Hundsdörfer and Marcus A. Wassenberg was set at € zero in each case. On this basis, the following information was determined and adjusted accordingly.

MEMBERS OF THE MANAGEMENT BOARD: The total cash compensation (= total compensation) in accordance with HGB amounts to € 3,295 thousand (previous year: € 4,653 thousand), comprising the fixed compensation including fringe benefits of € 1,826 thousand (previous year: € 1,928 thousand), one-year variable compensation of € 474 thousand (previous year: € 1,695 thousand) and multi-year variable compensation of € 995 thousand (previous year: € 1,030 thousand). The multi-year variable compensation includes € 441 thousand (previous year: € 466 thousand) for the fair value calculated as of the grant date for the total shareholder return (cash-settled share-based compensation); this is not distributed over the performance period (three years).

The total compensation according to IFRS of € 10,335 thousand (previous year: € 4,872 thousand) relates to short-term benefits of € 2,300 thousand (previous year: € 3,623 thousand), post-employment benefits of € 611 thousand (previous year: € 666 thousand), other long-term benefits of € 540 thousand (previous year: € 939 thousand), termination benefits of € 6,011 thousand (previous year: € 0 thousand) and share-based payments of € 873 thousand (previous year: income of € 356 thousand). In accordance with IFRS, total compensation includes the fair value of the claim to share-based payment earned in the respective financial year in the form of cash settlement; this means that, given a three-year vesting period, in each case the respective fair value is recognized in profit or loss over three years from the grant year. No pre-emption rights or options were granted. Rather, cash settlement was granted depending on the development of the price of Heidelberger Druckmaschinen Aktiengesellschaft shares.

From financial year 2017/2018, the multi-year variable compensation granted is determined according to two benchmarks: earnings before taxes (EBT) according to the IFRS consolidated income statement and total shareholder return (TSR). The targets for these two benchmarks, the respective thresholds and the maximum overfulfillment are all defined at the beginning of the relevant three-year period (performance period). Half the multi-year variable compensation is attributable to each benchmark, i.e. 45 percent of the fixed annual compensation in the event of 100 percent fulfillment of the targets for each of the relevant benchmarks. Overfulfillment of a benchmark is recognized and can at most result in a doubling of the attributable multi-year variable target compensation. Both benchmarks are associated with an objective fulfillment threshold that must be reached in order for the multi-year variable compensation for the benchmark in question to be paid out. However, overfulfillment of a benchmark can only increase the multi-year variable compensation if the other benchmark reaches at least the threshold. The basis for target measurement for the total shareholder return is the long-term expected return (Heidelberg share price increases) during the performance period. The baseline value for each performance period is determined at the beginning of the first financial year of the performance period. The achievement of objectives is checked and ascertained at the end of each three-year period. The multi-year variable compensation is paid out at the end of the month in which the Annual General Meeting – after the end of the final financial year of the three-year period – resolves on the appropriation of the net result. For the multi-year variable compensation, achievement of the relevant threshold results in a payout amounting to 25 percent of the amount that would be payable in the event of 100 percent objective fulfillment. If the objective attainment lies between the threshold and the defined objective, the payout is determined by linear interpolation. If overfulfillment is to be recognized, the amount of the payout is either determined as a percentage according to the degree of overfulfillment or – if a maximum recognizable value for overfulfillment has been defined – by linear interpolation between the objective and the maximum recognizable value. In the event of a member joining or leaving within an ongoing performance period, that member has a pro rata temporis claim to any multi-year variable compensation determined after the end of the performance period. In the event of a member leaving, pro rata temporis multi-year variable compensation is calculated for the performance periods still ongoing at this time on the basis of the determination of goals as of the exit date, which is then frozen. There was a special rule for the three-year period 2017/2018 to 2019/2020. The amount resulting according to the previous rule from the objective already set for the first portion of the multi-year variable compensation of financial year 2017/2018 (2017/2018 tranche) and the related evaluation with regard to the (proportional) target compensation of no more than 30 percent of the fixed annual compensation was counted towards this new rule after the end of the three-year period in financial year 2019/2020 and will be paid out. This was measured on the basis of the above special rule assuming an achievement rate of 30 percent as of March 31, 2020.

This share-based payment is measured using a Monte Carlo simulation. This simulates the log-normal processes for the price of Heidelberger Druckmaschinen Aktiengesellschaft to establish an average share price at the end of the respective performance period. Depending on the total shareholder return, a percentage of the target value to be paid out is calculated using the TSR performance matrix.

The fair value for the 2019 to 2021 performance period was € 0 thousand in total as of March 31, 2020 (previous year: € 50 thousand). The underlying measurement parameters used to calculate the fair value as of March 31, 2020 are as follows: risk-free continuous zero interest rates: end of performance period: – 0.67 percent (previous year: – 0.63 percent) and payout date: – 0.68 percent (previous year: – 0.62 percent); interest rates based on the yield curve for government bonds; dividend payments as the arithmetic mean, based on publicly available estimates for the years 2020 and 2021; historic volatility based on closing prices for Heidelberger Druckmaschinen Aktiengesellschaft shares: 54.84 percent (previous year: 37.97 percent).

The fair value for the 2020 to 2022 performance period was € 10 thousand in total as of March 31, 2020. The underlying measurement parameters used to calculate the fair value as of March 31, 2020 are as follows: risk-free continuous zero interest rates: end of performance period: – 0.70 percent and payout date: – 0.71 percent; interest rates based on the yield curve for government bonds; dividend payments as the arithmetic mean, based on publicly available estimates for the years 2020 and 2021; historic volatility based on closing prices for Heidelberger Druckmaschinen Aktiengesellschaft shares: 49.21 percent.

As of March 31, 2020, Heidelberger Druckmaschinen Aktiengesellschaft had recognized provisions and liabilities for the compensation of active members of the Management Board with short-term benefits of € 0 thousand (previous year: € 1,724 thousand), post-employment benefits of

€ 897 thousand (previous year: € 4,966 thousand), other long-term benefits of € 309 thousand (previous year: € 2,130 thousand) and share-based payments of € 6 thousand (previous year: € 80 thousand).

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

FORMER MEMBERS OF THE MANAGEMENT BOARD AND THEIR SURVIVING DEPENDENTS: The total cash compensation (= total compensation) amounted to € 8,619 thousand (previous year: € 3,142 thousand); of this figure, € 885 thousand (previous year: € 885 thousand) related to obligations to former members of the Management Board and their surviving dependents of Linotype-Hell Aktiengesellschaft, which were assumed in financial year 1997/1998 under the provisions of universal succession, while € 5,499 thousand (previous year: € 0 thousand) related to benefits recognized in profit or loss for members of the Management Board who left the Company in the year under review. As in the previous year, no share options were held as of the end of the reporting period. The pension obligations (defined benefit obligations in accordance with IFRS) amounted to € 55,367 thousand (previous year: € 51,017 thousand); of this figure, € 7,571 thousand (previous year: € 8,021 thousand) related to pension obligations of the former Linotype-Hell Aktiengesellschaft which were assumed in financial year 1997/1998 under the provisions of universal succession.

MEMBERS OF THE SUPERVISORY BOARD: For the year under review, fixed annual compensation plus an attendance fee of € 500 per meeting day and compensation for sitting on the Management Committee, the Audit Committee and the Committee on Arranging Personnel Matters were granted, totaling € 792 thousand (previous year: € 770 thousand). Two members of the Supervisory Board received fixed compensation totaling € 0 thousand (previous year: € 24 thousand) for their activities on the Board of Directors of foreign subsidiaries. This compensation does not include VAT. Furthermore, members of the Supervisory Board who are employees in a company of the Heidelberg Group receive an activity-related standard market compensation. No loans or advances were granted to members of the Supervisory Board in the reporting period; the Heidelberg Group has not undertaken any contingent liabilities for Supervisory Board members.

42 Related party transactions

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

In the reporting year, transactions were carried out with related parties that resulted in liabilities of € 6,040 thousand (previous year: € 4,120 thousand), receivables of € 3,172 thousand (previous year: € 3,676 thousand), expenses of € 5,607 thousand (previous year: € 4,071 thousand) and income of € 6,597 thousand (previous year: € 8,191 thousand), which includes net sales. No write-downs were recognized on receivables from related parties in the reporting year (previous year: € 334 thousand). All transactions were concluded at standard market terms and did not differ from trade relationships with other companies.

In the year under review, there were trade relationships with companies controlled by a member of the Supervisory Board resulting in liabilities of € 3,750 thousand, receivables of € 127 thousand, expenses of € 29,541 thousand and sales of € 4,573 thousand. A company controlled by another member of the Supervisory Board received remuneration of € 31 thousand from an affiliated company of Heidelberger Druckmaschinen Aktiengesellschaft for consulting services.

43 Exemption under section 264 (3) of the German Commercial Code

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

- docufy GmbH, Bamberg [1)]
- Gallus Druckmaschinen GmbH, Langgöns-Oberkleen [1), 2)];
- Heidelberg Boxmeer Beteiligungs-GmbH, Wiesloch [1)];
- Heidelberg China-Holding GmbH, Wiesloch [1)];
- Heidelberg Consumables Holding GmbH, Wiesloch [1)];
- Heidelberger Druckmaschinen Vertrieb Deutschland GmbH, Wiesloch [1), 2)];
- Heidelberg Manufacturing Deutschland GmbH, Wiesloch [1), 2)];
- Heidelberg Postpress Deutschland GmbH, Wiesloch [1), 2)];
- Heidelberg Print Finance International GmbH, Wiesloch [3)];

1) Exempt from disclosing annual financial statements in accordance with Section 264 (3) HGB
2) Exempt from preparing a management report in accordance with Section 264 (3) HGB
3) Exempt from disclosing annual financial statements and a management report in accordance with Section 264 (3) in conjunction with Section 340a (2) sentence 4 HGB

44 Auditor's fees

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

	2018/2019	**2019/2020**
Fees for		
Audits of financial statements	1,147	1,541
Other assurance services	117	89
Tax advisory services	–	–
Other services	–	212
	1,264	**1,842**

Material other assurance services for Heidelberger Druckmaschinen Aktiengesellschaft provided by the auditor relate to services with regard to the non-financial report, the German Securities Trading Act (WpHG) and energy industry law. Other services relate to the preparation of expert opinions.

45 Events after the end of the reporting period

As part of the package of measures announced in March 2020, the Management Board and employee representatives of Heidelberger Druckmaschinen Aktiengesellschaft agreed on May 15, 2020 on a reconciliation of interests and a social plan for the German sites in Heidelberg and Wiesloch-Walldorf in accordance with section 112 of the Works Council Constitution Act (BetrVG) with a planned reduction of 980 jobs.

