Interim Financial Report Q2 2019/2020

HEIDELBERG

INTERIM FINANCIAL REPORT Q2 2019/2020

- Sales at previous year's level in first half of 2019/2020
- Incoming orders down slightly year-on-year at € 1,263 million; order backlog of € 756 million
- EBITDA excluding restructuring result € 69 million after first half-year
- Result of operating activities excluding restructuring result (EBIT) at € 22 million
- Net result after taxes € – 16 million after six months

Key performance data

Figures in € millions	Q1 to Q2		Q2	
	2018/2019	**2019/2020**	2018/2019	**2019/2020**
Incoming orders	1,306	1,263	641	648
Net sales	1,114	1,124	573	622
EBITDA excluding restructuring result [1] [2]	62	69	43	55
in percent of net sales	5.6	6.2	7.4	8.9
Result of operating activities excluding restructuring result [1]	27	22	26	32
Restructuring result	– 5	– 5	– 6	– 1
Financial result [1]	– 28	– 23	– 12	– 10
Net result after taxes	– 6	– 16	8	14
Research and development costs	64	65	32	33
Investments	63	45	31	27
Equity [1]	373	244	373	244
Net debt [1] [3]	320	416	320	416
Leverage [4]	1,8	2,1	1,8	2,1
Free cash flow [1]	– 86	– 100	– 42	– 16
Earnings per share in €	– 0.02	– 0.05	0.03	0.05
Number of employees at end of quarter (excluding trainees)	11,523	11,471	11,523	11,471

[1] For the first time in the 2019/2020 financial year, Heidelberger Druckmaschinen Aktiengesellschaft is applying IFRS 16 "Leases", which has replaced IAS 17 "Leases". For further details, please see page 6, Results of operations, net assets and financial position and pages 25 and 26,note 1
[2] Result of operating activities before interest and taxes and before depreciation and amortization, excluding restructuring result
[3] Net total of financial liabilities and cash and cash equivalents and current securities
[4] Ratio of net debt to EBITDA excluding restructuring result for the last four quarters. The first-time application of IFRS 16 has no material effect on leverage

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

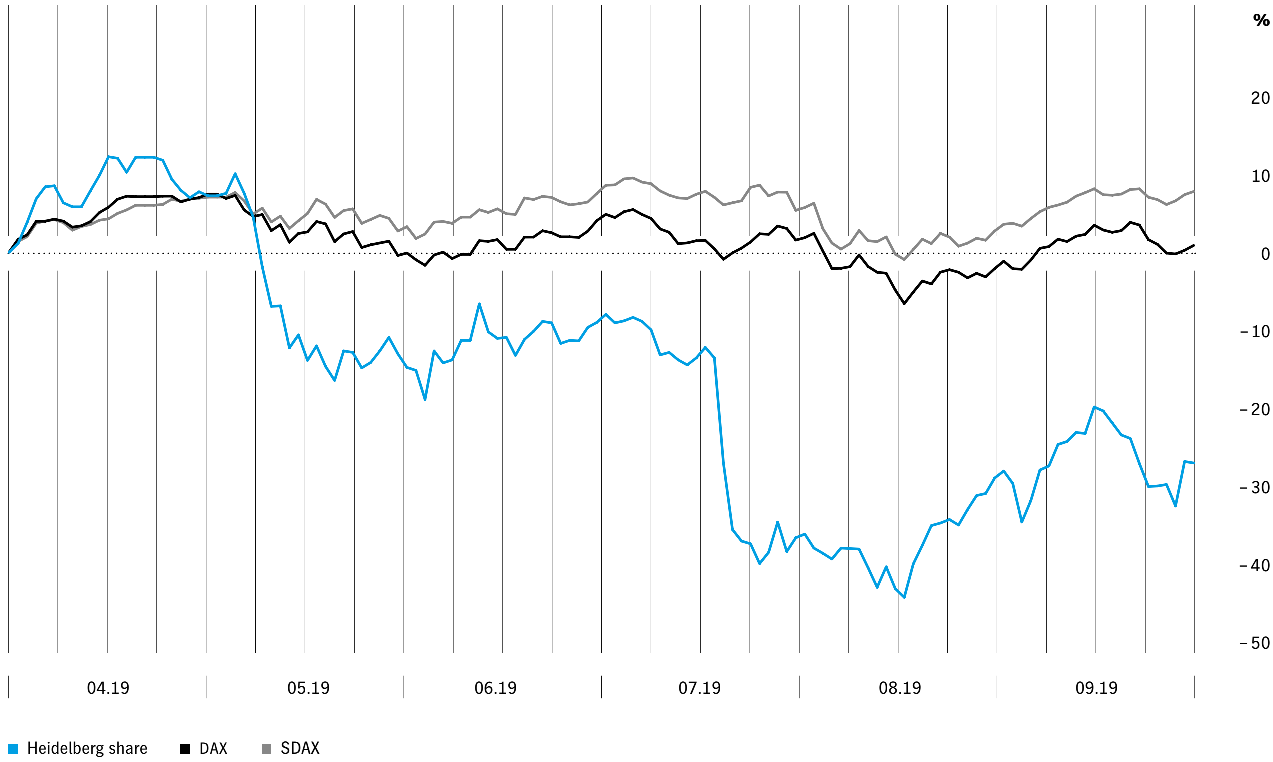
Interim consolidated financial report

Q2 2019/2020

Heidelberg on the capital markets

Performance of the Heidelberg share

Compared to the DAX and the SDAX (index: April 1, 2019 = 0 percent)



The Heidelberg share and the Heidelberg bonds

The Heidelberg share suffered significant price corrections in the first half of the 2019/2020 financial year. It began the financial year on April 1, 2019 trading at € 1.57, but was able to climb by around 10 percent by the end of April 2019. Following the publication of the provisional figures for the 2018/2019 financial year at the start of May, the shares lost ground and tracked sideways until the middle of July 2019. The investment restraint stemming from the state of the economy weighed on the start of the 2019/2020 financial year, and Heidelberg's shares responded to the publication of the provisional quarterly figures at the end of July with a downward slide of up to 40 percent. The shares recovered slightly in the months that followed, closing at € 1.13 on September 30, 2019, corresponding to a drop of around 27 percent over the first six months.

The development of the price of the 2015 Heidelberg convertible bond was virtually the same as that of the share price. However, the convertible bond recovered better following the publication of the provisional quarterly figures at the end of July, and was priced at € 98.34 on September 30 – almost the same level as at the start of the financial year. The Heidelberg bond consistently traded above 100 percent until the publication of the provisional quarterly figures. It also recovered better than the share price in the months that followed and ended the first half of 2019/2020 at around 100 percent.

DAX – German benchmark index

The DAX began the second quarter of the 2019 calendar year at just below 12,000 points and was highly volatile throughout the first half of the year. This was essentially on account of the ongoing trade conflicts, but was also due to the lingering confusion over Brexit and the general economic malaise. The DAX reached its high for the first six months at around 12,600 points in early July, and was approximately 8 percent higher than at the start of the year at around 12,400 points on September 30.

Key performance data of the Heidelberg share

Figures in € ISIN: DE 0007314007	Q2 2018/2019	**Q2 2019/2020**
High	2.60	1.43
Low	2.27	0.86
Price at beginning of quarter [1]	2.36	1.43
Price at end of quarter [1]	2.30	1.13
Market capitalization at end of quarter in € millions	641	344
Outstanding shares in thousands (reporting date)	278,735	304,479

Key performance data of the Heidelberg 2015 corporate bond

Figures in percent RegS ISIN: DE 000A14J7A9	Q2 2018/2019	**Q2 2019/2020**
Nominal volume in € millions	150.0	150.0
High	105.5	104.0
Low	103.9	89.6
Price at beginning of quarter [2]	104.4	103.1
Price at end of quarter [2]	104.6	99.8

Key performance data of the Heidelberg 2015 convertible bond

Figures in percent ISIN: DE 000A14KEZ4	Q2 2018/2019	**Q2 2019/2020**
Nominal volume in € millions	58.6	58.6
High	106.5	98.9
Low	102.6	93.9
Price at beginning of quarter [2]	105.7	98.7
Price at end of quarter [2]	102.6	98.3

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

ECONOMIC REPORT

Macroeconomic and industry-specific conditions

At 2.6 percent, the global economy continued to expand with little momentum in the first half of 2019. The global downturn in the industrial sector is playing a central role in this. The rate of expansion slowed to 1.8 percent in the advanced economies, whereas the previously very weak economy in the emerging markets accelerated to 3.8 percent. However, the downside risks to the world economy are still considerable. Thus, a further escalation or broadening of trade conflicts, or also a no-deal Brexit, threaten to put further stress on the global economy and to appreciably hold back global economic expansion.

