

## Report of the Supervisory Board



**DR. SIEGFRIED JASCHINSKI**  
Chairman of the Supervisory Board

Dear shareholders,

In financial year 2017/2018, an extensive efficiency project was launched to optimize the Company's organization and processes and reduce ongoing costs by around €50 million in the medium term (FIT efficiency project). In addition, Heidelberg focused its corporate strategy on establishing new digital business models and expanding its technology leadership by expanding the portfolio in growth markets, such as packaging and label printing, digital printing, selected consumables and software, as well as by making targeted acquisitions.

The acquisition of Fujifilm's European coatings and pressroom chemicals business in the EMEA region is also to be viewed in this context. With this acquisition, Heidelberg expanded in the attractive growth segment for consumables. The transaction was another step in pursuing the Company's growth strategy of developing a comprehensive cross-sector portfolio geared toward specific customer requirements and is intended to further enhance Heidelberg's position in the market for coatings and pressroom chemicals.

In addition, the Company acquired docufy GmbH in Bamberg. docufy is a manufacturer of professional software solutions for technical documentation and the first provider of multi-level documentation. This acquisition augments the portfolio of the Heidelberg Digital Platforms segment, which offers IT solutions for the digitalization and automation of processes in the design, production and servicing of innovative high-tech products.

Another step into the digital future was the signing of the first deals under the new subscription model. The successful market launch of this new business model is another important component for the achievement of future growth objectives.

In addition, Heidelberg has positioned itself in the power electronics and electric mobility business. The Heidelberg "Wallbox," a charging device for electric vehicles, was successfully introduced at industrial trade shows. It appeals to automotive manufacturers, retail chains and consumers alike. This offering will gradually be expanded.

Moreover, Heidelberg has launched the Heidelberg Digital Unit, a new center of competence for digital marketing and e-commerce, which will significantly increase e-commerce sales over the next few years.

In addition, Heidelberg agreed a new syndicated credit facility with its banking group at better terms in March 2018. With an increased volume of € 320 million and a term until March 2023, this affords Heidelberg financial flexibility and long-term planning security. The new framework also opens up the possibility of early repayment of portions of the corporate bond – thereby further reducing interest expenses – and advancing the digital transformation and growth with further strategic acquisitions.

### **Close cooperation between Management Board and Supervisory Board**

The Supervisory Board continuously monitored the management by the Management Board in financial year 2017/2018 and regularly advised it on the running of the Company. We were assured of the legality and propriety 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, the corporate strategy, major transactions by the Company and the Group and the associated opportunities and risks, and 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, we discussed and examined all the 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. As Supervisory Board Chairman, I 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. These discussions focused on the FIT efficiency project and the subscription business model. The Chairmen 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 good time in all decisions of material importance to the Company and the Group and reviewed these decisions before their implementation.

When 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 required by law, the Articles of Association or the Rules of Procedure for the Management Board.

No members took part in only half or less of the meetings of the Supervisory Board and committees of which they are members. The average attendance rate at the meetings of the Supervisory Board and its committees was nearly 100 percent in financial year 2017/2018.

### **Key topics at Supervisory Board meetings**

The Supervisory Board's discussions focused on issues relating to strategy, portfolio and business activities of Heidelberger Druckmaschinen Aktiengesellschaft. Furthermore, the Supervisory Board addressed the liquidity situation and the capital structure.

In the year under review, the plenum of the Supervisory Board met four times. In particular, I would like to highlight the following key topics:

At its meeting on June 1, 2017, the Supervisory Board discussed the reporting of the Management Board on the business situation, as in every meeting held in the year under review. In addition, the Supervisory Board adopted the consolidated and single-entity financial statements for financial year 2016/2017 following the presentation and discussion of the auditor's report, thereby concurring with the recommendation of the

Audit Committee. It also approved the agenda for the 2017 Annual General Meeting. The Chairman of the Audit Committee reported on the meetings held on May 4 and May 31, 2017, and the Chairman of the Personnel Matters Committee reported on the meeting of June 1, 2017.

The meeting ahead of the Annual General Meeting on July 27, 2017, was used to prepare for the Annual General Meeting. Furthermore, the Supervisory Board resolved to commission PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft as the auditor for financial year 2017/2018. The Chairman of the Audit Committee reported on the meeting held on July 26, 2017. Moreover, the Supervisory Board discussed an amendment to the Articles of Association (cancellation of the Contingent Capital 2012 authorization due to the passage of time).