Heidelberg, May 25, 2020/June 4, 2020

HEIDELBERGER DRUCKMASCHINEN AKTIENGESELLSCHAFT
The Management Board

Rainer Hundsdörfer   Marcus A. Wassenberg

Responsibility statement

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

Heidelberg, May 25, 2020/June 4, 2020

HEIDELBERGER DRUCKMASCHINEN
AKTIENGESELLSCHAFT
The Management Board

Rainer Hundsdörfer Marcus A. Wassenberg

Independent auditor's report

To Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg

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

Audit Opinions

We have audited the consolidated financial statements of Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at March 31, 2020, and the consolidated statement of comprehensive income, consolidated income statement, statement of changes in consolidated equity and consolidated statement of cash flows for the financial year from April 1, 2019 to March 31, 2020 and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Heidelberger Druckmaschinen Aktiengesellschaft for the financial year from April 1, 2019 to March 31, 2020. In accordance with the German legal requirements, we have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to [§ [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code]] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at March 31, 2020, and of its financial performance for the financial year from April 1, 2019 to March 31, 2020, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

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

Basis for the Audit Opinions

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

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from April 1, 2019 to March 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

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

1. **Recoverability of goodwill**
2. **Application of the revaluation method in accordance with IAS 16**
3. **Retransfer of assets held in trust**
4. **Recognition of provisions and impairments as well as derecognitions in connection with the announced package of measures**

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

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

Hereinafter we present the key audit matters:

1 Recoverability of goodwill

1 In the Company's consolidated financial statements goodwill amounting in total to EUR 127.7 million (4.9 % of total assets or 63.2 % of equity) is reported under the "Intangible assets" balance sheet item. Goodwill is tested for impairment by the Company once a year or when there are indications of impairment to determine any possible need for write-downs. The impairment test is carried out at the level of the groups of cash-generating units to which the relevant goodwill is allocated. The carrying amount of the relevant cash-generating units, including goodwill, is compared with the corresponding recoverable amount in the context of the impairment test. The recoverable amount is generally determined using the value in use. The present value of the future cash flows from the respective group of cash-generating units normally serves as the basis of valuation. Present values are calculated using discounted cash flow models. For this purpose, the adopted medium-term business plan of the Group forms the starting point which is extrapolated based on assumptions about long-term rates of growth. Expectations relating to future market developments and assumptions about the development of macroeconomic factors are also taken into account. The discount rate used is the weighted average cost of capital for the respective group of cash-generating units. The impairment test determined that no write-downs were necessary. The outcome of this valuation is dependent to a large extent on the estimates made by the executive directors with respect to the future cash inflows from the respective group of cash-generating units, the discount rate used, the rate of growth and other assumptions, and is therefore subject to considerable uncertainty. Against this background and due to the highly complex nature of the valuation, this matter was of particular significance in the context of our audit.

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

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

2 Application of the revaluation method in accordance with IAS 16

1 The Company has changed its previous accounting policy for developed and undeveloped land in its consolidated financial statements, and applies the revaluation model under IAS 16 for measurement after recognition of those assets for the first time as of March 31, 2020. Developed and undeveloped land is measured at its respective fair value as of the balance sheet date The fair values of the land were determined almost entirely by independent, external experts from outside the Group using internationally recognized valuation methods. Within the statement of comprehensive income, the EUR 169.8 million increase in value resulting from this revaluation less deferred taxes of EUR 1.3 million was recognized in other comprehensive income, and the resulting impairments of EUR 1.9 million were recognized as depreciation in the statement of profit and loss. In our view, this matter was of particular significance in the context of our audit due to the high degree of judgement of the executive directors in the valuation and the material effects on the Group's assets, liabilities and its financial performance.

2 As part of our audit, we assessed the proper revaluation in accordance with IAS 16 of developed and undeveloped land as at March 31, 2020. For this purpose, we obtained and evaluated corresponding evidence from the executive directors of the Company. We evaluated the valuation reports for their usability and in doing so assessed among other things the expertise of the external experts as well as the valuation methods used and the assumptions made. We were able to satisfy ourselves that the estimates and assumptions made by the executive directors for the valuation of developed and undeveloped land were sufficiently documented and substantiated. Overall, the revaluation was carried out within ranges considered by us to be reasonable.

3 The Company's disclosures on the revaluation are contained in the statement of comprehensive income, the statement of changes in equity, the statement of changes in non-current assets and in notes 1, 6, 19 and 25 of the notes to the consolidated financial statements.

3 Retransfer of assets held in trust

1 The existing trust agreements with Heidelberger Druckmaschinen AG and a German subsidiary were amended on March 17, 2020 by corresponding amendment agreements between the companies and the trustee. The previous agreements had resulted in the corresponding assets held in trust fulfilling the definition of plan assets in accordance with IAS 19.8 and being recognized and measured as such. In particular, the plan assets (totaling EUR 395 million as at March 17, 2020) were offset against the corresponding pension provisions. On the basis of the amendment agreement, on March 17, 2020 the two German companies in question requested the retransfer of the assets held in trust totaling EUR 380 million; the respective asset transfers took place until March 31, 2020. As at the balance sheet date, the assets covered by the transaction, which no longer meet the requirements for plan assets, were mainly reported as deposits with credit institutions in the consolidated statement of financial position; the pension provisions increased to approximately EUR 986 million. In our view, this matter was of particular significance in the context of our audit due to its complexity and the material accounting effects on the assets, liabilities and financial position of the Group.

2 To evaluate the proper accounting treatment of the contractual amendment and the subsequent retransfer, we examined among other things the corporate law principles and the underlying contracts and agreements as part of our audit. For the legal assessment, we referred to the legal opinions commissioned by the contracting parties and consulted our own legal experts. On this basis, and with assistance from our national office, we assessed in particular whether the classification as plan assets only ceased to apply until the amendment of the agreements. Furthermore, we evaluated whether the assets retransferred and the pension provisions were properly reported in the consolidated financial statements. On the basis of our audit procedures we were able to satisfy ourselves that the estimates and assumptions made by the executive directors, taking into consideration the agreements provided to us, were appropriate overall to ensure the proper accounting treatment of the retransfer of the assets held in trust.

3 The Company's disclosures on the retransfer of assets held in trust are contained in notes 6, 21, 24, 26 and 37 to the consolidated financial statements.

4 Recognition of provisions and impairments as well as derecognitions in connection with the announced package of measures

1 In connection with the announcement of a comprehensive package of measures, the Company as at the balance sheet date recognized EUR 128.8 million in provisions in accordance with IAS 19 and IAS 37 and impairments and derecognitions amounting to EUR 130.1 million of individual asset affected in accordance with IAS 38, IAS 16, IAS 2 and IFRS 9. The recognition and measurement of provisions and the determination of the amount of impairments and derecognitions are to a large extent subject to estimates, assumptions as well as judgement of the executive directors and are therefore subject to considerable uncertainties. Against this background and due to the material accounting effects on the assets, liabilities and financial position of the Group and its financial performance, this matter was of particular significance in the context of our audit.

2 As part of our audit, we firstly assessed whether the accounting requirements for recognizing the provisions and recording the impairments and derecognitions were met. Therefore, we inspected in particular the minutes of management board and supervisory board meetings as well as the information communicated to employee bodies, customers and suppliers, and evaluated those documents. Then, with the knowledge that estimated values result in an increased risk of material accounting misstatements and that the executive directors' measurement decisions have a direct impact on the Group's financial performance, we also evaluated the proper measurement of the provision and determination of the amounts of the impairments and derecognitions. For this purpose, we obtained and evaluated in particular corresponding evidence from the executive directors of the Company and the employees instructed by them. In addition, we conducted interviews with the executive directors and the Company's responsible departments in order to gain explanations of the assumptions underlying the respective estimates used to determine the amount of the provisions, impairments and derecognitions. We were able to satisfy ourselves that the estimates and the assumptions made by the executive directors were appropriate overall to ensure the proper recognition and measurement of the provisions and the proper determination the amount of the impairments and derecognitions.

3 The Company's disclosures on the provisions, impairments and derecognitions are contained in numbers 10, 11 12, 13, 23 and 27 of the notes to the consolidated financial statements and supplementary primarily in the sections “Strategy” and “Future Prospects” in the Group management report.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to §315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

Other legal and regulatory requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on July 25, 2019. We were engaged by the supervisory board on July 25, 2019. We have been the group auditor of Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg, without interruption since the financial year 1997.

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

Reference to supplementary audit

We issue this auditor's report on the amended consolidated financial statements and amended group management report on the basis of our audit, duly completed as at May 26, 2020, and our supplementary audit completed as at June 4, 2020 related to the amendments of the disclosures regarding the management board's renumeration in the notes to the consolidated financial statements and the group management report. We refer to the presentation of the amendments by the executive directors in the amended notes to the consolidated financial statements, section 41 "Executive bodies of the Company", as well as the amended group management report, section "Renumeration Report – Management Board and Supervisory Board".

German public auditor responsible for the engagement

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

Mannheim, May 26, 2020/limited to the amendments stated in the "Reference to Supplementary Audit" section above: June 4, 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Stefan Hartwig	ppa. Stefan Sigmann
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Financial section 2019/2020

Further information

List of shareholdings

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

(Figures in € thousands)

Name	Country/Domicile		Shareholding in percent	Equity	Net result after taxes
Affiliated companies included in the consolidated financial statements					
Germany					
docufy GmbH [1]	D	Bamberg	100	12,515	1,745
Gallus Druckmaschinen GmbH [1]	D	Langgöns-Oberkleen	100	2,238	–3,926
Heidelberg Boxmeer Beteiligungs-GmbH [1]	D	Wiesloch	100	127,091	18,702
Heidelberg China-Holding GmbH [1]	D	Wiesloch	100	58,430	15,323
Heidelberg Consumables Holding GmbH [1]	D	Wiesloch	100	12,382	5,740
Heidelberg Manufacturing Deutschland GmbH [1]	D	Wiesloch	100	42,561	–16,564
Heidelberg Postpress Deutschland GmbH [1]	D	Wiesloch	100	9,617	488
Heidelberg Print Finance International GmbH [1]	D	Wiesloch	100	34,849	3,380
Heidelberg Web Carton Converting GmbH	D	Weiden	100	5,716	2,850
Heidelberger Druckmaschinen Vertrieb Deutschland GmbH [1]	D	Wiesloch	100	33,616	–13,357
Outside Germany [2]					
Baumfolder Corporation	USA	Sidney, Ohio	100	–2,015	–2,924
BluePrint Products N.V. [6]	BE	Kruibeke	100	4,041	1,649
Cerm N.V.	BE	Oostkamp	100	1,899	722
Europe Graphic Machinery Far East Ltd.	PRC	Hong Kong	100	1,724	–166
Gallus Ferd. Rüesch AG	CH	St. Gallen	100	51,331	4,044
Gallus Holding AG	CH	St. Gallen	100	46,363	7,432
Gallus Inc.	USA	Philadelphia, Pennsylvania	100	955	83
Hi-Tech Chemicals BVBA [4]	BE	Kruibeke	100	5,199	1,409
Heidelberg Americas, Inc.	USA	Kennesaw, Georgia	100	112,075	4,697
Heidelberg Asia Pte. Ltd.	SGP	Singapore	100	7,436	897
Heidelberg Baltic Finland OÜ	EST	Tallinn	100	511	–797
Heidelberg Benelux B.V.	NL	Haarlem	100	51,152	13,546
Heidelberg Benelux BVBA [7]	BE	Kruibeke	100	14,584	88
Heidelberg Boxmeer B.V.	NL	Boxmeer	100	35,266	14,868
Heidelberg Canada Graphic Equipment Ltd.	CDN	Mississauga	100	8,951	–1,050
Heidelberg China Ltd.	PRC	Hong Kong	100	5,520	–727
Heidelberg do Brasil Sistemas Graficos e Servicos Ltda.	BR	São Paulo	100	4,132	919
Heidelberg France S.A.S.	F	Roissy-en-France	100	14,507	2,253
Heidelberg Grafik Ticaret Servis Limited Sirketi	TR	Istanbul	100	2,845	–179
Heidelberg Graphic Equipment (Shanghai) Co. Ltd.	PRC	Shanghai	100	105,647	19,201
Heidelberg Graphic Equipment Ltd. – Heidelberg Australia –	AUS	Notting Hill, Melbourne	100	14,969	–2,057
Heidelberg Graphic Equipment Ltd. – Heidelberg New Zealand –	NZ	Auckland	100	2,204	199
Heidelberg Graphic Equipment Ltd. – Heidelberg UK –	GB	Brentford	100	25,522	–5,319