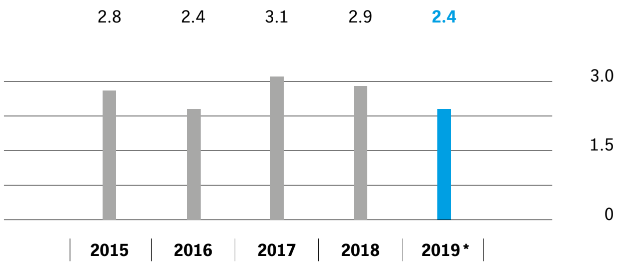
While the growth rate of gross domestic product fell to 2.3 percent in the US in the second quarter, and economic expansion in the euro zone has been very weak over the course of 2019 at 1.2 percent, the Japanese economy is proving admirably robust in the face of lessening international demand. The current situation in the UK is particularly fraught, with Brexit having pushed the country to the brink of a major recession.

Despite the trade conflict with the US, the expansion of overall economic activity in China is looking relatively sturdy. Gross domestic product was up 5.9 percent year-on-year in the second quarter. In India, however, economic expansion slowed significantly in the first half of the year, and the rate of expansion dropped to 4.2 percent on the other emerging Asian markets as well. While the strong expansion in Central and Eastern Europe has likewise slowed over 2019, the economic downturn in the euro zone has had little impact to date. Meanwhile, the economic recovery in Latin America is making only tentative progress after last year's setback.

The development of the euro exchange rate is characterized by the downbeat economic sentiment in the euro zone, though the euro is undervalued against the US dollar on a purchasing power parity basis. The yen has recently been benefiting significantly from the US Fed's and the ECB's diffident stance towards normalizing their monetary policy. However, an agreement in the trade dispute and a soft Brexit could diminish the safe haven aspect of JPY investments for Japanese investors.

Change in global GDP [1)]

Figures in percent



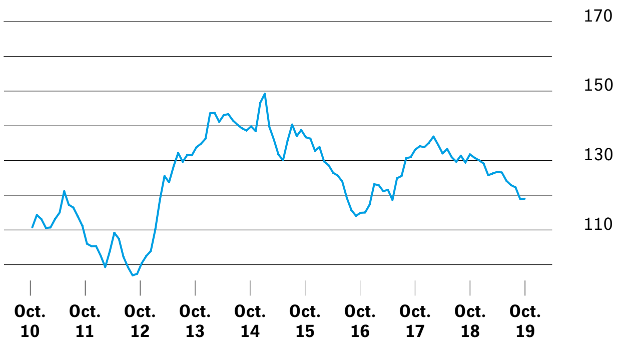
* Forecast
[1)] Data determined in accordance with the straight aggregate method

The chain-weighted method would deliver the following results:
2015: 3.0 %; 2016: 2.8 %; 2017: 3.4 %; 2018: 3.2 %; 2019*: 2.7 %

Source: Global Insight (WMM); calendar year; as of September 2019

Development of EUR / JPY

October 2010 until October 2019



Source: Global Insight

Development of EUR / USD

October 2010 until October 2019

Source: Global Insight

Owing to considerable political uncertainty and the downturn this has provoked in the industrial sector, statistics published by the German Engineering Federation (VDMA) indicate that sales of printing presses by German manufacturers grew by just 1 percent in real terms in the period from January to June 2019. Incoming orders were down by 6 percent over the same period.

Business development

The business performance of Heidelberger Druckmaschinen Aktiengesellschaft (Heidelberg) in the first half of the 2019/2020 financial year (April 1, 2019 to September 30, 2019) was influenced by growing investment restraint on account of the economic slowdown. This development is consistent with the statements made by the industry association VDMA at the start of July, which had lowered its forecast for 2019 as a whole to a production downturn of 2 percent. In Germany and parts of Europe in particular, Heidelberg was unable to maintain its prior-year levels, while sales increased in Asia and North America.

Heidelberg has made further progress with the Company's digital transformation in the first half of the current 2019/2020 financial year. At the start of the financial year, the Company successfully presented solutions for digital packaging printing and Heidelberg's Smart Print Shop at Print China in April. Together with a major Chinese folding box manufacturer, the Company also launched its "boxuni" Web-to-pack platform and a fully digital production range to accompany a Primefire 106. Heidelberg is therefore a pioneer in establishing a digital cloud-based ecosystem for the packaging market in the Chinese print media industry.

Also, working with a company specializing in cloud-based management information systems, Heidelberg intends to create a new platform for the printing industry that would then be opened up to third-party applications.

Demand for e-commerce, contract and subscription models (service, software and supply contracts for consumables as well as subscription contracts including equipment in the final expansion stage that are billed according to use) has continued to develop positively, allowing Heidelberg to offer other contract variants. The share of recurring sales from subscription offerings is therefore rising steadily and accounted for around 12 percent of the order backlog as of the end of September 2019. In the medium term, the share of recurring business is expected to account for around a third of total revenue, thereby reducing the Company's dependence on economic cycles.

In the reporting quarter, there were intensive discussions with the communities of Wiesloch and Walldorf regarding the possibilities for the sustainable and forward-looking development of the biggest production site within the Wiesloch-Walldorf production network into the "Heidelberg Digital Campus of Things". Comprehensive infrastructural changes and the efficient use of all resources and synergies at the production site are intended to help create the home base for the future growth of Heidelberg and the production network.

Heidelberg successfully presented its solutions for the growing label market at Labelexpo Europe 2019 in Brussels at the end of September. The various printing and finishing effects were of particular interest to attendees witnessing the live production of labels on digital or conventional systems.

The Supervisory Board of Heidelberger Druckmaschinen Aktiengesellschaft appointed Marcus A. Wassenberg as an ordinary member of the Management Board and the CFO of Heidelberger Druckmaschinen Aktien-gesellschaft as of September 1, 2019. At the end of May, the Supervisory Board had reached a mutual agreement with Dirk Kaliebe on his stepping down from the Management Board as of September 30, 2019 after Mr. Kaliebe had informed the Supervisory Board that he would not be renewing his current contract.

INCOMING ORDERS amounted to around € 1,263 million as of September 30, 2019, and were therefore slightly lower than the prior-year figure of € 1,306 million. Incoming orders were marginally higher than the figure for the previous year (€ 641 million) at € 648 million in the second quarter of 2019/2020.

The **ORDER BACKLOG** for the financial year rose to € 756 million in the second quarter, an increase on the figure for March 31, 2019 (€ 654 million; same quarter of previous year: € 774 million).

Growth in **SALES** to € 622 million in the second quarter compensated for the sales deficit from the first quarter. The North America and Asia/Pacific regions were up on their respective prior-year figures after declining sales in the first quarter of the reporting year. In total, sales increased slightly year-on-year to € 1,124 million after the first half of the year (€ 1,114 million).

Total operating performance for the first six months matched the figure for the previous year at € 1,216 million (€ 1,215 million).

Business performance by quarter

Figures in € millions		Q1 to Q2		Q2
	2018/2019	**2019/2020**	2018/2019	**2019/2020**
Incoming orders	1,306	1,263	641	648
Sales	1,114	1,124	573	622

Results of operations, net assets and financial position

For the first time in the 2019/2020 financial year, Heidelberger Druckmaschinen Aktiengesellschaft is applying IFRS 16 "Leases", which has replaced IAS 17 "Leases". 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 adjusted.

The result of operating activities before interest, taxes, depreciation and amortization excluding restructuring result (EBITDA EXCLUDING RESTRUCTURING RESULT) improved to € 69 million in the first half of the year (first half of 2018/2019: € 62 million) and to € 55 million in the quarter under review (same quarter of previous year: € 43 million). Depreciation and amortization rose from € 35 million to € 48 million in the first half of the year, essentially as a result of the first-time adoption of IFRS 16 (around € 8 million) and amortization on capitalized development costs. The result of operating activities excluding restructuring result (EBIT EXCLUDING RESTRUCTURING RESULT) lagged behind the level of the previous year at € 22 million after six months (€ 27 million) and, essentially as a result of higher sales, was up on the same quarter of the previous year (€ 26 million) at € 32 million in the second quarter. The restructuring result was stable year-on-year at € –5 million.

The FINANCIAL RESULT improved to € –23 million in the first half of the year (first half of previous year: € –28 million); it amounted to € –10 million in the second quarter of 2019/2020 (same quarter of previous year: € –12 million).

Income statement

Figures in € millions		Q1 to Q2		Q2
	2018/2019	**2019/2020**	2018/2019	**2019/2020**
Net sales	**1,114**	**1,124**	**573**	**622**
Change in inventories/other own work capitalized	101	92	31	7
Total operating performance	**1,215**	**1,216**	**604**	**629**
EBITDA excluding restructuring result	**62**	**69**	**43**	**55**
Depreciation and amortization excluding restructuring-related depreciation and amortization	35	48	17	23
Result of operating activities (EBIT) excluding restructuring result	**27**	**22**	**26**	**32**
Restructuring result	–5	–5	–6	–1
Result of operating activities	**22**	**18**	**20**	**31**
Financial result	**–28**	**–23**	**–12**	**–10**
Net result before taxes	**–5**	**–6**	**8**	**20**
Taxes on income	1	11	0	6
Net result after taxes	**–6**	**–16**	**8**	**14**

The **NET RESULT BEFORE TAXES** was € – 6 million (previous year: € – 5 million) for the first half of the year, and climbed to € 20 million in the second quarter of 2019/2020 after € 8 million in the same quarter of the previous year. The **RESULT AFTER TAXES** amounted to € – 16 million after the first six months (previous year: € – 6 million). The net result after taxes for the second quarter was € 14 million (same quarter of previous year: € 8 million).