Following the account of the current business situation at the Supervisory Board meeting on November 24, 2017, the Supervisory Board was then informed in detail about the meetings of the Audit Committee on November 7, 2017, the Strategy Committee on November 23, 2017, and the Personnel Matters Committee on November 24, 2017, and discussed with the Management Board the concept of potential refinancing alternatives, including the aforementioned new credit facility. In addition, the Supervisory Board determined the attainment of the gender ratio target defined in 2015 and set the new target for the Management Board until 2022. It also approved the 2017 declaration of compliance, having previously discussed the criteria for the future composition of the Supervisory Board and adopted a profile of skills and expertise. After thorough discussion and on the basis of a corresponding recommendation, the Supervisory Board also approved the reformulation of the multi-year variable compensation (LTI) for the Management Board. Following discussion of the new arrangement with the Management Board including the necessary contractual amendments, the reformulation took effect as of the year under review (see Remuneration Report on pages 54 et seq). We then approved the new syndicated credit facility by way of circulation in writing on March 20, 2018.

The topics discussed at the Supervisory Board's last meeting of the reporting year, on March 27, 2018, were 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 was also informed about the meetings of the Audit Committee on February 6, 2018, and of the Personnel Matters Committee on March 27, 2018, and the new organizational chart.

Another issue that we discussed in depth and resolved upon at the last meeting of the reporting year was the engagement of Schuh & Co. – in which one of our Supervisory Board members is a shareholder – as part of a development project with our subsidiary Heidelberg Web Carton Converting GmbH. Schuh & Co. is to provide methodological and practical support here with its expertise in strategic and operational complexity management. We were convinced of the scope, quality and competitiveness of the offer in a tendering procedure. Furthermore, we ascertained that this very technical complexity consulting did not equate to the customary controlling and consulting activities of a Supervisory Board member; in addition, Prof. Dr. Schuh was not personally involved in this consulting.

### **Corporate governance**

The corporate governance of the Company was a regular topic of the discussions in the Supervisory Board, as were the recommendations of the German Corporate Governance Code (GCGC) as revised in 2017. 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](http://www.heidelberg.com) under Company > About Us > Corporate Governance.

## Work in the committees

The Supervisory Board of the Company has set up six committees to support it in its work:

- Mediation Committee
- Audit Committee
- Personnel Matters Committee
- Management Committee
- Nomination Committee
- Strategy Committee

The Supervisory Board's six committees prepare decisions for the plenum 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 is presented in the notes to the consolidated financial statements.

The Personnel Matters Committee met three times in reporting year 2017/2018. Besides the regular reappointment of Mr. Kaliebe and the extension of his contract by another three years, its work focused on compensation issues, especially the reformulation of the multi-year variable compensation and other matters relating to former and current Management Board members. The Audit Committee held five regular meetings. It examined quarterly and event-driven questions 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 interim 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 integration of newly acquired activities (e.g. docufy GmbH) and the effects of the reorientation and development of business areas, the new standards for revenue recognition, 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 and discussed the strategic orientation of the Sheetfed business area, the equity situation and the financial framework. It also discussed the FIT efficiency project and the new subscription business model. The Nomination Committee met once and held an extraordinary meeting on May 18, 2017, at which it discussed the filling of the vacant Supervisory Board post. The Management Committee did not meet. The Mediation Committee in accordance with section 27 (3) of the German Codetermination Act (MitBestG) also did not have to be convened.

## Audit of the single-entity and consolidated financial statements

The Annual General Meeting on July 27, 2017, appointed PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft as the auditor. This company audited the single-entity financial statements for financial year 2017/2018, 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 and issued each with unqualified opinions. 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. The reports of the auditors were distributed to all the members of the Supervisory Board in time before the accounts meeting of the Supervisory Board on June 5, 2018. The auditors who signed the audit reports took part in the Supervisory

Board's discussions. During the meeting, they reported on the results 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. The Audit Committee recommended the adoption of the single-entity financial statements and the approval of the consolidated financial statements at the meeting of the Supervisory Board on June 4, 2018. We examined and accepted the annual financial statements, the consolidated financial statements, the management report of Heidelberger Druckmaschinen Aktiengesellschaft and the management report of the Heidelberg Group prepared by the Management Board. We thereby concurred with the audit findings of both sets of financial statements, adopted the single-entity financial statements and approved the consolidated financial statements for the year ended March 31, 2018.

#### **Personnel changes in the Supervisory Board and the Management Board**

There was one change among the shareholder representatives on the Supervisory Board of Heidelberger Druckmaschinen AG. Mr. Oliver Jung was appointed as a member of the Supervisory Board by way of a judicial appointment effective May 23, 2017, and elected to the Supervisory Board for the regular term of five years at the Annual General Meeting on July 27, 2017.

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**

This year, my particular thanks go once again to the employees of Heidelberg and their representatives in the Supervisory Board, the Works Council and the Speakers Committee for all their dedicated work.

I would also expressly like to include the members of the Management Board and the managerial staff who have turned Heidelberg into a healthy and sustainably profitable enterprise once again. I would like to conclude by thanking you, dear shareholders, for the confidence you have placed in our Company and in the shares of Heidelberger Druckmaschinen Aktiengesellschaft.

Wiesloch, June 2018

**FOR THE SUPERVISORY BOARD**



**DR. SIEGFRIED JASCHINSKI**

Chairman of the Supervisory Board