Name	Country/Domicile		Shareholding in percent	Equity	Net result after taxes
Heidelberg Graphic Systems Southern Africa (Pty) Ltd.	ZA	Johannesburg	100	1,172	– 653
Heidelberg Graphics (Beijing) Co. Ltd.	PRC	Beijing	100	17,851	7,624
Heidelberg Graphics (Thailand) Ltd.	TH	Bangkok	100	7,240	1,946
Heidelberg Graphics (Tianjin) Co. Ltd.	PRC	Tianjin	100	6,633	544
Heidelberg Graphics Taiwan Ltd.	TWN	Wu Ku Hsiang	100	2,202	– 268
Heidelberg Group Trustees Ltd.	GB	Brentford	100	0	0
Heidelberg Hong Kong Ltd.	PRC	Hong Kong	100	10,546	– 1,932
Heidelberg India Private Ltd.	IN	Chennai	100	1,900	– 1,517
Heidelberg International Finance B.V.	NL	Boxmeer	100	12	– 2
Heidelberg International Ltd. A/S	DK	Ballerup	100	57,641	2,443
Heidelberg International Trading (Shanghai) Co. Ltd.	PRC	Shanghai	100	109	– 58
Heidelberg Italia S.r.L.	IT	Bollate	100	17,708	1,491
Heidelberg Japan K.K.	J	Tokyo	100	17,638	3,900
Heidelberg Korea Ltd.	ROK	Seoul	100	2,373	– 2,183
Heidelberg Magyarország Kft.	HU	Kalasch	100	3,207	– 1,567
Heidelberg Malaysia Sdn Bhd	MYS	Petaling Jaya	100	– 4,896	– 1,826
Heidelberg Mexico, S. de R.L. de C.V.	MEX	Mexico City	100	10,467	1,546
Heidelberg Philippines, Inc.	PH	Makati City	100	4,524	65
Heidelberg Polska Sp z.o.o.	PL	Warsaw	100	8,524	103
Heidelberg Praha spol s.r.o.	CZ	Prague	100	1,552	395
Heidelberg Print Finance Australia Pty Ltd.	AUS	Notting Hill, Melbourne	100	20,974	182
Heidelberg Print Finance Korea Ltd.	ROK	Seoul	100	17,171	3,026
Heidelberg Print Finance Osteuropa Finanzierungsvermittlung GmbH	A	Vienna	100	11,961	– 7
Heidelberg Schweiz AG	CH	Bern	100	4,549	1,824
Heidelberg Slovensko s.r.o.	SK	Bratislava	100	927	56
Heidelberg Spain S.L.U.	ES	Cornella de Llobregat	100	8,681	– 2,576
Heidelberg Sverige AB	S	Solna	100	3,417	– 920
Heidelberg USA, Inc.	USA	Kennesaw, GA	100	77,505	19,207
Heidelberger CIS OOO	RUS	Moscow	100	– 13,063	– 1,812
Heidelberger Druckmaschinen Austria Vertriebs-GmbH	A	Vienna	100	29,410	– 3,113
Heidelberger Druckmaschinen Osteuropa Vertriebs-GmbH	A	Vienna	100	7,193	– 2,030
Press Parts Outlet GmbH [5]	A	Vienna	100	2,046	4
Linotype-Hell Ltd.	GB	Brentford	100	3,868	0
Modern Printing Equipment Ltd. [4]	PRC	Hong Kong	100	2,008	428
MTC Co., Ltd.	J	Tokyo	100	8,722	12
P.T. Heidelberg Indonesia	ID	Jakarta	100	9,749	1,033

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	– 162	– 42
Heidelberg Catering Services GmbH[1]	D	Wiesloch	100	386	– 2,257
Heidelberg Digital Platforms GmbH[1]	D	Wiesloch	100	3,766	– 2,365
Heidelberg Digital Unit GmbH[1]	D	Wiesloch	90	100	163
Heidelberger Druckmaschinen Vermögensverwaltungsgesellschaft mbH	D	Walldorf	100	25	0
Heidelberg Postpress Beteiligungen GmbH[1]	D	Wiesloch	100	19	– 5
Menschick Trockensysteme GmbH	D	Renningen	100	557	172
Zaiko GmbH[8]	D	Mainz	100	– 105	– 125
Outside Germany[2]					
Gallus India Private Limited[4]	IN	Mumbai	100	96	0
Gallus Mexico S. de R.L. de C.V.[4]	MEX	Mexico City	100	– 41	0
Heidelberg Asia Procurement Centre Sdn Bhd[4]	MYS	Petaling Jaya	100	88	0
Heidelberg Hellas A.E.E.	GR	Metamorfosis	100	3,583	168
Heidelberger Druckmaschinen Ukraina Ltd.	UA	Kiev	100	127	256

Name	Country/Domicile		Shareholding in percent	Equity	Net result after taxes
Joint ventures not accounted for using the equity method owing to immateriality for the net assets, financial position and results of operations					
Outside Germany [2]					
Heidelberg Middle East FZ Co.	AE	Dubai	50	865	67
Shenzhen Heidelberg NetworX Technology Co., Ltd.	PRC	Shenzhen	52	2,465	– 236
Heidelberg NetworX Holding Company Limited	PRC	Hong Kong	52	2,701	0
Other investments (>5 percent)					
Germany					
InnovationLab GmbH [3]	D	Heidelberg	20.00	2,847	– 2

[1] Before profit transfer
[2] Disclosures for companies outside Germany in accordance with IFRS
[3] Prior-year figures as financial statements not yet available
[4] In liquidation
[5] Previously: WEB-Solution CEE Ges.m.b.H
[6]) Relocated from Sint-Niklaas to Kruibeke
[7] Relocated from Brussels to Kruibeke
[8] Short financial year from January 1, 2020 to March 31, 2020

The Supervisory Board

Dr. Siegfried Jaschinski
(until November 30, 2019)
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)
Augur Mittelstand Partners S.A., Luxembourg (Member of the Administration Board)

Dr. Martin Sonnenschein
(since December 1, 2019)
Partner and Managing Director A.T. Kearney, Berlin
b) SupplyOn AG

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

Joachim Dencker*
Head of Technology and Production Gallus/Postpress, Head of Heidelberg Excellence System, Spokesperson of the Executive Staff, Wiesloch-Walldorf

Gerald Dörr*
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 Management Board of thjnk AG, Hamburg
a) NDR Media GmbH
Studio Hamburg GmbH
b) Commerzbank AG (Advisory Board of the North Region)

Oliver Jung
Chairman of the Management Board of Festo SE & Co. KG, Esslingen
a) Leistritz AG

Kirsten Lange
Management Consultant and supervisory board member, Ulm; Adjunct Professor of INSEAD, Fontainebleau, France
a) ATS Automation Tooling Systems Inc., Toronto, Canada

Li Li
(since July 25, 2019)
Chair of Masterwork Group Co., Ltd., Tianjin, People's Republic of China

Petra Otte*
Trade union secretary of IG Metall Baden-Württemberg, Stuttgart
a) Audi AG

Ferdinand Rüesch
Entrepreneur, St. Gallen, Switzerland
b) Ferd. Rüesch AG, Switzerland (Chairman of the Administration Board)

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

Prof. Dr.-Ing. Günther Schuh
(until July 25, 2019)
Professor and holder of the chair in production engineering at RWTH Aachen University, Aachen; Chairman of the Management Board of e.GO Mobile AG, Aachen; Managing Director of e.GO MOOVE GmbH, Aachen; Managing Director of e.SAT GmbH, Aachen
a) KEX Knowledge Exchange AG (Chairman)
b) Phoenix Contact GmbH & Co. KG (Member of the Advisory Board)

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

Committees of the Supervisory Board

MANAGEMENT COMMITTEE

Dr. Siegfried Jaschinski (Chairman) (until November 30, 2019)
Dr. Martin Sonnenschein (Chairman) (since December 1, 2019)
Ralph Arns
Gerald Dörr
Mirko Geiger
Oliver Jung (since March 26, 2020)
Ferdinand Rüesch
Prof. Dr.-Ing. Günther Schuh (until July 25, 2019)

MEDIATION COMMITTEE UNDER ARTICLE 27 PARAGRAPH 3 OF THE CODETERMINATION ACT

Dr. Siegfried Jaschinski (until November 30, 2019)
Dr. Martin Sonnenschein (since December 1, 2019)
Ralph Arns
Gerald Dörr
Ferdinand Rüesch

COMMITTEE ON ARRANGING PERSONNEL MATTERS OF THE MANAGEMENT BOARD

Dr. Siegfried Jaschinski (Chairman) (until November 30, 2019)
Dr. Martin Sonnenschein (Chairman) (since December 1, 2019)
Ralph Arns
Gerald Dörr
Karen Heumann
Ferdinand Rüesch
Beate Schmitt

AUDIT COMMITTEE

Dr. Siegfried Jaschinski (Chairman) (until November 30, 2019)
Oliver Jung (Chairman since December 1, 2019)
Ralph Arns
Mirko Geiger
Kirsten Lange
Beate Schmitt
Dr. Martin Sonnenschein (since December 1, 2019)

NOMINATION COMMITTEE

Dr. Siegfried Jaschinski (Chairman) (until November 30, 2019)
Dr. Martin Sonnenschein (Chairman) (since December 1, 2019)
Oliver Jung
Ferdinand Rüesch

STRATEGY COMMITTEE

Dr. Siegfried Jaschinski (Chairman) (until November 30, 2019)
Dr. Martin Sonnenschein (Chairman) (since December 1, 2019)
Ralph Arns
Mirko Geiger
Karen Heumann
Oliver Jung
Kirsten Lange
Li Li (since July 25, 2019)
Ferdinand Rüesch
Prof. Dr.-Ing. Günther Schuh (until July 25, 2019)

The Management Board

Rainer Hundsdörfer
Heidelberg
Chief Executive Officer,
Management Board Member
Heidelberg Digital Technology and
Heidelberg Lifecycle Solutions
* Marquardt GmbH (Chairman)
** Heidelberg Americas, Inc., USA
(Chairman of the Board of Directors)
Heidelberg USA, Inc., USA
(Chairman of the Board of Directors)

Marcus A. Wassenberg
(since September 1, 2019)
Heidelberg
Chief Financial Officer,
Management Board Member
Heidelberg Financial Services,
Chief Human Resources Officer
** Heidelberg Americas, Inc., USA
Heidelberg USA, Inc., USA
Heidelberg Graphic Equipment Ltd.,
Australia
Heidelberg Japan K.K., Japan

Prof. Dr. Ulrich Hermann
(until February 16, 2020)
Heidelberg
Management Board Member
Heidelberg Lifecycle Solutions
* Heidelberger Druckmaschinen Vertrieb
Deutschland GmbH (Chairman)
** Heidelberg Graphic Equipment Ltd.,
Australia
Heidelberg Japan K.K., Japan

Dirk Kaliebe
(until September 30, 2019)
Sandhausen
Chief Financial Officer,
Management Board Member
Heidelberg Financial Services
(until August 31, 2019)
* Heidelberger Druckmaschinen Vertrieb
Deutschland GmbH
** Heidelberg Americas, Inc., USA
** Heidelberg USA, Inc., USA

Stephan Plenz
(until November 30, 2019)
Sandhausen
Management Board Member
Heidelberg Digital Technology
** Gallus Holding AG, Switzerland
(Chairman of the Administration Board)
Heidelberg Graphic Equipment (Shanghai)
Co. Ltd., China (Chairman of the Board of
Directors)

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

Supervisory Board and corporate governance

Report of the Supervisory Board

DR. MARTIN SONNENSCHEIN
Chairman of the Supervisory Board

Dear shareholders,

The past financial year 2019/2020 saw far-reaching changes for Heidelberger Druckmaschinen Aktiengesellschaft, both within the Group and as a result of the initial consequences of the COVID-19 pandemic. Following extensive preparations, the Company implemented a reorientation at the end of the financial year and resolved a comprehensive package of measures aimed at reducing structural costs in the short term and improving its profitability on a sustainable basis. To achieve this, Heidelberg will discontinue the production of individual products that generate far too little in the way of earnings power and that significantly impact the Company's profitability. Heidelberg's reorientation is accompanied by a sustainable reduction in production and structural costs, starting with the downsizing of the Management Board but also including a substantial workforce reduction. These cuts are painful but necessary in order to stabilize the Company and return it to profitability and success.

