

## Report of the Supervisory Board



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

Dear shareholders,

In the 2018/2019 financial year, the corporate strategy of Heidelberger Druckmaschinen Aktiengesellschaft (Heidelberg) was focused on building new digital business models and extending technological leadership by adding to the portfolio on growth markets. Key milestones have already been achieved in this respect, laying the groundwork for future growth and securing long-term profitability. By intensifying our cooperation with our long-standing partner Masterwork Group (Masterwork), we intend to tap the potential of packaging printing more extensively, especially on the key market of China. The Management Board and Supervisory Board therefore welcome Masterwork as another long-term strategic anchor shareholder. The investment also strengthened the Company's equity situation. The funds will be used for general corporate financing and to accelerate the implementation of the digital agenda, which is advancing with great strides. Thanks to the positive demand for the new subscription model and the launch of series production of the Primefire digital printing press, the potential of digital transformation for the Company is becoming increasingly apparent. The first print shops in Europe, the US and China have already started production using the new Primefire digital print system, cultivating new sales markets and customers thanks to its high quality and productivity. A pioneering example of how such technology can be used in combination with a digital business model is the Boxuni web-to-pack platform from Heidelberg and its partner Xianjunlong Colour Printing Co. Ltd for individual folding boxes, which was presented at the Print China trade show in April 2019.

We also anticipate business opportunities on the label market, which has the industry's greatest growth potential thanks to the rising demand for unusual finishes and just-in-time delivery. Digital label printing especially is becoming more significant here. Labelfire sets the benchmark for quality and flexibility.

Heidelberg has set new standards in global printing industry competition with the opening of its new innovation center (IVC) at the Wiesloch-Walldorf site, thereby stepping up its efforts to remain the technology leader and actively shape the digital transformation process in the printing industry moving ahead. Following the conversion of a former production hall, the new innovation incubator for the graphics industry is the most state-of-the-art development center in the sector, and the heart of the Company and the future high tech campus that we intend to gradually build up at the Wiesloch-Walldorf site.

Heidelberg has also continued to optimize its financing structure. The Company partially repaid a high-yield bond in July 2018. The cash repayment of around € 55 million will help to improve the financial result from the next financial year. Furthermore, Heidelberg's equity base was strengthened with the aforementioned inclusion of the new anchor shareholder Masterwork.

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

The Supervisory Board of Heidelberger Druckmaschinen AG again performed its duties in accordance with the law, the Articles of Association and its Rules of Procedure in full in the 2018/2019 financial year. The Supervisory Board continuously monitored the Management Board, regularly advised it on the running of the Company and oversaw key strategic issues. We were assured of the legality, expediency and compliance of the work of the Management Board at all times.

The Management Board reported to the Supervisory Board regularly, promptly and comprehensively in written or verbal form on all matters relevant to the Company. Namely, these include planning, corporate strategy, major transactions by the Company and the Group, and the associated opportunities and risks in addition to compliance issues. The Management Board kept the Supervisory Board informed continuously and in detail about the Group's sales, earnings, employment and business performance, and the Company's financial position. On receipt of the information, the Supervisory Board discussed and dealt with all the above topics in depth. In particular, the Supervisory Board discussed all the business transactions of significance to the Company verbally and in writing with the Management Board and reviewed them. In addition, the Supervisory Board and the Audit Committee dealt intensively with other material concerns of the Company in their meetings and separate discussions. The members of the Supervisory Board also discussed current topics with the Management Board outside of meetings. The Chairman of the Supervisory Board was in continuous contact with the Management Board and especially with the Chief Executive Officer and discussed significant current issues and developments at the Company with them. These discussions focused on digitization, the creation of an ecosystem 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. The members of the Supervisory Board always had sufficient opportunity to scrutinize the information and resolution proposals they received from the Management Board and to make suggestions in the meetings of the committees and the Supervisory Board as a whole.

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.

In the reporting period, the members of the Management Board and the Supervisory Board did not experience any conflicts of interest that they would have to have disclosed to the Supervisory Board in accordance with item 4.3.3 or item 5.5.2 of the German Corporate Governance Code.

### **Meetings of the Supervisory Board and key topics**

The Supervisory Board held four ordinary meetings, one inaugural meeting and two extraordinary meetings in the reporting year. No members took part in only half or less of the meetings of the Supervisory Board and committees of which they are members (item 5.4.7 of the German Corporate Governance Code). The average attendance rate at the meetings of the Supervisory Board and its committees was around 97 percent in financial year 2018/2019. The members of the Management Board took part in the meetings of the Supervisory Board unless it seemed appropriate to discuss individual matters without their participation.