TOTAL ASSETS rose as against March 31, 2019 to € 2,370 million as of September 30, 2019, among others as a result of the first-time adoption of IFRS 16.

On the **ASSETS SIDE, INVENTORIES** have been increasing in line with expectations since March 31, 2019 (€ 685 million) to be able to cover the higher sales volumes anticipated in the coming quarters and the ramp-up in the digital area; at the reporting date, they amounted to € 785 million.

As anticipated, the elevated level of trade receivables at the start of the financial year as a result of the high sales volume in the final quarter of 2018/2019 decreased after the first six months of the 2019/2020 financial year.

In total, **NET WORKING CAPITAL** climbed further to € 744 million as of September 30, 2019 (March 31, 2019: € 684 million).

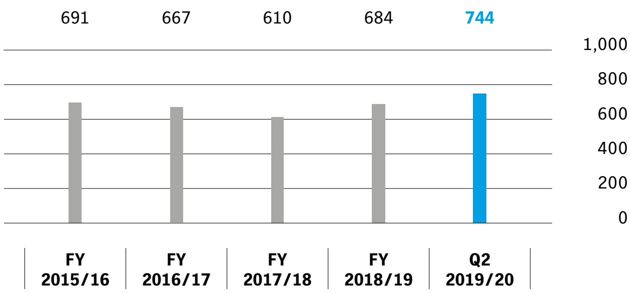
Our customers' financing requirements were covered largely externally in the reporting period, in some cases with the active mediation of the Heidelberg Financial Services segment; we therefore only provided customer financing directly to a limited extent. **RECEIVABLES FROM SALES FINANCING** declined to € 56 million as of September 30, 2019 on account of the repayments received and refinancing on the part of customers.

Assets

Figures in € millions	31-Mar-2019	**30-Sep-2019**
Non-current assets	846	896
Inventories	685	785
Trade receivables	360	288
Receivables from sales financing	60	56
Cash and cash equivalents	215	170
Other assets	163	174
	2,329	**2,370**

Development of net working capital [1]

Figures in € millions



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

Under **EQUITY AND LIABILITIES**, the Heidelberg Group's **EQUITY** fell to € 244 million as of September 30, 2019 compared to the end of the financial year on March 31, 2019, essentially on account of the significant reduction in the interest rate for German pensions (from 2.0 percent as of March 31, 2019 to 1.1 percent as of September 30, 2019) and the net loss for the first half of the year. The equity ratio was thus around 10 percent.

Pension provisions rose from € 582 million at the start of the financial year to € 727 million as of September 30, 2019 in line with the drop in the interest rate for German pensions. Due to the first-time adoption of IFRIC 23 and the related decision of the IFRS Interpretations Committee (IFRS IC) of September 17, 2019, tax provisions of € 62 million were reclassified to income tax liabilities. **PROVISIONS** therefore climbed to € 939 million in total.

NET DEBT climbed to € 416 million as of the end of the first half of the year (March 31, 2019: € 250 million). Around € 57 million resulted from the first-time adoption of IFRS 16.

LEVERAGE (the ratio of net debt to EBITDA excluding restructuring result for the last four quarters) was 2.1. Financial liabilities amounted to € 586 million in the reporting period, an increase on the figure as of March 31, 2019 (€ 465 million).

Equity and liabilities

Figures in € millions	31-Mar-2019	**30-Sep-2019**
Equity	399	244
Provisions [1]	819	939
of which: pension provisions	582	727
Financial liabilities	465	586
Trade payables	245	204
Other equity and liabilities [1]	400	398
	2,329	**2,370**

[1] Prior-year figures have been adjusted due to the first-time adoption of IFRIC 23 and the related decision of the IFRS Interpretations Committee (IFRS IC) of September 17, 2019

Overview of net assets

Figures in € millions	31-Mar-2019	**30-Sep-2019**
Total assets	2,329	2,370
Net working capital	684	744
in percent of sales [1]	27.5	29.8
Equity	399	244
in percent of total equity and liabilities	17.1	10.3
Net debt [2]	250	416

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

The three pillars of our financing portfolio – capital market instruments (corporate bond and convertible bond), the syndicated credit line plus other instruments and promotional loans – are well balanced. Heidelberg's credit facilities, which currently total around € 720 million, have balanced diversification and a balanced maturity structure until 2023.

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

CASH USED IN OPERATING ACTIVITIES amounted to € – 61 million in the first half of 2019/2020 (previous year: € – 49 million). The change essentially results from the increase in net working capital. Other operational changes included payments for restructuring and staff provisions.

CASH USED IN INVESTING ACTIVITIES was stable year-on-year at € – 39 million in the first half of 2019/2020 (previous year: € – 38 million). This essentially related to digital projects, the establishment of new business models, a minor corporate acquisition in the software sector and development costs. In the previous year, an inflow of around € 10 million from a cash investment had had a positive effect. Overall, FREE CASH FLOW was negative after six months at € – 100 million (previous year: € – 86 million). The reduction in cash used in operating activities resulting from the first-time application of IFRS 16 amounted to approximately € 8 million.

Statement of cash flows of the Heidelberg Group

Figures in € millions		**Q1 to Q2**		**Q2**
	2018/2019	**2019/2020**	2018/2019	**2019/2020**
Net result after taxes	– 6	– 16	8	14
Cash used in/generated by operating activities	– 49	– 61	– 17	5
of which: net working capital	– 23	– 56	– 32	– 26
of which: receivables from sales financing	8	3	4	2
of which: other operating changes	– 34	– 8	11	29
Cash used in investing activities	– 38	– 39	– 25	– 21
Free cash flow	– 86	– 100	– 41	– 16
in percent of sales	– 7,7	– 8,9	– 7,3	– 2,6

Segment report

Sales in the HEIDELBERG DIGITAL TECHNOLOGY segment were up slightly year-on-year at € 660 million after the first half of the year (€ 655 million). The figure for the second quarter of the 2019/2020 financial year rose from € 341 million to € 383 million, largely as a result of contributions from sheetfed business.

The result of operating activities before interest, taxes, depreciation and amortization excluding restructuring result (EBITDA excluding restructuring result) was € 13 million for the first half of 2019/2020 after € 6 million in the first half of the 2018/2019 financial year, among others due to the effects of the first-time adoption of IFRS 16. Additionally, it climbed to € 20 million as a result of volume effects in the second quarter of the current financial year (same quarter of the previous year: € 8 million).

The Heidelberg Digital Technology segment had a total of 7,307 employees as of September 30, 2019.

Heidelberg Digital Technology

Figures in € millions		Q1 to Q2		Q2
	2018/2019	**2019/2020**	2018/2019	**2019/2020**
Incoming orders	771	752	384	379
Net sales	655	660	341	383
Order backlog	642	568	642	568
EBITDA excluding restructuring result [1]	6	13	8	20
Result of operating activities excluding restructuring result	–20	–22	–4	3
Employees [2]	7,239	7,307	7,239	7,307

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

Sales in the HEIDELBERG LIFECYCLE SOLUTIONS segment were stable year-on-year in the first half of the year at € 461 million (previous year: € 457 million), while in the second quarter they rose slightly to € 238 million after € 231 million in the same quarter of the previous year. As in the previous year, the result of operating activities before interest, taxes, depreciation and amortization excluding restructuring result (EBITDA excluding restructuring result) for the first half of the year was € 55 million. It was € 35 million in the reporting quarter after € 34 million in the same quarter of the previous year.

The Heidelberg Lifecycle Solutions segment had a total of 4,126 employees as of September 30, 2019.

Heidelberg Lifecycle Solutions [1]

Figures in € millions		Q1 to Q2		Q2
	2018/2019	**2019/2020**	2018/2019	**2019/2020**
Incoming orders	533	509	256	267
Net sales	457	461	231	238
Order backlog	132	190	132	190
EBITDA excluding restructuring result [1]	55	55	34	35
Result of operating activities excluding restructuring result	46	43	29	29
Employees [2]	4,245	4,126	4,245	4,126

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

Our strategy of primarily mediating customer financing to our external partners is accompanied by a reduction in the volume we finance directly. Receivables from sales financing declined by € 4 million as against the start of the financial year to € 56 million as of September 30, 2019.

The **HEIDELBERG FINANCIAL SERVICES** segment's EBITDA excluding restructuring result amounted to € 2 million for the first six months, and to € 1 million for the second quarter of 2019/2020.