The almost complete retransfer of around € 380 million from pension trust assets will safeguard the financing of the package of measures and significantly increase Heidelberg's financial stability by enabling a substantial reduction in liabilities, which also means considerable interest savings.

In future, Heidelberg will concentrate on its technology leadership in its core business with a focus on digitization, and hence on the profitable areas in which the Company occupies a world-leading market position. With products such as its new Print Site Contracts, i. e. service agreements covering the entire lifecycle of a printing press, and a digital subscription business model, Heidelberg is continuing to expand its leading technological role. This is made possible by its unique integrated range of solutions for printing presses, software, consumables and performance services, the aim of which is to provide even better support for its customers' success in future with a view to returning the Company to sustainable growth.

The expenses for the package of measures and the significant deterioration in the economic environment as a result of the global COVID-19 pandemic had a pronounced impact on sales and earnings in financial year 2019/2020, and these factors will also affect financial year 2020/2021. However, we are confident that our comprehensive reorientation will have clearly positive effects from financial year 2021/2022 onward.

Close cooperation between Management Board and Supervisory Board

The Supervisory Board of Heidelberger Druckmaschinen AG again performed its duties in accordance with the law, the Articles of Association and its Rules of Procedure in full in financial year 2019/2020. The Supervisory Board continuously monitored the Management Board, regularly advised it on the running of the Company and oversaw key strategic issues. We were assured of the legality, expediency and compliance of the work of the Management Board at all times.

The Management Board reported to the Supervisory Board regularly, promptly and comprehensively in written or verbal form on all matters relevant to the Company. Namely, these include planning, corporate strategy, major transactions by the Company and the Group, and the associated opportunities and risks, in addition to compliance issues. The Management Board kept the Supervisory Board informed continuously and in detail about the Group's sales, earnings, employment and business performance, and the Company's financial position. On receipt of the information, the Supervisory Board discussed and dealt with all the above topics in depth. In particular, the Supervisory Board discussed and examined all business transactions of significance to the Company verbally and in writing with the Management Board. In addition, the Supervisory Board and the Audit Committee dealt intensively with other material concerns of the Company in their meetings and separate discussions. The members of the Supervisory Board also discussed current topics with the Management Board outside of meetings. The Chairman of the Supervisory Board was in continuous contact with the Management Board and especially with the Chief Executive Officer and discussed significant current issues and developments at the Company with them. The focal points of these discussions included strategy, risk management and the subscription business model, as well as the Company's business situation and liquidity. The chairs of the Supervisory Board and the committees reported on key findings no later than the next Supervisory Board meeting. Against this backdrop, the Supervisory Board was always involved in all decisions of material importance to the Company and the Group in good time and reviewed these decisions ahead of their implementation. The members of the Supervisory Board always had sufficient opportunity to scrutinize the information and resolution proposals they received from the Management Board and to make suggestions at the meetings of the committees and the Supervisory Board as a whole.

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

In the reporting period, the members of the Management Board and the Supervisory Board did not experience any conflicts of interest that would have required disclosure in accordance with the German Corporate Governance Code.

The members of the Supervisory Board undertake the basic and advanced training they need to carry out their duties, such as on corporate governance issues or new products, autonomously and are supported by the Company where necessary. As part of their induction, the members of the Supervisory Board that were newly appointed in financial year 2019/2020 met with the members of the Management Board to discuss current topics in the respective Management Board divisions in order to obtain an overview of the relevant topics at the Company.

Meetings of the Supervisory Board and key topics

The Supervisory Board held eight ordinary meetings and two extraordinary meetings in the reporting year. Until he stepped down from the Supervisory Board, Prof. Günther Schuh only attended half of the meetings of the Supervisory Board in the reporting year. The average attendance rate at the meetings of the Supervisory Board and its committees was around 98 percent in financial year 2019/2020. The following table shows the individual breakdown of meeting participation:

	Meeting attendance
Full Supervisory Board	
Dr. Siegfried Jaschinski (Chairman) until November 30, 2019	7/7
Dr. Martin Sonnenschein (Chairman) since December 1, 2019	3/3
Ralph Arns*	10/10
Mirko Geiger*	10/10
Joachim Dencker*	10/10
Gerald Dörr*	10/10
Karen Heumann	9/10
Oliver Jung	10/10
Kirsten Lange	10/10
Li Li since July 25, 2019	6/6
Petra Otte*	10/10
Ferdinand Rüesch	10/10
Beate Schmitt*	10/10
Prof. Dr.-Ing. Günther Schuh until July 25, 2019	2/4
Audit Committee	
Dr. Siegfried Jaschinski (Chairman) until November 30, 2019	4/4
Oliver Jung (Chairman) since December 1, 2019	5/5
Mirko Geiger*	5/5
Ralph Arns*	5/5
Kirsten Lange	5/5
Beate Schmitt*	5/5
Dr. Martin Sonnenschein since December 1, 2019	1/1
Personnel Committee	
Dr. Siegfried Jaschinski (Chairman) until November 30, 2019	4/4
Dr. Martin Sonnenschein (Chairman) since December 1, 2019	1/1
Ralph Arns*	5/5
Karen Heumann	5/5
Gerald Dörr*	5/5
Ferdinand Rüesch	5/5
Beate Schmitt*	5/5

	Meeting attendance
Nomination Committee	
Dr. Siegfried Jaschinski (Chairman) until November 30, 2019	2/2
Dr. Martin Sonnenschein (Chairman) since December 1, 2019	1/1
Oliver Jung	3/3
Ferdinand Rüesch	3/3
Strategy Committee	
Dr. Siegfried Jaschinski (Chairman) until November 30, 2019	–
Dr. Martin Sonnenschein (Chairman) since December 1, 2019	1/1
Ralph Arns*	1/1
Mirko Geiger*	1/1
Karen Heumann	1/1
Oliver Jung	1/1
Kirsten Lange	1/1
Li Li since July 25, 2019	1/1
Ferdinand Rüesch	1/1
Prof. Dr.-Ing. Günther Schuh until July 25, 2019	–
Mediation Committee	
Dr. Siegfried Jaschinski until November 30, 2019	1/1
Dr. Martin Sonnenschein since December 1, 2020	–
Ralph Arns*	1/1
Gerald Dörr*	1/1
Ferdinand Rüesch	1/1

Supervisory Board members Joachim Dencker, Gerald Dörr, Petra Otte and Beate Schmitt attended the Strategy Committee meeting as guests.

The members of the Management Board took part in the meetings of the Supervisory Board unless it seemed appropriate to discuss individual matters without their participation.

The Supervisory Board's discussions focused on issues relating to strategy, the portfolio and the business activities of Heidelberger Druckmaschinen AG. Furthermore, the Supervisory Board intensively discussed the liquidity situation and the capital structure.

In particular, the Supervisory Board discussed the following key topics in the reporting year:

At its meeting on May 27, 2019, the Supervisory Board discussed the ecosystem strategy, the digital printing strategy, financing, and authorized and contingent capital. At the same meeting, the Supervisory Board also approved the cooperation with the company thjnk, in which the Supervisory Board member Karen Heumann holds an equity interest.

At its meeting on June 4, 2019, the Supervisory Board discussed the reporting of the Management Board on the business situation, as at every meeting held in the year under review. In addition, the Supervisory Board adopted the single-entity financial statements for financial year 2018/2019 following the presentation and discussion of the auditor's report and approved the consolidated financial statements, thereby concurring with the recommendation of the Audit Committee. It also approved the agenda for the 2019 Annual General Meeting, including the nomination of Ms. Li for election to the Supervisory Board. Furthermore, the chairs of the respective committees reported on the meetings of the Personnel Matters Committee on May 27 and June 4, 2019, the meeting of the Nomination Committee on June 4, 2019 and the meetings of the Audit Committee on May 7 and June 3, 2019.

The extraordinary meeting of the Supervisory Board on June 25, 2019 discussed the candidates to succeed Mr. Kaliebe.

Discussions at the meeting of the Supervisory Board on July 24, 2019 initially focused in particular on the business situation and financial situation of the Company, including the quarterly results and the adjustment of the margin target and the earnings forecast. The Chairman of the Audit Committee reported on the meeting held on July 24, 2019. The Supervisory Board also resolved to appoint Marcus A. Wassenberg as the CFO of the Company for a term of three years effective September 1, 2019. Furthermore, the Supervisory Board resolved to commission PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft as the auditor of the single-entity and consolidated financial statements for financial year 2019/2020 subject to a resolution by the Annual General Meeting. The corresponding audit engagement was subsequently issued.

At its extraordinary meeting on September 17, 2019, the Supervisory Board discussed the current business situation of the Company and the corporate governance of the Supervisory Board, as well as Management Board matters. At the same meeting, the Supervisory Board also approved the cooperation with the company thjnk, in which the Supervisory Board member Karen Heumann holds an equity interest.

The Supervisory Board meeting on October 28, 2019 discussed Management Board and Supervisory Board matters and the business situation of the Company. Dr. Jaschinski reported on the work of the Audit Committee.

The meeting of the Supervisory Board on November 27, 2019 focused on reporting and discussing the current business situation with the Management Board. After reviewing the recommendations and suggestions of the German Corporate Governance Code, the Supervisory Board also approved the issue, amendment and publication of the declaration of compliance of November 27, 2019 and acknowledged the allocation of duties following the departure of Stephan Plenz. The Supervisory Board also discussed Management Board matters. At the meeting of the Supervisory Board on February 5, 2020, the Supervisory Board was informed by Mr. Jung about the meeting of the Audit Committee on the same date. The meeting also discussed personnel matters of the Management Board and the business situation and portfolio of the Company. In addition, the Supervisory Board resolved the performance of a special audit of two topics and acknowledged the new allocation of duties of the Management Board.

At its meeting on February 25, 2020, the Supervisory Board discussed the potential impact of the coronavirus crisis and the liquidity and business situation of the Company.

The topics discussed at the Supervisory Board's last meeting of the reporting year, on March 26, 2020, included the current business situation, planning for the coming financial year and projections for the following years. The Supervisory Board acknowledged the planning presented to the meeting. The Supervisory Board also addressed the management structure and changes in the Management Board as well as the Second Shareholder Rights Directive (ARUG II) and the new version of the German Corporate Governance Code. The results of the self-assessment of the Supervisory Board were also presented. Furthermore, the Supervisory Board was informed about the new allocation of duties following the departure of Prof. Dr. Ulrich Hermann.

Corporate governance

The Supervisory Board continuously addressed the standards of good corporate governance in the course of financial year 2019/2020. Further information on the Company's corporate governance and related activities of the Supervisory Board can also be found in the corporate governance report on our website www.heidelberg.com under ' Company ' About Us ' Corporate Governance.

Corporate governance at Heidelberger Druckmaschinen AG is discussed in detail in the combined corporate governance report and corporate governance declaration on pages 183 to 189 of the Annual Report.

Work in the committees

The Supervisory Board of the Company has set up six permanent committees to support it in its work:

- Mediation Committee
- Management Committee
- Audit Committee
- Nomination Committee
- Personnel Matters Committee
- Strategy Committee

The Supervisory Board's six committees prepare decisions for the Supervisory Board as a whole and pass resolutions on matters delegated to them for a decision.

The chairs of the respective committees reported to the Supervisory Board regularly and comprehensively on their activities at the meetings of the Supervisory Board. The composition of the committees in financial year 2019/2020 is presented in the notes to the consolidated financial statements.

The Personnel Matters Committee met five times in reporting year 2019/2020. Its activities focused on the departure of Management Board members and remuneration issues, in particular the definition and review of the targets for variable remuneration.

The Audit Committee held five regular meetings in the reporting year. It examined quarterly and ad hoc issues relating to the Company's net assets, financial position and results of operations and its risk reporting. Furthermore, together with the auditor, this committee also focused intensively on the annual and consolidated financial statements in addition to the quarterly financial statements, the accounting policies applied and the specifics of the separate and consolidated financial statements. Other topics discussed at the meetings included the liquidity situation of the Heidelberg Group and its refinancing, the development of the capital structure (equity and borrowed funds), the effects of the reorganization and ongoing development of the segments, the new regulations on revenue recognition and accounting for leases, the revaluation of land, accounting for and assessing the subscription business model, risk management, the internal controlling and audit system, compliance, the implementation and impact of the portfolio and restructuring measures, the accounting treatment of pension provisions, investment controlling and sales financing.

The Strategy Committee met once in the reporting year and discussed the portfolio of the Company and the next steps in its optimization, as well as planning. It also discussed the business situation and liquidity.

The Nomination Committee met three times in the reporting year to discuss the successors for Prof. Dr.-Ing. Schuh, Dr. Jaschinski and Ms. Lange.

The Management Committee did not meet in the reporting year. The Mediation Committee in accordance with section 27 (3) of the German Codetermination Act (MitbestG) had to be convened once in the reporting year in order to address the candidates to succeed Mr. Kaliebe.

Audit of the single-entity and consolidated financial statements

The Annual General Meeting on July 25, 2019, appointed PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, as the auditor of the single-entity and consolidated financial statements. This company audited the single-entity financial statements for financial year 2019/2020, the management report of Heidelberger Druckmaschinen Aktiengesellschaft and the consolidated financial statements and Group management report of the Heidelberg Group prepared by the Management Board on May 25, 2020/June 4, 2020 and issued each with unqualified opinions. The auditor responsible for the audit was Stefan Hartwig, who held this position for the third year. The single-entity financial statements, the consolidated financial statements, the management report of the Company and the management report of the Heidelberg Group were submitted to the Supervisory Board immediately on their completion on May 25, 2020. Following the resolution of the Supervisory Board on the variable compensation of the Management Board of June 4, 2020, the Management Board adjusted the single-entity financial statements, the consolidated financial statements as well as the management report of the Company and the management report of the Heidelberg Group on June 4, 2020 and prepared an amended version and submitted it to the Audit Committee and to the Supervisory Board. The reports of the auditors were distributed to all the members of the Supervisory Board in time before, and the supplement on the supplementary audit on the day of, the accounts meeting of the Supervisory Board on June 4, 2020. The auditors who signed the audit reports took part in the Supervisory Board's discussions. During the meeting, they reported on the results of their audit and supplementary audit and on the fact that there are no significant weaknesses in the internal controlling or risk management system with regard to the (Group) accounting process. They were available to the members of the Supervisory Board to answer questions. The auditor also informed the meeting about the services provided in addition to the audit of the financial statements and confirmed that there were no circumstances giving rise to concerns over its impartiality. The audit report does not include any comments or indications of any inaccuracies in the declaration of compliance with the German Corporate Governance Code. On behalf of the Audit Committee, the Chairman of the Audit Committee recommended the adoption of the single-entity financial statements prepared on May 25, 2020/June 4, 2020 and the approval of the consolidated financial statements at the meeting of the Supervisory Board on June 4, 2020. In line with the Audit Committee's proposal, the Supervisory Board then concurred with the audit findings. Following its examination of the single-entity financial statements, the consolidated financial statements, the management report of Heidelberger Druckmaschinen Aktiengesellschaft and the management report of the Heidelberg Group, the Supervisory Board came to the conclusion that it had no reservations. The Supervisory Board approved the single-entity financial statements of Heidelberger Druckmaschinen Aktiengesellschaft for the year ended March 31, 2020 prepared by the Management Board on May 25, 2020/June 4, 2020 and the consolidated financial statements of the Heidelberg Group for the year ended March 31, 2020. The single-entity financial statements were therefore adopted.

The Supervisory Board also examined the separate combined non-financial report for financial year 2019/2020. This was reviewed by the auditor, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, on the basis of a voluntary content review resolved by the Supervisory Board. The Supervisory Board discussed the separate combined non-financial report with the auditors and came to the conclusion that it had no reservations. The separate combined non-financial report will be published on the Company's website on June 9, 2020.

Personnel changes in the Supervisory Board and the Management Board

There were four personnel changes among the shareholder representatives on the Supervisory Board of Heidelberger Druckmaschinen AG. Prof. Dr.-Ing. Günther Schuh stepped down from the Supervisory Board effective from the end of the Annual General Meeting on July 25, 2019. Ms. Li Li was elected as a new member of the Supervisory Board at the Annual General Meeting on July 25, 2019. Dr. Siegfried Jaschinski stepped down from the Supervisory Board effective November 30, 2019. He was succeeded by Dr. Martin Sonnenschein, who was appointed by court order effective December 1, 2019.

There were four changes in the Management Board of the Company. Dirk Kaliebe stepped down from the Management Board effective September 30, 2019. Marcus A. Wassenberg was appointed as the new CFO effective September 1, 2019. Stephan Plenz stepped down from the Management Board effective November 30, 2019, and Prof. Ulrich Hermann stepped down from the Management Board effective February 16, 2020.

The Supervisory Board wishes to express its particular gratitude to the departing members of the Supervisory Board and the Management Board for their hard work.

The Supervisory Board will continue to monitor the Company's interests and its long-term development and work towards its well-being.

Thank you from the Supervisory Board

The Supervisory Board would like to thank the members of the Management Board, all the employees of the Heidelberg Group around the world and their representatives on the Supervisory Board, the members of the Works Councils and the Representative Committee for their commitment in financial year 2019/2020 and their achievements in a challenging environment.

The Supervisory Board would like to conclude by thanking you, the shareholders, for the confidence you have placed in the Company and in the shares of Heidelberger Druckmaschinen Aktiengesellschaft.

Heidelberg, June 4, 2020

FOR THE SUPERVISORY BOARD

DR. MARTIN SONNENSCHEIN

Chairman of the Supervisory Board

Corporate Governance Declaration, Corporate Governance Report (as of June 2020)

The Corporate Governance Declaration in accordance with sections 289f and 315d of the German Commercial Code (HGB) for Heidelberger Druckmaschinen Aktiengesellschaft and the Heidelberg Group has been combined with the Corporate Governance Report. Unless expressly stated otherwise below, the information shown applies to both Heidelberger Druckmaschinen Aktiengesellschaft and the Heidelberg Group. The Corporate Governance Declaration that is combined with the Corporate Governance Report is also available on our website www.heidelberg.com under Corporate Governance Declaration/Corporate Governance Report. This Corporate Governance Declaration contains the declaration of compliance in accordance with section 161 of the German Stock Corporation Act (AktG), relevant information about corporate governance practices, descriptions of the working procedures of the Management Board and the Supervisory Board and the composition and working procedures of the committees, and information on the targets for the proportion of women and the Company's diversity concept.

1. Basic information

Our actions are guided by the principles of transparent corporate management and control (corporate governance). Corporate governance enjoys high priority at Heidelberger Druckmaschinen Aktiengesellschaft. It is the foundation for the trust of shareholders, customers, investors, employees, the financial markets and the public in our Company.

As Heidelberger Druckmaschinen Aktiengesellschaft is a listed company (German securities code number (WKN) 731400, ISIN DE0007314007) domiciled in Germany and entered in the commercial register of the Mannheim Local Court under HRB 330004, corporate governance and the requirements for its corporate management are regulated primarily by the German Stock Corporation Act (AktG), the German Codetermination Act (MitbestG), the suggestions and recommendations of the German Corporate Governance Code (in its most recent version), the Articles of Association of Heidelberger Druckmaschinen Aktiengesellschaft, and the Rules of Procedure for the Supervisory Board and the Management Board. The Rules of Procedure for the Management Board and the Supervisory Board in their most recent version can be found on the website of Heidelberger Druckmaschinen AG (www.heidelberg.com) under Articles of Association & Rules of Procedure.

The recommendations and suggestions of the Code were again largely complied with in the 2019/2020 financial year. Ensuring effective management and control in an evolving corporate structure remains the priority. It is regularly checked to ensure that all laws and mandatory regulations are complied with throughout the Group and that recognized standards and recommendations are followed in addition to the Company's values, Code of Conduct and corporate guidelines.

2. Declaration in accordance with section 161 AktG

The Management Board and the Supervisory Board of Heidelberger Druckmaschinen Aktiengesellschaft issued the following declaration of compliance on November 27, 2019:

„The Management Board and the Supervisory Board of Heidelberger Druckmaschinen Aktiengesellschaft hereby submit the following declaration of compliance in accordance with section 161 AktG:

Since issuing its last declaration of compliance on November 29, 2018, Heidelberger Druckmaschinen Aktiengesellschaft has complied with all recommendations of the Government Commission of the German Corporate Governance Code as amended February 7, 2017, and as promulgated by the German Federal Ministry of Justice in the official section of the Federal Gazette on April 24, 2017, with the following exceptions, and will continue to comply in the future with the following exceptions:

The Company has deviated from the recommendation of item 5.3.2 (3) sentence 3 as, given the workload associated with the office of Chairman of the Audit Committee, no other member of the Supervisory Board felt able to assume this role as of the time of the election. The recommendation will be complied with from December 1, 2019.

Heidelberger Druckmaschinen Aktiengesellschaft deviated from the recommendations of item 5.4.1 (2) of the Code as amended February 7, 2017, and will also continue to deviate from them in the future in that the Supervisory Board is expected to set a time limit for its members. In the opinion of the Supervisory Board of the Company, personal qualifications, long-term experience and expertise should be the primary factors for proposals of suitable candidates for election to the Supervisory Board.