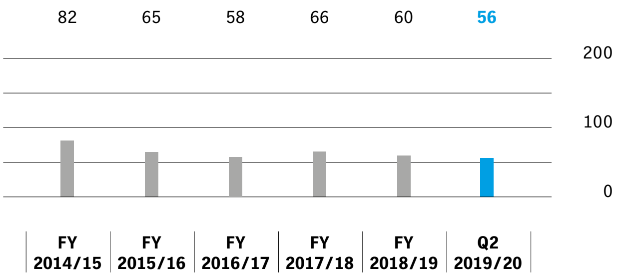
Heidelberg Financial Services

Figures in € millions		Q1 to Q2		Q2
	2018/2019	**2019/2020**	2018/2019	**2019/2020**
Net sales	2	2	1	1
EBITDA excluding restructuring result [1]	1	2	0	1
Result of operating activities excluding restructuring result	1	1	0	1
Employees [2]	39	38	39	38

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

Receivables from sales financing

Figures in € millions



Report on the regions

At the end of the first half of the year, incoming orders in the EMEA (Europe, Middle East and Africa) region were down year-on-year at € 475 million (€ 562 million). In the second quarter of the 2019/2020 financial year they matched the previous year's figure at € 252 million (€ 255 million). Investment restraint was experienced in Germany and other parts of Western Europe in particular on account of the deteriorating economic prospects. The impact of this was also seen on sales, which were lower year-on-year for both the first half of the year at € 412 million (previous year: € 473 million) and the second quarter at € 218 million (previous year: € 262 million).

In the ASIA/PACIFIC region, incoming orders rose against the previous year's level to € 382 million in the first half of the year (€ 344 million), while the figure for the second quarter of € 179 million remained at the level of the comparable period of the previous year (€ 178 million). Orders were up in China and Japan in particular. At € 354 million after two quarters, the region's sales were also clearly higher than the prior-year figure of € 326 million, with key contributions likewise coming from China and Japan. Sales increased to € 194 million in the second quarter of the current financial year (same quarter of the previous year: € 154 million).

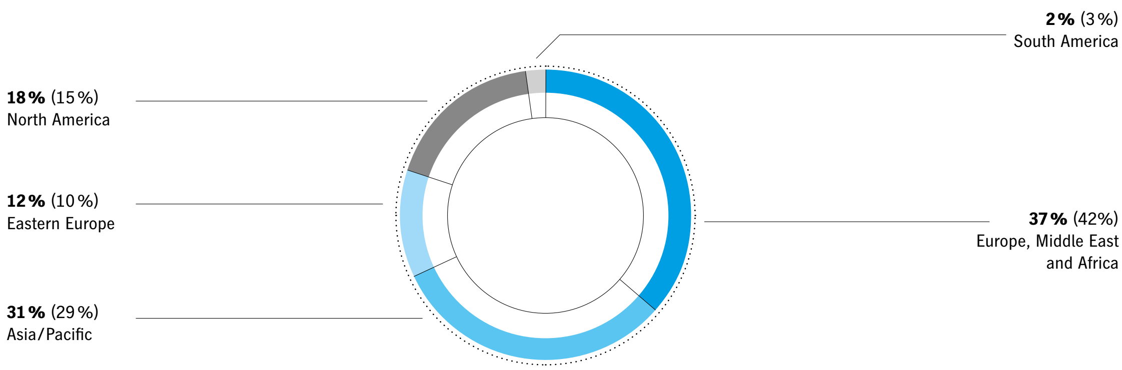
Incoming orders in the EASTERN EUROPE region were stable year-on-year at € 144 million at the end of the first half of the year (€ 147 million), and at € 73 million in the second quarter of the 2019/2020 financial year after € 74 million in the same quarter of the previous year. Sales rose significantly to € 134 million year-on-year in the first half of the year (previous year: € 108 million) and € 75 million in the second quarter of the financial year (previous year: € 59 million). The markets of Southeast Europe, the Baltic states and Turkey contributed to this in particular.

At € 234 million, incoming orders in the NORTH AMERICA region improved on the previous year's level after the first half of the year (€ 209 million), and rose to € 132 million in the second quarter of 2019/2020 after € 114 million in the same quarter of the previous year. Orders increased in the US especially. Sales climbed to € 200 million in the first half of the year after € 171 million in the previous year, and were up significantly in the second quarter of 2019/2020 at € 123 million (same quarter of the previous year: € 82 million).

In the SOUTH AMERICA region, following a brief recovery on key markets in the past financial year, there was a drop in incoming orders and sales as a result of political, economic and financial uncertainty. Incoming orders fell from € 44 million in the first half of the previous year to € 28 million in the same period of 2019/2020, and from € 20 million in the second quarter of the previous year to € 11 million in the current reporting quarter. The region's sales were likewise down year-on-year, at € 24 million for the first half of the year (previous year: € 36 million) and € 12 million (previous year: € 16 million) for the second quarter of 2019/2020.

Sales by region (Q1 to Q2)

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



Incoming orders by region

Figures in € millions		Q1 to Q2		Q2
	2018/2019	**2019/2020**	2018/2019	**2019/2020**
EMEA	562	475	255	252
Asia/Pacific	344	382	178	179
Eastern Europe	147	144	74	73
North America	209	234	114	132
South America	44	28	20	11
Heidelberg Group	**1,306**	**1,263**	**641**	**648**

Sales by region

Figures in € millions		Q1 to Q2		Q2
	2018/2019	**2019/2020**	2018/2019	**2019/2020**
EMEA	473	412	262	218
Asia/Pacific	326	354	154	194
Eastern Europe	108	134	59	75
North America	171	200	82	123
South America	36	24	16	12
Heidelberg Group	**1,114**	**1,124**	**573**	**622**

Employees

There were 11,471 employees in the Heidelberg Group in the second quarter of the 2019/2020 financial year (plus 396 trainees).

Employees by region

Number of employees [1]	31-Mar-2019	**30-Sep-2019**
EMEA	8,578	8,522
Asia/Pacific	1,639	1,641
Eastern Europe	494	511
North America	708	695
South America	103	102
Heidelberg Group	**11,522**	**11,471**

[1] Excluding trainees

Risk and opportunity report

As of September 30, 2019, there were no fundamental changes in the assessment of the risks and opportunities of the Heidelberg Group compared to the presentation in the 2018/2019 Annual Report. However, given the drop in production of 2 percent forecast by the VDMA for the 2019 calendar year, the industry risks remain high. There are still pronounced political risks, essentially on account of Brexit and the risk of widening international trade conflicts and the associated negative effects on the global economy. Our assessment of the risks and opportunities in China remains unchanged. Growing economic uncertainties, the general effects on the mechanical engineering sector and the rise in capital tied up during the year are leading to an increase in liquidity, refinancing and rating risks. As already announced, the Company has therefore initiated additional capital release measures to counteract this. Risks and opportunities still arise from changes in the discount rates for pension obligations with corresponding negative or positive effects on equity. Moreover, due to the capital cost recommendation of the Expert Committee for Company Valuation and Business Administration (FAUB) of the Institute of Public Auditors in Germany (IDW) of October 22, 2019, the risks from the impairment test of goodwill and other intangible assets have increased. No risks that could jeopardize the Heidelberg Group's continued existence, either individually or together with other risk factors, are discernible at present or for the foreseeable future.

Future prospects

The economic and political conditions on the markets relevant to Heidelberg as presented in this interim financial report and in the 2018/2019 Annual Report, and the expected development of the printing industry, serve as premises for the forecast planning for the 2019/2020 financial year and the years thereafter. The first-time adoption of IFRS 16 "Leases" leads to changes within the income statement and the statement of cash flows. In addition, lease liabilities are reported in the statement of financial position (see note 1, pages 25 and 26 of this interim statement). Corporate development is still focused on the Group's transformation in line with its "Heidelberg goes digital!" policy, with the strategic pillars of digital transformation and the expansion of technology leadership, which was initiated in the last two financial years (see "Strategy", 2018/2019 Annual Report, pages 18 to 21). This is intended to allow sustainably profitable growth in the medium to long term, adding value for all the Company's shareholders.

Cautious outlook for 2019/2020: Stable year-on-year sales forecast, outlook for operating result adjusted

As the global economic slowdown in the first half of the financial year was reflected in a tangible reduction in momentum in terms of orders for new machinery, and the latest annual forecast by the industry association VDMA was more pessimistic in light of the growing uncertainty on the world markets due to trade disputes – in particular the trade dispute between the US and China – and Brexit, Heidelberg is forecasting sales equal to the previous year's level (2018/2019) in the current financial year. Despite the economic downturn and the associated investment restraint in equipment business, the Company expects that this will be compensated by the ongoing stable growth of its contract business. This forecast is based on a relatively consistent development of key exchange rates against the euro, and the assumption that the UK will leave the European Union with a deal in place.