Furthermore, Heidelberger Druckmaschinen Aktiengesellschaft has deviated from the recommendation of item 5.4.1 (5) sentence 2 of the Code as amended February 7, 2017 and will continue to do so in the future to the extent that the Company only publishes the résumés of the shareholder representatives on the Supervisory Board on its website on account of the data protection interests of its employees.

This declaration of compliance updates the declaration of compliance of the previous year. This must also be corrected retroactively in that an inaccurate reason was given for the deviation from item 5.3.2 (3) sentence 3, which was accurately disclosed there.“

The Management Board and the Supervisory Board provisionally intend to update the annual declaration of compliance on November 26, 2020 following due examination. This declaration will then be published at www.heidelberg.com under Corporate Governance, which is also where previous declarations of compliance can be found.

3. Information on corporate governance practices

Our philosophy is to manage with goals that extend across all divisions and hierarchical levels of the Company and that are reflected in remuneration systems and practice. Goals are derived from the strategy. Their content is determined, agreed and regularly reviewed and is remunerated accordingly at the end of the defined period.

In doing so, the Company adheres to a comprehensive system of internal guidelines headed by the Company’s values. Five principles in the areas of management, organization, the code of conduct, quality, and environmental protection form the framework for more detailed specifications in further guidelines, which also cover occupational safety and product safety issues.

For Heidelberger Druckmaschinen Aktiengesellschaft, compliance is a fundamental element of successful management and good corporate governance, as the Company is aware of its role in society and its responsibility toward its customers, suppliers, business partners, employees and shareholders. Reliability for its partners, the quality of its products and services, proper processes and legal compliance are key principles for the business activities of Heidelberger Druckmaschinen Aktiengesellschaft.

The purpose of the code of conduct is to provide guidance for all employees around the world. This extends from clear requirements for legal compliance and recommendations on conduct in respect of business partners and employees to the Company’s clearly formulated expectations regarding the careful handling of operating resources. A binding code of conduct for business partners will also be communicated to suppliers worldwide in close cooperation between Compliance and the Procurement department.

The Company’s Management Board and executives work together to ensure compliance with internal regulations, and this is regularly reviewed by Internal Audit. In addition, an external and independent ombudsman is in place to confidentially receive information from employees and third parties giving rise to a suspicion of crimes or other violations of the law or (internal) regulations (especially illegal business practices).

We have also published our values and our code of conduct on our website www.heidelberg.com under Corporate Governance.

4. Description of the working procedures of the Management Board and the Supervisory Board

In accordance with the requirements of the AktG, the management system of the Company is divided into a management body, the Management Board, and a monitoring body, the Supervisory Board. This dual management system as prescribed by the AktG provides for a personal and functional separation between the management body (Management Board) and the monitoring body (Supervisory Board). The Management Board manages the Company, while the Supervisory Board monitors and advises the Management Board. The Annual General Meeting is an additional corporate body at which shareholders can exercise their rights as owners of the Company.

The Management Board currently consists of two members.

The Supervisory Board consists of 12 members. In accordance with the MitbestG, half of the members are shareholder representatives and half are employee representatives. Information on the current composition of the Management Board and the Supervisory Board and the mandates of their members can be found on pages 172 to 174 of our Annual Report.

In addition to the legal requirements and the recommendations of the German Corporate Governance Code, the Rules of Procedure for the Management Board detail the activities, duties and internal organization of the Management Board in particular. Together with the Rules of Procedure for the Supervisory Board, the Rules of Procedure for the Management Board also regulate cooperation between the two executive bodies. We have published the Rules of Procedure for the Management Board, which include the current allocation of duties, and the Rules of Procedure for the Supervisory Board on our website www.heidelberg.com under Corporate Governance.

On the basis of the Rules of Procedure for the Management Board and the Supervisory Board, the detailed working procedures of the Management Board and the Supervisory Board and the detailed cooperation between the executive bodies of the Company is as follows:

The Management Board manages the Company under its own authority with the goal of generating sustained value added. It has an obligation to the interests of the Company and takes into account the concerns of its shareholders, employees, and other groups affiliated to the Company (stakeholders). The members of the Management Board are jointly responsible for overall management. They work cooperatively and inform each other about key measures and processes within their departments. The Management Board conducts the Company's business in accordance with the law, the Articles of Association and these Rules of Procedure. It also ensures compliance with these provisions and corporate policy within the Group in addition to ensuring appropriate risk and opportunity management.

The Supervisory Board advises the Management Board on, and monitors its management of, the Company. All of the members of the Supervisory Board have the same rights and obligations regarding their activities and responsibilities on the Supervisory Board. They are not required to comply with orders or instructions.

At the time of reporting, the Supervisory Board consists of the following members:

Dr. Martin Sonnenschein – Chairman of the Supervisory Board
Ralph Arns* – Deputy Chairman of the Supervisory Board
Joachim Dencker*
Gerald Dörr*
Mirko Geiger*
Karen Heumann
Oliver Jung
Kirsten Lange
Li Li
Petra Otte*
Ferdinand Rüesch
Beate Schmitt*

* Employee representatives

Further information on all members of the Supervisory Board in office during the reporting period can be found in our Annual Report on pages 172 to 173.

The Management Board works with the Supervisory Board on a basis of trust for the good of the Company. The Management Board is responsible for providing the Supervisory Board with sufficient information, which the Supervisory Board actively supports in line with its own Rules of Procedure. The Management Board and the Supervisory Board report on corporate governance within the Company in the Corporate Governance Declaration that is combined with the Corporate Governance Report. This includes an explanation of why recommendations of the German Corporate Governance Code have not been or are not complied with. This is explained in particular in the declaration in accordance with § 161 AktG.

In the first three months of the financial year, the Management Board must prepare the annual financial statements, the management report, the consolidated financial statements and the Group management report for the last financial year and submit these to the Supervisory Board immediately upon their completion. At the same time, the Management Board must submit to the Supervisory Board the proposal it intends to make to the Annual General Meeting for the appropriation of net profits. The separate combined non-financial report is also presented to the Supervisory Board at this time.

The Supervisory Board examines the single-entity financial statements and the management report, the consolidated financial statements and the Group management report, and any proposal on the appropriation of net profits. Following discussions with the auditor and taking into account the audit reports prepared by the auditor and the audit findings of the Audit Committee, the Supervisory Board declares whether it has any objections to raise based on the final result of its own examination. If this is not the case, the Supervisory Board approves the financial statements; the annual financial statements are adopted once this approval is granted. The Supervisory Board also examines the separate non-financial report. The Supervisory Board reports to the Annual General Meeting on the results of its examination and the nature and extent of its monitoring of the Management Board during the past financial year.

The Management Board reports on its strategy, its intended business policy and other fundamental corporate planning issues at Company and Group level at least once a year. This report sets out the focal points for the Management Board's planned management of the Company. In particular, this includes an explanation of the intended development and strategic orientation of the Group, a presentation of the financial and accounting policy for the Group and its divisions, and an explanation of and reasons for deviations between previously reported objectives and actual performance. Irrespective of this, the Chairman of the Supervisory Board maintains regular contact with the Chairman of the Management Board and discusses the strategy, business performance and risk management of the Company with him.

At the meeting of the Supervisory Board in connection with the resolution on the single-entity and consolidated financial statements (the accounts meeting), the Management Board reports on the profitability of the Company and the Group and, in particular, the return on equity. This report includes details of the earnings power of the Group as a whole and its individual divisions on the basis of informative profitability data, with comparisons against the previous year and against forecasts in each case.

In accordance with the Articles of Association and the Rules of Procedure, the Management Board requires the approval of the Supervisory Board for acquisitions, disposals and the encumbrance of property and hereditary building rights, for acquisitions and disposals of shares in companies and for accepting warranties, guarantees or similar liabilities if their value exceeds the limits set out in the Articles of Association and/or the Rules of Procedure. Taking out loans also requires the approval of the Supervisory Board. The Articles of Association and the Rules of Procedure for the Management Board and the Supervisory Board set out additional actions that require approval and how this is regulated. The Supervisory Board granted its approval for individual transactions to the extent so required by law and the Articles of Association or the Rules of Procedure for the Management Board.

The Supervisory Board's tasks include the appointment and, where applicable, dismissal of the members of the Management Board. The Supervisory Board also defines the individual total compensation of the members of the Management Board at the proposal of the Personnel Matters Committee and resolves and regularly reviews the compensation system for the Management Board. The Supervisory Board works with the Management Board and with the support of the Personnel Matters Committee to ensure the long-term succession planning for the Management Board. In addition to the requirements of the AktG and the German Corporate Governance Code, long-term succession planning takes qualifications, professional experience and diversity into account in particular. The Personnel Matters Committee regularly advises on long-term succession planning for the Management Board. In doing so, it takes into account the Company's management planning as explained to it by the Management Board. The Management Board and the Supervisory Board also discuss the Company's management planning and the systematic development of managers on an ad hoc basis. In filling Management Board positions, the Personnel Matters Committee regularly performs an initial selection of suitable candidates and conducts structured interviews with them, taking into account the respective requirement profile. The Personnel Matters Committee reports to the Supervisory Board on this process, presents individual candidates to the Supervisory Board, and submits a recommended resolution to the Supervisory Board. In identifying and selecting candidates, the Supervisory Board and the Personnel Matters Committee are supported by external advisors as necessary. The current age limit for Management Board members as defined in the respective contracts of employment is 65 years of age.

The Supervisory Board regularly assesses how effectively the Supervisory Board as a whole and its committees perform their duties. Most recently in March 2020, the Supervisory Board conducted a self-assessment by means of an online questionnaire and discussed the results in a Supervisory Board meeting.

The members of the Supervisory Board undertake the basic and advanced training they need to carry out their duties, such as on corporate governance issues or new products, autonomously and are supported by the Company where necessary. New members of the Supervisory Board are given the opportunity to meet with the members of the Management Board for a bilateral discussion of current topics in order to obtain an overview of the relevant topics at the Company.

The composition of the Supervisory Board, including the necessary personal information and details of mandates on other supervisory boards, can be found on pages 172 to 173 of our annual report. Details of the work of the Supervisory Board can be found in the current Report of the Supervisory Board on pages 176 to 182 of the annual report. The remuneration report can be found on pages 66 to 76 of the Annual Report. The Annual Report will be published in the Investor Relations section of our website www.heidelberg.com on June 9, 2020.

5. Description of the composition and working procedures of the committees

The Management Board has not formed any committees.
The Supervisory Board has formed six committees consisting of its members: the Mediation Committee, the Audit

Committee, the Personnel Matters Committee, the Management Committee, the Nomination Committee, and the Strategy Committee.

The Supervisory Board appoints a member of each committee as the chair of that committee unless stated otherwise in the Rules of Procedure. In selecting and appointing the Chairman of the Audit Committee, the Supervisory Board ensures that the Chairman of the Audit Committee has special knowledge and experience in the application of accounting standards and internal control procedures and is familiar with auditing, is independent of the Company, the Management Board or a controlling shareholder, and is not a former member of the Management Board of the Company whose appointment ended less than two years ago. The Chairman of the Supervisory Board may not serve as the Chairman of the Audit Committee.

As a matter of principle, the Rules of Procedure also permit the Supervisory Board to delegate Supervisory Board decisions to its committees. However, decisions on the remuneration of the Management Board lie with the Supervisory Board. They may not be delegated to the Personnel Matters Committee and must be decided by the full Supervisory Board.