As communicated in an ad hoc disclosure on July 17, 2019, the Company has adjusted the outlook for its operating result in the current 2019/2020 financial year, assuming a target margin on EBITDA excluding restructuring result of between 6.5 and 7 percent of sales (previously: 7.5 to 8.0 percent). The reasons for this are the rising investment restraint on account of the more difficult economic conditions and a less advantageous product mix in the 2019/2020 financial year. The Heidelberg Digital Technology segment is set to achieve an EBITDA margin excluding restructuring result of between 2.0 percent and 3.0 percent; the Heidelberg Lifecycle Solutions segment is still aiming for an EBITDA margin excluding restructuring result of between 13.5 percent and 14.0 percent. The Heidelberg Financial Services segment is still set to make a positive contribution to EBITDA. Having previously targeted a result after taxes at the same level as the previous year, a break-even result after taxes is now expected.

On the basis of the stable and long-term financial framework and the intended development in profitability, leverage is set to remain below the communicated target of 2. Heidelberg will therefore still have the financial flexibility moving ahead to invest in its digital transformation and continue the Company's strategic development

Important note
This interim financial report contains forward-looking statements based on assumptions and estimates by the management of Heidelberger Druckmaschinen Aktiengesellschaft. Although the Management Board is of the opinion that these assumptions and estimations are realistic, actual future developments and results may deviate substantially from these forward-looking statements due to various factors. These factors could, for instance, include changes in the overall economic situation, exchange rates and interest rates, as well as changes within the print media industry. Heidelberger Druckmaschinen Aktiengesellschaft provides no guarantee and assumes no liability for future development and results deviating from the assumptions and estimates made in this interim financial report. Heidelberg neither intends nor assumes any obligation to update the assumptions and estimates made in this interim financial report to reflect events or developments occurring after the publication of this interim report.

Interim consolidated financial statements

for the period April 1, 2019 to September 30, 2019

Interim consolidated income statement – April 1, 2019 to September 30, 2019

Figures in € thousands	Note	1-Apr-2018 to 30-Sep-2018	**1-Apr-2019 to 30-Sep-2019**
Net sales	3	1,114,306	1,123,730
Change in inventories		83,935	80,880
Other own work capitalized		16,983	10,905
Total operating performance		**1,215,224**	**1,215,515**
Other operating income	4	38,380	29,093
Cost of materials	5	554,753	552,371
Staff costs		445,797	441,191
Depreciation and amortization		35,025	47,642
Other operating expenses	6	195,948	185,796
Result of operating activities[1)]		**22,081**	**17,608**
Financial income	7	3,261	1,797
Financial expenses	8	30,817	25,003
Financial result		**– 27,556**	**– 23,206**
Net result before taxes		**– 5,475**	**– 5,598**
Taxes on income		894	10,824
Net result after taxes		**– 6,369**	**– 16,422**
Basic earnings per share according to IAS 33 (in € per share)	9	**– 0.02**	**– 0.05**
Diluted earnings per share according to IAS 33 (in € per share)	9	**– 0.02**	**– 0.05**

1) Result of operating activities excluding restructuring result: € 22,256 thousand (April 1, 2018 to September 30, 2018: € 27,344 thousand)

Restructuring result (€ – 4,648 thousand; April 1, 2018 to September 30, 2018: € – 5,263 thousand) = restructuring income (€ 900 thousand; April 1, 2017 to September 30, 2018: € 5,749 thousand) less restructuring expenses (€ 5,548 thousand; April 1, 2018 to September 30, 2018: € 11,012 thousand)

Interim consolidated statement of comprehensive income – April 1, 2019 to September 30, 2019

Figures in € thousands	1-Apr-2018 to 30-Sep-2018	**1-Apr-2019 to 30-Sep-2019**
Net result after taxes	**– 6,369**	**– 16,422**
Other comprehensive income not reclassified to the income statement		
Remeasurement of defined benefit pension plans and similar obligations	35,584	– 139,403
Deferred income taxes	– 1,881	306
	33,703	**– 139,097**
Other comprehensive income which may subsequently be reclassified to the income statement		
Currency translation	3,692	2,324
Available-for-sale financial assets	551	– 22
Cash flow hedges	2,284	– 647
Deferred income taxes	– 205	– 17
	6,322	**1,638**
Total other comprehensive income	40,025	– 137,459
Total comprehensive income	**33,656**	**– 153,881**

Interim consolidated income statement – July 1, 2019 to September 30, 2019

Figures in € thousands	1-Jul-2018 to 30-Sep-2018	**1-Jul-2019 to 30-Sep-2019**
Net sales	572,913	621,942
Change in inventories	21,914	– 1,275
Other own work capitalized	9,592	8,564
Total operating performance	**604,419**	**629,231**
Other operating income	19,479	15,906
Cost of materials	272,854	282,283
Staff costs	212,389	207,741
Depreciation and amortization	17,145	23,413
Other operating expenses	101,585	100,790
Result of operating activities [1]	**19,925**	**30,910**
Financial income	1,036	1,056
Financial expenses	12,698	11,534
Financial result	**– 11,662**	**– 10,478**
Net result before taxes	**8,263**	**20,432**
Taxes on income	– 29	6,081
Net result after taxes	**8,292**	**14,351**
Basic earnings per share according to IAS 33 (in € per share)	**0.03**	**0.05**
Diluted earnings per share according to IAS 33 (in € per share)	**0.03**	**0.05**

[1] Result of operating activities excluding restructuring result: € 32,079 thousand (July 1, 2018 to September 30, 2018: € 25,510 thousand)

Restructuring result (€ – 1,169 thousand; July 1, 2018 to September 30, 2018: € – 5,585 thousand) = restructuring income (€ 240 thousand; July 1, 2018 to September 30, 2018: € 3,040 thousand) less restructuring expenses (€ 1,409 thousand; July 1, 2018 to September 30, 2018: € 8,625 thousand)

Interim consolidated statement of comprehensive income – July 1, 2019 to September 30, 2019

Figures in € thousands	1-Jul-2018 to 30-Sep-2018	**1-Jul-2019 to 30-Sep-2019**
Net result after taxes	**8,292**	**14,351**
Other comprehensive income not reclassified to the income statement		
Remeasurement of defined benefit pension plans and similar obligations	34,010	–72,212
Deferred income taxes	–1,387	1,700
	32,623	**–70,512**
Other comprehensive income which may subsequently be reclassified to the income statement		
Currency translation	–634	8,220
Available-for-sale financial assets	129	300
Cash flow hedges	–191	–1,991
Deferred income taxes	–10	–114
	–706	**6,415**
Total other comprehensive income	31,917	–64,097
Total comprehensive income	**40,209**	**–49,746**

Interim consolidated statement of financial position as of September 30, 2019

Assets

Figures in € thousands	Note	31-Mar-2019	**30-Sep-2019**
Non-current assets			
Intangible assets	10	271,271	266,138
Property, plant and equipment	10	559,664	611,070
Investment property		7,705	7,652
Financial assets		7,103	11,016
Receivables from sales financing		30,361	29,506
Other receivables and other assets	12	8,040	7,518
Income tax assets		90	93
Deferred tax assets		76,057	74,883
		960,291	1,007,876
Current assets			
Inventories	11	684,857	785,493
Receivables from sales financing		29,475	26,420
Trade receivables		359,706	288,359
Other receivables and other assets	12	71,381	81,507
Income tax assets		8,097	8,825
Cash and cash equivalents	13	215,015	170,288
		1,368,531	1,360,892
Assets held for sale		0	1,474
Total assets		**2,328,822**	**2,370,242**

Interim consolidated statement of financial position as of September 30, 2019

Equity and liabilities

Figures in € thousands	Note	31-Mar-2019	**30-Sep-2019**
Equity	14		
Issued capital		779,102	779,102
Capital reserves, retained earnings and other reserves		– 400,580	– 519,094
Net result after taxes		20,875	– 16,422
		399,397	243,586
Non-current liabilities			
Provisions for pensions and similar obligations	15	582,159	726,978
Other provisions [1]	16	43,678	44,116
Financial liabilities	17	366,441	420,598
Contractual liabilities [2]	18	30,606	21,581
Other liabilities	19	12,682	11,975
Income tax liabilities [1]		55,245	55,229
Deferred tax liabilities		4,618	3,850
		1,095,429	1,284,327
Current liabilities			
Other provisions [1]	16	193,489	168,132
Financial liabilities	17	98,568	165,516
Contractual liabilities [2]	18	156,348	173,327
Trade payables		245,389	203,651
Income tax liabilities [1]		9,266	11,339
Other liabilities	19	130,936	120,364
		833,996	842,329
Total equity and liabilities		**2,328,822**	**2,370,242**

[1] Prior-year figures have been adjusted due to first-time adoption of IFRIC 23 and the related decision of the IFRS Interpretations Committee (IFRS IC) of September 17, 2019; see note 1

[2] As of financial year 2019/2020, Contractual liabilities are shown under a separate item in the consolidated statement of financial position; the previous year's figures have been adjusted accordingly