The chairs of the committees regularly report to the meetings of the Supervisory Board on the meetings of the committees and their activities. These consist primarily in preparing specific topics and resolutions to be discussed at Supervisory Board meetings.

The committees of the Supervisory Board are composed as follows:

Management Committee
Dr. Siegfried Jaschinski (Chairman) – until November 30, 2019 –
Dr. Martin Sonnenschein (Chairman) – since December 1, 2019 –
Ralph Arns
Gerald Dörr
Mirko Geiger
Oliver Jung – since March 26, 2020 –
Ferdinand Rüesch
Prof. Dr.-Ing. Günther Schuh – until July 25, 2019 –

Mediation Committee in accordance with section 27 (3) of the German Codetermination Act
Dr. Siegfried Jaschinski (Chairman) – until November 30, 2019 –
Dr. Martin Sonnenschein (Chairman) – since December 1, 2019 –
Ralph Arns
Gerald Dörr
Ferdinand Rüesch

Committee on Arranging Personnel Matters of the Management Board
Dr. Siegfried Jaschinski (Chairman) – until November 30, 2019 –
Dr. Martin Sonnenschein (Chairman) – since December 1, 2019 –
Ralph Arns
Gerald Dörr
Karen Heumann
Ferdinand Rüesch
Beate Schmitt

Audit Committee
Dr. Siegfried Jaschinski (Chairman) – until November 30, 2019 –
Oliver Jung – Chairman since December 1, 2019 –
Ralph Arns
Mirko Geiger
Kirsten Lange
Beate Schmitt
Dr. Martin Sonnenschein – since December 1, 2019 –

Nomination Committee
Dr. Siegfried Jaschinski (Chairman) – until November 30, 2019 –
Dr. Martin Sonnenschein (Chariman) – since December 1, 2019 –
Oliver Jung
Ferdinand Rüesch

Strategy Committee
Dr. Siegfried Jaschinski (Chairman) – until November 30, 2019 –
Dr. Martin Sonnenschein (Chairman) – since December 1, 2019 –
Ralph Arns
Mirko Geiger
Karen Heumann
Oliver Jung
Kirsten Lange
Li Li – since July 25, 2019 –
Ferdinand Rüesch
Prof. Dr.-Ing. Günther Schuh – until July 25, 2019 –

This breakdown can also be found on page 173 of our Annual Report. Details of the work of the committees of the Supervisory Board can be found in the current Report of the Supervisory Board on pages 176 to 182 of the annual report. Information on the remuneration of the Management Board and Supervisory Board members can be found in the remuneration report on pages 66 to 76 of the Annual

Report. The Annual Report will be published in the Investor Relations section of our website www.heidelberg.com on June 9, 2020.

6. Targets for the proportion of women

When filling managerial positions at the Company, the Management Board takes diversity into account and strives to ensure the appropriate representation of women. For the period to June 30, 2022, the Management Board has defined a target of 5 percent for management level 1 and 7.5 percent for management level 2. The proportion of women is currently 4.8 percent at ML 1 and 5.3 percent at ML 2. The Supervisory Board has resolved to maintain the current proportion of women on the Management Board and has set a target for the proportion of women on the Management Board of 0 percent for the period to June 30, 2022. This expressly does not affect the fact that the Supervisory Board strives to take diversity into account on the whole when making HR decisions.

In accordance with the statutory provisions of sections 96 (1), 101 (1) AktG and section 7 (1) sentence 1 no. 1 MitbestG, the Supervisory Board consists of six shareholder representatives and six employee representatives. In accordance with section 96 (2) sentence 1 AktG, the Supervisory Board consists of at least 30 percent women and 30 percent men. Since July 25, 2019, the Supervisory Board has had five female members, three of whom were appointed by the shareholders and two by the employees.

7. Diversity concept and profile of skills and expertise

The aspect of diversity is an important selection criterion for the Company with regard to the composition of the Management Board and the Supervisory Board.

The Company seeks to achieve a composition of the two executive bodies that ensures the comprehensive fulfillment of all tasks assigned to the Management Board and the Supervisory Board. In filling Management Board positions and making proposals for the election of Supervisory Board members, the Supervisory Board therefore primarily looks at the personal suitability of the respective candidates, their professional qualifications and experience, their time availability, their integrity and independence, and their commitment and performance. Diversity of opinion is also supported by ensuring a range of different ages. The current composition of the Management Board and the Supervisory Board satisfies these requirements. All of the members of the Management Board and the Supervisory Board have high levels of professional experience and expertise enabling them to manage or monitor a company. The career advancement of women is taken into account to a particular extent. In the event of new candidates having equal professional and personal aptitude, the appointment of women to the Supervisory Board, the Management Board and the two levels of management below the Management Board should be considered with a view to increasing the proportion of women in the medium and long term.

The aspects of diversity that are important to the Supervisory Board and that are taken into account in its composition are set out in greater detail in the presentation of its objectives and its profile of skills and expertise.

Taking the sector, the size of the Company and the share of international business into account, the Supervisory Board is guided in particular by the following targets and profile of skills and expertise for the future composition of the Board as a whole:

a) All Supervisory Board members must have sufficient corporate or operating experience as well as knowledge of their field and ensure that they have enough time to perform their Supervisory Board tasks, so that the Supervisory Board as a whole has the knowledge, skills and specific experience necessary to perform its tasks properly.

b) All Supervisory Board members must have the reliability and personal integrity necessary for the fulfillment of the Supervisory Board's monitoring duties.

c) At least four of the shareholder representatives on the Supervisory Board must be "independent" of the Company and the Management Board as defined in the German Corporate Governance Code. These are currently Dr. Martin Sonnenschein, Karen Heumann, Oliver Jung and Kirsten Lange. The Company does not currently have a controlling shareholder.

d) No more than two former members of the Management Board may sit on the Supervisory Board.

e) At least two Supervisory Board members must have international experience in a non-German market with relevance for the Company or particular expertise in the printing and media industry.

f) The Supervisory Board must have at least one member with experience in mechanical engineering and the associated industry expertise.

g) At least one member of the Supervisory Board must have expertise in accounting or auditing (financial expert).

h) The Supervisory Board must have at least one member with experience in financing and the capital market.

In accordance with section 96 (2) sentence 1 AktG, supervisory boards of listed companies that are subject to codetermination must be composed of at least 30 percent women (i.e. at least four) and at least 30 percent men (i.e. at least four). This gender ratio must be complied with by the Supervisory Board as a whole unless the shareholder or employee representatives object to overall compliance in accordance with section 96 (2) sentence 3 AktG. Prior to the election of shareholder representatives to the Supervisory Board on July 25, 2019, neither the shareholder representatives nor the employee representatives objected to the overall compliance with the statutory gender ratio in accordance with section 96 (2) sentence 3 AktG. The Supervisory Board therefore had to be comprised of at least two women and at least two men on both the shareholder representative and employee representative sides. As of March 31, 2020, the Supervisory Board was composed of five women (around 42 percent) and seven men (around 58 percent), thereby satisfying the gender ratio. At its meeting on June 4, 2020, the Supervisory Board discussed the specific proposal for election to be made to the 2020 Annual General Meeting and, at the recommendation of the Nomination Committee, resolved to propose that the Annual General Meeting elect Dr. Martin Sonnenschein and Ina Schlie to the Supervisory Board. If the proposed candidates are elected, the statutory gender ratio will continue to be satisfied with regard to both the shareholder representatives and the Supervisory Board as a whole providing there are no other changes.

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

The current composition of the Supervisory Board complies with these targets and fulfills the profile of skills and expertise.

8. Shareholders and Annual General Meeting

Shareholders exercise their rights as shareholders, and in particular their information and voting rights, at the Annual General Meeting in accordance with the provisions of the law and the Articles of Association. All of the significant regulations relating to our Annual General Meeting and the rights of our shareholders can be found in our Articles of Association, which we publish on our website www.heidelberg.com under Corporate Governance. Excerpts of the most important regulations of the Articles of Association as of the reporting date can be found below.

The Annual General Meeting of the Company is held at the registered office of the Company, at the location of a German branch or operating facility of the Company or a company associated with it, or at a different location within the Federal Republic of Germany with a population of at least 100,000 people.

The Annual General Meeting must be held in the first eight months of the financial year.

The Annual General Meeting must be convened at least 30 days before the date by which shareholders are required to register for the Annual General Meeting, unless shorter periods are permitted by law.

Shareholders are authorized to participate in the Annual General Meeting and exercise voting rights only if they register with the Company prior to the Annual General Meeting and present proof of their shareholdings from the custodian bank in the form of written certification in German or English. The certificate must refer to the start of the 21st day before the meeting. The registration and certification must be received by the Company at the address specified for this purpose in the notice of convocation no later than six days before the meeting, not including the day on which it is received.

Each shareholder may be represented at the Annual General Meeting by a proxy. Proxy must be granted, revoked, and evidenced to the company in writing.

The Management Board may enable shareholders to cast their votes in writing or by way of electronic communication even if they do not attend the Annual General Meeting.

As a general rule, the Chairman of the Supervisory Board chairs the Annual General Meeting of the Company and determines the order in which items are discussed and the voting procedure.

Heidelberg, June 4, 2020

Heidelberger Druckmaschinen Aktiengesellschaft

The Supervisory Board   The Management Board

Compliance

- Reorientation and enhancement of the existing compliance management system
- Update and adjustment of internal compliance guidelines and regulations
- Continued roll-out of the Business Partner Code of Conduct to suppliers and business partners
- Focal points in financial year 2020/2021: Strengthening of the local and regional compliance organization, roll-out of online training

Compliance management system

The Management Board of the Heidelberg Group is committed to adhering to the applicable laws, provisions and regulations. The Management Board has implemented a Group-wide compliance management system (CMS) in order to ensure that the employees, managers and executive bodies of the Heidelberg Group act with integrity and in accordance with the law.

The Heidelberg Group's CMS is based on Audit Standard (PS) 980 issued by the Institute of Public Auditors in Germany (IDW). Its seven basic elements set out the key structural, organizational and process requirements for operational realization within the Heidelberg Group. The Heidelberg Group has implemented the CMS with a view to identifying compliance misconduct and violations at an early stage and preventing them in order to minimize and prevent liability and reputational damage to the Heidelberg Group and its employees, managers and executive bodies. To achieve this, the Group-wide CMS includes a comprehensive system of measures and regulations to ensure that the actions of the Heidelberg Group's employees, managers and executive bodies are always consistent with the applicable statutory and other provisions and the Group's internal values and guidelines. Compliance with the applicable statutory and other provisions and the generally accepted moral, ethical and social principles are a central element of how the Heidelberg Group sees itself as a company. The Management Board of the Heidelberg Group is expressly committed to a zero-tolerance policy in which compliance misconduct and violations are systematically pursued and punished, particularly with regard to bribery and corruption.

Compliance guidelines

As part of the reorientation and enhancement of the CMS, the Management Board of the Heidelberg Group has adopted a comprehensive package of risk-based compliance guidelines. In particular, the Employee Code of Conduct has been updated. The Code of Conduct is based on the values of the Heidelberg Group and has been adapted to reflect the Ten Principles of the UN Global Compact. Among other things, it contains commitments on combating bribery and corruption, compliance with the regulations of anti-trust, anti-money laundering and tax law, integrity with respect to customers, suppliers and business partners, sustainability and product responsibility, compliance with foreign trade and customs law, compliance with human rights, data protection, protecting corporate assets, and ensuring working conditions that are fair, respectful, and free from discrimination. The Code of Conduct sets out the principles that the Heidelberg Group and its suppliers and business partners undertake to uphold. It constitutes a binding framework and provides guidance for the day-to-day actions and decisions of the Heidelberg Group. The managers and executive bodies of the Heidelberg Group are required to act as role models and support their employees in complying with the Code of Conduct.

The reorientation of the CMS also included an update of the Business Partner Code of Conduct. The Business Partner Code of Conduct contains guidelines and principles aimed at ensuring compliance with laws, provisions and regulations. It forms the basis for the continuous, long-standing partnership with the suppliers and business partners of the Heidelberg Group on the basis of integrity. The Business Partner Code of Conduct is intended to be expanded and rolled out on a Group-wide basis to all suppliers and business partners of the Heidelberg Group in the financial year 2020/2021.

The package of compliance guidelines is supplemented by the Heidelberg Group's internal principles, guidelines, regulations and work instructions. It provides guidance for the employees, managers and executive bodies of the Heidelberg Group with regard to dealing with customers, suppliers and business partners. The internal regulations form the basis for ensuring that the Heidelberg Group acts with integrity and in accordance with the law, particularly with regard to combating bribery and corruption.

Compliance organization

The Heidelberg Group has implemented a Group-wide compliance organization. For organizational purposes, the compliance organization is assigned to the Compliance & Internal Audit department, which is headed by the Chief Compliance Officer (CCO). The CCO reports directly to the Chief Executive Officer of the Heidelberg Group. The CCO also reports regularly to the Supervisory Board about compliance risks and measures as part of the Audit Committee of the Supervisory Board.

The CCO and its Group-wide compliance team, consisting of the local and regional compliance officers and the Compliance Office, serve as the central point of contact for all compliance-related questions. The compliance organization, and in particular the local and regional compliance officers, will be expanded further and strengthened in the financial year 2020/2021.

In addition, the Compliance Committee headed by the CCO meets regularly to evaluate and control Group-specific compliance risks and measures. Among other things, the Compliance Committee supports the compliance organization in the Group-wide implementation of and adherence to compliance measures and controls.

Compliance training and communication

The Heidelberg Group has implemented risk- and target group-oriented training on its compliance guidelines. The Compliance Office draws up the training documents and provides them to the local and regional compliance officers. The training documents cover topics including the Code of Conduct, dealing with gifts, invitations and hospitality, dealing with suppliers and business partners with integrity, protecting corporate assets, and information on dealing with compliance violations. Compliance training is intended to help the employees, managers and executive bodies of the Heidelberg Group to act with integrity and in accordance with the law. The training program will be supported and further expanded on a Group-wide basis in the financial year 2020/2021, including online training. This training will also have a particular focus on the Group-wide implementation of train the trainer programs, which are intended to provide in-depth training and support for the local and regional compliance officers within the Heidelberg Group.

Compliance communication has also been revised and extended. In particular, the intranet page for the employees, managers and executive bodies of the Heidelberg Group has been updated and expanded. External communication for the customers, suppliers and business partners of the Heidelberg Group will also be adapted and implemented in the financial year 2020/2021.

Dealing with compliance violations

The Heidelberg Group has established various reporting channels so that external and internal whistleblowers can report potential compliance misconduct and violations at an early stage in order to ensure seamless clarification. The Management Board of the Heidelberg Group is committed to a zero-tolerance policy in which any compliance misconduct and violations are systematically punished and pursued. Sanctions are imposed on a case-by-case basis, taking into account the seriousness of the compliance misconduct or violation and the applicable law.

The ombudsman is the central reporting body for external and internal whistleblowers at the Heidelberg Group. Through the ombudsman, the Heidelberg Group ensures that employees, customers, suppliers and business partners can report potential compliance misconduct and violations confidentially and, if required, anonymously.
Compliance misconduct and violations can also be reported to the compliance function directly, via the Management Board, the Works Council or line managers, and in particular via the Group-wide local and regional compliance officers of the Heidelberg Group.

Financial calendar 2020 / 2021

June 9, 2020	Press Conference, Annual Analysts' and Investors' Conference
July 23, 2020	Annual General Meeting
August 13, 2020	Publication of First Quarter Figures 2020 / 2021
November 10, 2020	Publication of Half-Year Figures 2020 / 2021
February 10, 2021	Publication of Third Quarter Figures 2020 / 2021
June 9, 2021	Press Conference, Annual Analysts' and Investors' Conference
July 23, 2021	Annual General Meeting

Subject to change

Publishing information

Heidelberger Druckmaschinen
Aktiengesellschaft
Kurfürsten-Anlage 52 – 60
69115 Heidelberg
Germany
www.heidelberg.com

Investor Relations
Tel.: +49-62 22-82 67121
Fax: +49-62 22-82 67129
investorrelations@heidelberg.com

Produced on Heidelberg machines using Heidelberg technology.

CONCEPT / DESIGN / REALIZATION Hilger & Boie Design, Wiesbaden
TRANSLATION SERVICES EVS Translations, Offenbach
PROOFREADING AdverTEXT, Düsseldorf
PHOTO CREDITS Archive Heidelberger Druckmaschinen AG
PRINT W. Kohlhammer Druckerei GmbH + Co. KG, Stuttgart

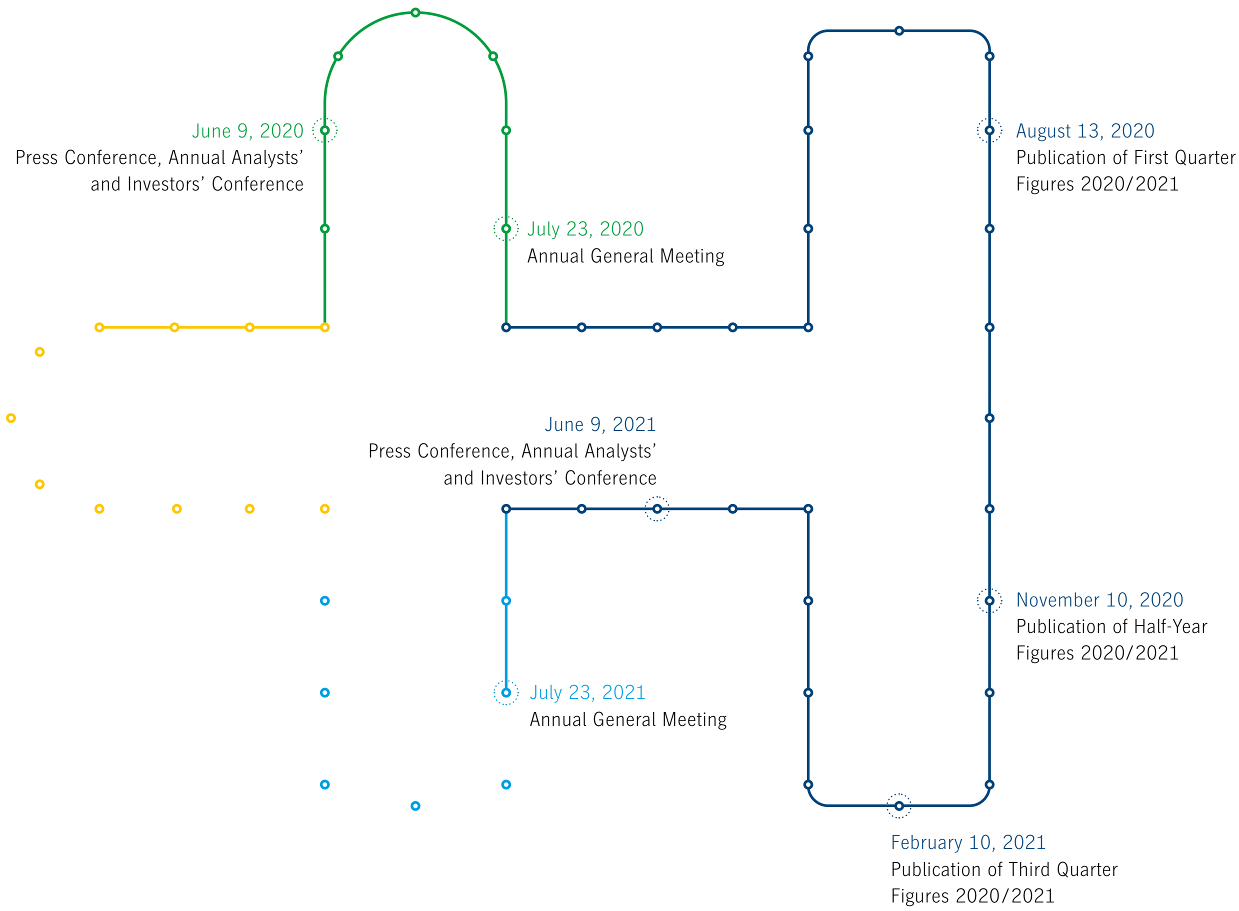
PRINTED IN GERMANY.

Five-year overview – Heidelberg Group

Figures in € millions	2015/2016	2016/2017	2017/2018	2018/2019	**2019/2020**
Incoming orders	2,492	2,593	2,588	2,559	2,362
Net sales	2,512	2,524	2,420	2,490	2,349
Foreign sales share in percent	86.5	84.8	84.9	84.8	86.2
EBITDA [1]	189	179	172	180	102
in percent of sales	7.5	7.1	7.1	7.2	4.3
Result of operating activities excluding restructuring result	116	108	103	101	6
Net result before taxes	31	34	39	32	– 322
Net result after taxes	28	36	14	21	– 343
in percent of sales	1.1	1.4	0.6	0.8	– 14.6
Research and development costs	122	119	121	127	126
Investments	65	105	142	134	110
Total assets	2,202	2,219	2,256	2,329	2,602
Net working capital [2]	691	667	610	684	645
Receivables from sales financing	65	58	66	60	43
Equity	287	340	341	399	202
in percent of total equity and liabilities	13.0	15.3	15.1	17.1	7.8
Financial liabilities	496	470	438	465	471
Net debt [3]	281	252	236	250	43
Free cash flow	– 32	24	– 8	– 93	225 [4]
in percent of sales	– 1.3	1.0	– 0.3	– 3.7	9.6
Return on equity in percent [5]	9.8	10.6	4.1	5.3	– 169.8
Earnings per share in €	0.11	0.14	0.05	0.07	– 1.13
Dividend in €	–	–	–	–	–
Share price at financial year-end in € [6]	1.99	2.34	3.04	1.55	0.56
Market capitalization at financial year-end	512	602	847	472	171
Number of employees at financial year-end [7]	11,565	11,511	11,563	11,522	11,316

[1] Result of operating activities before interest and taxes and before depreciation and amortization, excluding restructuring result
[2] The total of inventories and trade receivables less trade payables and advance payments
[3] Net total of financial liabilities and cash and cash equivalents and current securities
[4] Including inflow from trust assets of around € 324 million
[5] After taxes
[6] Xetra closing price, source prices: Bloomberg
[7] Number of employees excluding trainees

Financial calendar 2020/2021



www.heidelberg.com

Heidelberger Druckmaschinen Aktiengesellschaft
Kurfürsten-Anlage 52–60
69115 Heidelberg
Germany
www.heidelberg.com