Statement of changes in consolidated equity as of September 30, 2019 [1)]

Figures in € thousands	Issued capital	Capital reserves	Retained earnings
April 1, 2018	713,198	30,668	– 265,470
Change in accounting and valuation methods[2)]	–	–	– 2,339
April 1, 2018 – adjusted [2)]	713,198	30,668	– 267,809
Profit carryforward (+)			13,565
Total comprehensive income			33,703
Consolidation adjustments / other changes			206
September 30, 2018	**713,198**	**30,668**	**– 220,335**
April 1, 2019	779,102	33,225	– 301,706
Changes in accounting and valuation methods [3)]	–	–	– 2,722
April 1, 2019 – adjusted [3)]	779,102	33,225	– 304,428
Profit carryforward (+)	0	0	20,875
Total comprehensive income	0	0	– 139,097
Consolidation adjustments / other changes	0	0	792
September 30, 2019	**779,102**	**33,225**	**– 421,858**

[1)] For further details please refer to note 14
[2)] First-time adoption of IFRS 9; the previous year's figures have not been restated
[3)] First-time adoption of IFRS 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
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
			0	13,565	– 13,565	0
3,692	487	2,143	6,322	40,025	– 6,369	33,656
			0	206	0	206
– 144,941	**365**	**191**	**– 144,384**	**– 334,051**	**– 6,369**	**372,778**
– 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
0	0	0	0	20,875	– 20,875	0
2,324	– 16	– 670	1,638	– 137,459	– 16,422	– 153,881
0	0	0	0	792	0	792
– 128,722	**– 134**	**– 1,606**	**– 130,461**	**– 519,094**	**– 16,422**	**243,586**

Interim consolidated statement of cash flows – April 1, 2019 to September 30, 2019

Figures in € thousands	1-Apr-2018 to 30-Sep-2018	**1-Apr-2019 to 30-Sep-2019**
Net result after taxes	– 6,369	– 16,422
Depreciation, amortization, write-downs and write-ups [1]	35,020	47,642
Change in pension provisions	3,259	5,143
Change in deferred tax assets and deferred tax liabilities [2]	– 2,442	1,964
Result from disposals	– 352	– 431
Change in inventories	– 102,998	– 100,328
Change in sales financing	7,591	3,148
Change in trade receivables / payables	82,367	34,596
Change in other provisions [2]	– 33,996	– 23,905
Change in other items of the statement of financial position [2]	– 30,671	– 12,331
Cash used in operating activities	**– 48,591**	**– 60,924**
Intangible assets / property, plant and equipment / investment property		
Investments	– 55,052	– 39,460
Income from disposals	7,296	4,552
Financial assets / Company acquisitions		
Investments	– 11	– 3,748
Income from disposals	0	25
Cash used in investing activities before cash investment	**– 47,767**	**– 38,631**
Cash investments	10,084	0
Cash used in investing activities	**– 37,683**	**– 38,631**
Change in financial liabilities	9,564	55,062
Cash generated by financing activities	**9,564**	**55,062**
Net change in cash and cash equivalents	**– 76,710**	**– 44,493**
Cash and cash equivalents at the beginning of the reporting period	**201,607**	**215,015**
Changes in the scope of consolidation	926	0
Currency adjustments	– 927	– 234
Net change in cash and cash equivalents	– 76,710	– 44,493
Cash and cash equivalents at the end of the reporting period	**124,896**	**170,288**
Cash used in operating activities	– 48,591	– 60,924
Cash used in investing activities	– 37,683	– 38,631
Free cash flow	**– 86,274**	**– 99,555**

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

[2] Prior-year figures have been adjusted due to first-time adoption of IFRIC 23 and the related decision of the IFRS Interpretations Committee (IFRS IC) of September 17, 2019; see note 1

Notes

1 Accounting policies

The interim consolidated financial statements as of September 30, 2019 are consistent with and were prepared in line with the regulations of IAS 34 (Interim Financial Reporting). They should be read in conjunction with the consolidated financial statements as of March 31, 2019, which were prepared in line with the International Financial Reporting Standards (IFRS) as endorsed in the EU.

The interim consolidated financial statements were generally prepared using the same accounting policies as the consolidated financial statements for the 2018/2019 financial year. In accordance with the regulations of IAS 34, a condensed scope of reporting was chosen as against the consolidated financial statements as of March 31, 2019. All amounts are generally stated in € thousands.

As of financial year 2019/2020, "Contractual liabilities" are shown under a separate item in the statement of financial position; the previous year's figures have been adjusted accordingly.

The International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRS IC) have approved the following new standards and changes to existing standards, which are to be applied for the first time in financial year 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 16

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

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

For the adoption of IFRS 16, Heidelberg applied the modified retrospective method; 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 review. Instead, the rights of use 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. Upon first-time application of IFRS 16, the weighted average incremental borrowing rate was 3.99 percent. 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 rights of use recognized are reported under property, plant and equipment and thus in the same item in which the assets underlying the lease would have been reported if they had been owned by the Heidelberg Group.

In the income statement, IFRS 16 led to shifts between the result of operating activities (EBIT) and the financial result. Instead of the previous other operating expenses from operating lease relationships, depreciation of right-of-use assets of around € 8 million and interest expenses of discounting lease liabilities of around € 1 million were recognized in the first half of financial year 2019/2020.

The change in the presentation of lease expenses from operating leases also resulted in a shift from the cash generated by financing activities to the cash used in operating activities of around € 8 million as a significant portion of lease payments will be reported as repayments of lease liabilities in the cash generated by financing activities. The interest portion will continue to be reported in the 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**
Application exemption for short-term leases	– 3,595
Application exemption for low-value asset leases	– 2,152
Adjustments from extension options	3,652
Others	– 2,757
Nominal value of the lease obligations (operating lease) as of April 1, 2019	**67,294**
Effect resulting from 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**

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

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

2 Scope of consolidation

The interim consolidated financial statements of Heidelberger Druckmaschinen Aktiengesellschaft include a total of 72 (March 31, 2019: 74) domestic and foreign companies in which Heidelberger Druckmaschinen Aktiengesellschaft has a controlling influence as defined by IFRS 10. Of these, 61 (March 31, 2019: 62) are located outside Germany. Subsidiaries that are of minor importance are not included.

3 Net sales

Net sales of € 1,123,730 thousand (April 1, 2018 to September 30, 2018: € 1,114,306 thousand) comprise net sales from contracts with customers of € 1,114,264 thousand (April 1, 2018 to September 30, 2018: € 1,109,226 thousand) and other net sales of € 9,466 thousand (April 1, 2018 to September 30, 2018: € 5,080 thousand).

The breakdown of sales by segment and by region is shown in note 22.

4 Other operating income

	1-Apr-2018 to 30-Sep-2018	**1-Apr-2019 to 30-Sep-2019**
Reversal of other provisions/deferred liabilities	15,646	9,138
Hedging/exchange rate gains	4,348	4,755
Recoveries on loans and other assets previously written down	2,316	3,178
Income from operating facilities	3,008	1,967
Income from disposals of intangible assets, property, plant and equipment and investment property	729	643
Other income	12,333	9,412
	38,380	**29,093**

The items “Reversal of other provisions/deferred liabilities” and “Other income” also include restructuring income totaling € 900 thousand (April 1, 2018 to September 30, 2018: € 3,184 thousand) and/or € 0 thousand (April 1, 2018 to September 30, 2018: € 2,565 thousand).

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

5 Cost of materials

The cost of materials includes the pro rata interest expense in connection with the Heidelberg Financial Services segment of € 451 thousand (April 1, 2018 to September 30, 2018: € 546 thousand); interest income from sales financing of € 2,496 thousand (April 1, 2018 to September 30, 2018: € 2,159 thousand) is reported in sales.

6 Other operating expenses

	1-Apr-2018 to 30-Sep-2018	**1-Apr-2019 to 30-Sep-2019**
Other deliveries and services not included in the cost of materials	68,282	64,659
Special direct sales expenses including freight charges	39,137	38,573
Travel expenses	20,266	19,880
Rent and leases	15,402	7,696
Insurance expense	5,097	5,341
Additions to provisions and accruals relating to several types of expense	2,701	4,636
Bad debt allowances and impairment on other assets	4,565	4,489
Hedging/exchange rate losses	4,820	3,286
Costs of car fleet (excluding leases)	3,035	2,383
Other overheads	32,643	34,853
	195,948	**185,796**

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

7 Financial income

	1-Apr-2018 to 30-Sep-2018	**1-Apr-2019 to 30-Sep-2019**
Interest and similar income	2,756	1,507
Income from financial assets/loans/securities	505	290
Financial income	**3,261**	**1,797**

8 Financial expenses

	1-Apr-2018 to 30-Sep-2018	**1-Apr-2019 to 30-Sep-2019**
Interest and similar expenses	29,298	23,853
Expenses for financial assets/loans/securities	1,519	1,150
Financial expenses	**30,817**	**25,003**

9 Earnings per share

Earnings per share are calculated by dividing the net result after taxes attributable to shareholders by the weighted number of shares outstanding in the period. The weighted number of shares outstanding in the period under review was 304,336,334 (April 1, 2018 to September 30, 2018: 278,592,557). The weighted number of shares outstanding was influenced by the holdings of treasury shares. As of September 30, 2019, the Company held 142,919 (March 31, 2019: 142,919) treasury shares.

The calculation of diluted earnings per share assumes conversion of outstanding debt securities (convertible bond) to shares. Due to the fact that the net result for the period is concurrently adjusted for the interest expense recognized for the convertible bond in the financial result, taking into account the respective number of shares from the convertible bonds issued on March 30, 2015 did not have a dilutive effect on earnings per share during the period from April 1, 2019 to September 30, 2019. In the future, this instrument may have a fully dilutive effect.

10 Intangible assets, property, plant and equipment

In the period from April 1, 2019 to September 30, 2019, there were additions to intangible assets of € 7,694 thousand (April 1, 2018 to September 30, 2018: € 19,682 thousand) and to property, plant and equipment of € 36,950 thousand (April 1, 2018 to September 30, 2018: € 43,128 thousand). In the same period, the carrying amount of disposals from intangible assets was € 45 thousand (April 1, 2018 to September 30, 2018: € 45 thousand) and € 3,577 thousand (April 1, 2018 to September 30, 2018: € 6,888 thousand) for property, plant and equipment.

11 Inventories

Inventories include raw materials and supplies totaling € 126,139 thousand (March 31, 2019: € 115,282 thousand), work and services in progress amounting to € 379,580 thousand (March 31, 2019: € 317,755 thousand), finished goods and goods for resale of € 272,657 thousand (March 31, 2019: € 246,139 thousand), and advance payments of € 7,117 thousand (March 31, 2019: € 5,681 thousand).

12 Other receivables and other assets

The Other receivables and other assets item includes, among others, receivables from derivative financial instruments of € 3,454 thousand (March 31, 2019: € 3,155 thousand) and prepaid expenses of € 20,008 thousand (March 31, 2019: € 11,838 thousand).

13 Cash and cash equivalents

Restrictions on disposal of cash and cash equivalents due to foreign exchange restrictions amount to € 54,901 thousand (March 31, 2019: € 30,891 thousand).

14 Equity

The same as at March 31, 2019, the Company still held 142,919 treasury shares on September 30, 2019. The repurchased shares can only be utilized to reduce the capital of Heidelberger Druckmaschinen Aktiengesellschaft or for employee share participation programs and other forms of share distribution to the employees of the Company or a subsidiary or to individuals who are or were employed by Heidelberger Druckmaschinen Aktiengesellschaft or one of its associates.

Please see note 25 in the notes to the consolidated financial statements as of March 31, 2019 for information on the contingent capital and the authorized capital as of March 31, 2019.

There have been material changes since March 31, 2019 as a result of the resolutions of the Annual General Meeting on July 25, 2019.

On this date, 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’ 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 (Contingent Capital 2019). 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.

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 canceled the authorization of the Management Board resolved on July 24, 2015 to increase the share capital of the Company, with the approval of the Supervisory Board, by up to € 131,808,140.80 in total on one or more occasions by issuing new shares against cash or non-cash contributions by July 23, 2020 (Authorized Capital 2015), upon the coming into effect of the amendment to the Articles of Association concerning Authorized Capital 2019, provided that it has not been utilized by this date. The authorization 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.

15 Provisions for pensions and similar obligations

A discount rate of 1.1 percent was applied as of September 30, 2019 (March 31, 2019: 2.0 percent) as an assumption for the calculation of the actuarial gains and losses of German companies.

Assuming a domestic discount rate of 2.0 percent, the present value of the pension entitlements of the employees would have decreased by € 148,890 thousand.

16 Other provisions

Other provisions include staff obligations of € 58,340 thousand (March 31, 2019: € 70,097 thousand), sales obligations of € 65,742 thousand (March 31, 2019: € 67,650 thousand) and miscellaneous other provisions of € 88,166 thousand (March 31, 2019: € 99,420 thousand). The latter also include, among others, provisions in connection with our portfolio and capacity adjustments and measures to optimize our management and organizational structure.

Due to the mandatory introduction of IFRIC Interpretation 23: "Uncertainty over Income Tax Treatments" and the related decision of the IFRS Interpretations Committee (IFRS IC) of September 17, 2019, uncertain tax positions totaling € 61,941 thousand (March 31, 2019: € 60,600 thousand), which were previously recognized under tax provisions, are recognized under "Income tax liabilities" in the consolidated statement of financial position. The previous year's figures have been restated accordingly.

17 Financial liabilities

			31-Mar-2019			**30-Sep-2019**
	Current	Non-current	Total	Current	Non-current	**Total**
Amounts due to banks	30,333	218,872	249,205	78,588	234,790	313,378
Corporate bonds	4,533	145,776	150,309	4,533	146,363	150,896
Convertible bonds	57,574	–	57,574	57,690	–	57,690
Lease liabilities[1]	2,053	1,793	3,846	20,243	39,445	59,688
Other	4,075	–	4,075	4,462	–	4,462
	98,568	366,441	**465,009**	165,516	420,598	**586,114**

[1] Increase due to first-time application of IFRS 16. Previous year: From finance leases

In July 2019, a loan promoted by KfW amounting to € 6 million was granted to finance investments in our IT landscape, which will be amortized over a period until July 2024.

In July and August 2019, two loans promoted by KfW totaling €4.2 million and € 3.8 million were taken out to finance investments in two buildings at our Wiesloch-Walldorf site, which will also be amortized over a term until July 2024.

With regard to our financing, please also refer to note 28 in the notes to the consolidated financial statements as of March 31, 2019.

18 Contractual liabilities

Contractual liabilities essentially comprise advance payments on orders and prepayments for future maintenance and services and amounted to € 194,908 thousand (March 31, 2019: € 186,954 thousand).

19 Other liabilities

Other liabilities include deferred staff-related liabilities of € 51,376 thousand (March 31, 2019: € 56,897 thousand), liabilities from derivative financial instruments of € 7,192 thousand (March 31, 2019: € 6,241 thousand) and deferred income of € 13,187 thousand (March 31, 2019: € 11,504 thousand).

20 Additional information on financial instruments

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

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

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

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

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

Securities are classified as financial assets measured at fair value through profit or loss and are generally carried at fair value. This classification was based on the strategic nature 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 table below provides an overview of financial assets and financial liabilities measured at fair value in accordance with the IFRS 13 fair value hierarchy:

				31-Mar-2019				**30-Sep-2019**
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	**Total**
Securities	3,062	–	–	3,062	2,733	–	–	2,733
Derivative financial assets	–	3,155	–	3,155	–	3,454	–	3,454
Financial assets measured at fair value	**3,062**	**3,115**	**–**	**6,217**	**2,733**	**3,454**	**–**	**6,187**
Derivative financial liabilities	–	6,241	–	6,241	–	7,192	–	7,192
Financial liabilities measured at fair value	**–**	6,241	**–**	6,241	–	**7,192**	–	**7,192**

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

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

The fair value of the corporate bond, which is reported under financial liabilities, as calculated on the basis of the quoted price, is € 149,729 thousand (March 31, 2019: € 154,725 thousand), compared to the carrying amount of € 150,896 thousand (March 31, 2019: € 150,309 thousand). The fair value of the convertible bond determined on the basis of the stock exchange listing, which is also reported under financial liabilities, amounts to € 57,628 thousand (March 31, 2019: € 58,221 thousand), compared to the carrying amount of € 57,690 thousand (March 31, 2019: € 57,574 thousand). The fair value of the corporate bonds and the convertible bonds corresponds to the first level in the fair value hierarchy according to IFRS 13.

The fair value of the amortizing loan funded by the KfW issued in December 2015 is € 998 thousand (March 31, 2019: € 1,766 thousand) compared to the carrying amount of € 1,000 thousand (March 31, 2019: € 1,750 thousand).

The fair value of the development loan agreed with the European Investment Bank in March 2016 is € 95,608 thousand (March 31, 2019: € 93,716 thousand) compared to the carrying amount of € 100,739 thousand (March 31, 2019: € 100,739 thousand).

The fair value of the promotional loan for the financing of our investments to relocate our research and development activities to our Wiesloch production site, agreed upon with a syndicate of banks with refinancing by KfW (Energy Efficiency Program – “Energy-efficient Construction and Refurbishment”), is € 25,401 thousand (March 31, 2019: € 30,363 thousand), compared to the carrying amount of € 26,313 thousand (March 31, 2019: € 31,730 thousand).

The fair value of the loan taken up in May 2017 is € 18,739 thousand (March 31, 2019: € 20,391 thousand), compared to the carrying amount of € 19,920 thousand (March 31, 2019: € 22,044 thousand).

The fair value of the loan taken over in connection with the purchase/sale of the research and development center in Heidelberg in the first quarter of financial year 2018/2019 is € 27,574 thousand (March 31, 2019: € 27,488 thousand), compared to the carrying amount of € 27,897 thousand (March 31, 2019: € 27,993 thousand).

The fair value of the loan granted in July 2019 to finance investments in our IT landscape amounts to € 5,478 thousand compared with its carrying amount of € 5,700 thousand.

The fair value of the loan taken out in July 2019 to finance investments in a building at our Wiesloch-Walldorf site amounts to € 3,835 thousand compared with its carrying amount of € 3,990 thousand.

The fair value of the loan taken out in August 2019 to finance investments in another building at our Wiesloch-Walldorf location amounts to € 3,461 thousand compared with the carrying amount of € 3,610 thousand.

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

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

21 Contingent liabilities and other financial liabilities

As of September 30, 2019, the contingent liabilities for warranties and guarantees amounted to € 5,087 thousand (March 31, 2019: € 5,726 thousand).

Other financial liabilities totaling € 31,756 thousand (March 31, 2019: € 98.425 thousand) relate to investments and other purchase commitments. 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).

22 Group segment reporting

Segment reporting is based on 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. The Lifecycle business (services, consumables), Software Solutions and Heidelberg Platforms (offerings outside the print media industry) are bundled in the Heidelberg Lifecycle Solutions segment. The Heidelberg Financial Services segment comprises the sales financing business. Further information on the business activities, products and services of the individual segments can be found in note 8 of the consolidated financial statements as of March 31, 2019 and in the chapters "Management and control" and "Segments and business units" of the Group management report as of March 31, 2019.

Segment information April 1, 2019 to September 30, 2019:

	Heidelberg Digital Technology		Heidelberg Lifecycle Solutions		Heidelberg Financial Services		**Heidelberg Group**	
	1-Apr-2018 to 30-Sep-2018	**1-Apr-2019 to 30-Sep-2019**	1-Apr-2018 to 30-Sep-2018	**1-Apr-2019 to 30-Sep-2019**	1-Apr-2018 to 30-Sep-2018	**1-Apr-2019 to 30-Sep-2019**	1-Apr-2018 to 30-Sep-2018	**1-Apr-2019 to 30-Sep-2019**
External sales	655,005	660,449	457,142	460,785	2,159	2,496	1,114,306	1,123,730
EBITDA excluding restructuring result[1] (segment result)	5,520	12,690	54,894	55,113	1,294	1,529	61,708	69,332
EBIT excluding restructuring result	– 20,012	– 22,052	46,375	43,112	981	1,196	27,344	22,256

[1] Result of operating activities before interest, taxes, depreciation and amortization, excluding restructuring result

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

	1-Apr-2018 to 30-Sep-2018	**1-Apr-2019 to 30-Sep-2019**
EBITDA excluding restructuring result (segment result)	61,708	69,332
Depreciation and amortization excluding restructuring-related depreciation and amortization	34,364	47,076
EBIT excluding restructuring result	27,344	22,256
Restructuring result	**– 5,263**	**– 4,648**
Result of operating activities	**22,081**	**17,608**
Financial income	3,261	1,797
Financial expenses	30,817	25,003
Financial result	**– 27,556**	**– 23,206**
Net result before taxes	**– 5,475**	**– 5,598**

External sales relate to the segments and regions as follows:

	Heidelberg Digital Technology		Heidelberg Lifecycle Solutions		Heidelberg Financial Services		**Heidelberg Group**	
	1-Apr-2018 to 30-Sep-2018	**1-Apr-2019 to 30-Sep-2019**	1-Apr-2018 to 30-Sep-2018	**1-Apr-2019 to 30-Sep-2019**	1-Apr-2018 to 30-Sep-2018	**1-Apr-2019 to 30-Sep-2019**	1-Apr-2018 to 30-Sep-2018	**1-Apr-2019 to 30-Sep-2019**
Europe, Middle East and Africa								
Germany	107,697	82,482	60,274	61,117	1,224	1,079	169,195	144,678
Other Europe, Middle East and Africa region	161,738	131,319	141,502	136,121	127	116	303,367	267,556
	269,435	213,801	201,776	197,238	1,351	1,195	472,562	412,234
Asia/Pacific								
China	152,650	164,315	24,804	23,859	18	12	177,472	188,186
Other Asia/Pacific region	75,546	87,558	72,204	77,570	750	690	148,500	165,818
	228,196	251,873	97,008	101,429	768	702	325,972	354,004
Eastern Europe	58,889	82,367	49,713	50,909	26	227	108,628	133,503
North America								
USA	62,597	87,516	69,601	73,175	5	273	132,203	160,964
Other North America region	13,788	13,812	25,228	24,739	0	89	39,016	38,640
	76,385	101,328	94,829	97,914	5	362	171,219	199,604
South America	22,100	11,080	13,816	13,295	9	10	35,925	24,385
	655,005	**660,449**	**457,142**	**460,785**	**2,159**	**2,496**	**1,114,306**	**1,123,730**

23 Supervisory Board/Management Board

The composition of the Supervisory Board and the Management Board as at March 31, 2019 is presented on pages 150 to 152 of the consolidated financial statements as per March 31, 2019.

The following changes in the Supervisory Board and in the Management Board took place in the first six months of financial year 2019/2020:

On July 25, 2019, the Annual General Meeting elected Ms. Li Li, Tianjin City, China, CEO of Masterwork Group Co., Ltd., Tianjin City, China, to the Supervisory Board as a shareholder representative effective from the end of the Annual General Meeting on July 25, 2019 until the end of the Annual General Meeting that adopts a resolution on official approval of the Supervisory Board's activities for the 2023/2024 financial year. 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.

By mutual arrangement with the Supervisory Board of Heidelberger Druckmaschinen Aktiengesellschaft, the previous CFO Dirk Kaliebe resigned as a member of the Management Board as of September 30, 2019. The Supervisory Board then appointed Marcus A. Wassenberg as a member of the Management Board and the CFO of Heidelberger Druckmaschinen Aktiengesellschaft effective September 1, 2019.

24 Related party transactions

As described in note 40 of the notes to the consolidated financial statements as of March 31, 2019, business relationships exist between numerous companies and Heidelberger Druckmaschinen Aktiengesellschaft and its subsidiaries in the course of ordinary business. This also includes joint ventures, which are regarded as related companies of the Heidelberg Group.

In the reporting period, transactions were performed with related parties that resulted in liabilities of € 3,538 thousand (March 31, 2019: € 4,120 thousand), receivables of € 1,355 thousand (March 31, 2019: € 3,676 thousand), expenses of € 2,821 thousand (April 1, 2018 to September 30, 2018: € 1,284 thousand) and income of € 2,473 thousand (April 1, 2018 to September 30, 2018: € 2,026 thousand), which among others comprises sales. All transactions were again conducted as at arm's length and did not differ from relationships with other companies.

Members of the Supervisory Board have received a customary remuneration from Heidelberger Druckmaschinen Aktiengesellschaft and fully consolidated companies in line with consulting and employment contracts in the reporting period.

25 Significant events after the end of the reporting period

On October 28, 2019, Dr. Siegfried Jaschinski announced to the Management Board that he would be resigning his mandate as a member of the Supervisory Board and his position as Chairman of the Supervisory Board of Heidelberger Druckmaschinen AG with effect from November 30, 2019 and thus before the end of his term of office. Dr. Martin Sonnenschein is to become new member and Chairman of the Supervisory Board. The Supervisory Board elected Dr. Martin Sonnenschein as Chairman of the Supervisory Board with effect from December 1, 2019, at the earliest, however, with effect from the date of his entry into the Supervisory Board, subject to the condition that Dr. Martin Sonnenschein is appointed to the Supervisory Board by court order. The appointment of Dr. Sonnenschein as a member of the Supervisory Board shall be applied for immediately at court.

The Supervisory Board and the Management Board of Heidelberger Druckmaschinen Aktiengesellschaft have decided to further streamline management structures and reduce the size of the Management Board. Board member Stephan Plenz, in charge of the Heidelberg Digital Technology segment, will be leaving the company by mutual agreement when his current contract ends in June 2020.

Heidelberg, November 6, 2019

HEIDELBERGER DRUCKMASCHINEN
AKTIENGESELLSCHAFT
The Management Board

Responsibility statement

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

Heidelberg, November 6, 2019

HEIDELBERGER DRUCKMASCHINEN
AKTIENGESELLSCHAFT
The Management Board

Rainer Hundsdörfer Marcus A. Wassenberg

Prof. Dr. Ulrich Hermann Stephan Plenz

Financial calendar

February 11, 2020 ¬ Publication of Third Quarter Figures 2019/2020
June 9, 2020 ¬ Press Conference, Annual Analysts' and Investors' Conference
July 23, 2020 ¬ Annual General Meeting

Subject to change

Publishing information

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