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

The following key topics that the Supervisory Board discussed in the reporting year should be highlighted in more detail:

At its meeting on June 5, 2018, the Supervisory Board first 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 single-entity financial statements for financial year 2017/2018 following the presentation and discussion of the auditor's report and approved the consolidated financial statements, thereby concurring with the recommendation of the Audit Committee. It also approved the agenda for the 2018 Annual General Meeting. Furthermore, the Chairman of the Audit Committee reported on the meetings held on May 3 and June 4, 2018 and the Chairman of the Supervisory Board reported on the meeting of the Personnel Matters Committee of June 5, 2018 and the meeting of the Nomination Committee on June 4, 2018.

The meeting before the Annual General Meeting on July 25, 2018 was used to prepare for the Annual General Meeting. Moreover, the Supervisory Board discussed the current business situation of the Company. The Chairman of the Audit Committee reported on the meeting held on July 24, 2018.

At its inaugural meeting after the Annual General Meeting, on account of the Supervisory Board elections, the Supervisory Board dealt with the matters of the formation and composition of the six committees of the Supervisory Board. The Chairman of the Supervisory Board, Dr. Siegfried Jaschinski, and his deputy, Ralph Arns, were also elected. Furthermore, the Supervisory Board resolved to commission PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft as the auditor for financial year 2018/2019.

Following the account of the current business situation in the Supervisory Board meeting on November 29, 2018, the Supervisory Board was then informed in detail about the meetings of the Audit Committee on October 30, 2018, the Strategy Committee on November 28, 2018 and the Personnel Matters Committee on November 29, 2018. After reviewing the recommendations and suggestions of the German Corporate Governance Code, the Supervisory Board also approved the issue and publication of the declaration of compliance of November 29, 2018.

There was an extraordinary meeting of the Supervisory Board on January 22, 2019 at which the Supervisory Board discussed the current business situation of the Company and the planned investment in Heidelberg by Masterwork Group, China.

There was another extraordinary meeting on February 18, 2019. This meeting resolved to form a "Corporate Action 2019" committee and to transfer the powers of the Supervisory Board to this committee.

The topics discussed at the Supervisory Board's last meeting of the reporting year, on March 28, 2019, were the current business situation, planning for the coming financial year and projections for the following years. The Supervisory Board noted with approval the planning presented to the meeting. The Supervisory Board was also informed about the meetings of the Audit Committee on February 5, 2019 and of the Personnel Matters Committee on March 28, 2019, and of the new organizational chart. Furthermore, the Chairman of the Supervisory Board reported on the meeting of the "Corporate Action 2019" committee held on March 12, 2019. Strategy was also discussed at this meeting.

### **Corporate governance**

The corporate governance of the Company was a regular topic of discussion by the Supervisory Board. 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 permanent 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 Supervisory Board as a whole and pass resolutions on matters delegated to them for a decision. Furthermore, the meeting of the Supervisory Board on February 18, 2019 set up a temporary "Corporate Action 2019" committee.

The respective chairs of the respective committees, at the meetings of the Supervisory Board, reported to the Supervisory Board regularly and comprehensively on their activities. 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 2018/2019. In addition to the scheduled reappointment of Mr. Hundsdörfer and the renewal of his contract by another three years, and the renewal of Prof. Dr. Hermann's contract by another five years, the work of the Personnel Matters Committee focused on remuneration issues concerning the current members of the Management Board.

The Audit Committee held five regular meetings in the reporting year. It examined quarterly and ad hoc issues relating to the Company's net assets, financial position and results of operations and its risk reporting. Furthermore, together with the auditor, this committee also focused intensively on the annual and consolidated financial statements in addition to the quarterly financial statements, the accounting policies applied and the specifics of the separate and consolidated financial statements. Other topics discussed at the meetings included the liquidity situation of the Heidelberg Group and its refinancing, the development of the capital structure (equity and borrowed funds), the effects of the reorganization and ongoing development of the segments, the new regulations on revenue recognition and accounting for leases, accounting for and assessing the subscription business model, risk management, the internal controlling and audit system, compliance, the implementation and impact of the portfolio and restructuring measures, the accounting treatment of pension provisions, investment controlling and sales financing.

The Strategy Committee met once in the reporting year and discussed the strategic orientation of digital printing and the subscription business, as well as the equity situation and the financial framework. The Nomination Committee met once in the reporting year to discuss the candidates for election to the Supervisory Board at the 2018 Annual General Meeting. The Management Committee did not meet in the reporting year. The Mediation Committee in accordance with section 27 (3) of the German Codetermination Act (MitBestG) also did not have to be convened in the reporting year.

The temporary "Corporate Action 2019" committee met once on March 12, 2019 and approved the increase in the Company's share capital utilizing authorized capital in accordance with Article 3 (5) of the Articles of Association.

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

The Annual General Meeting on July 25, 2018, appointed PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft as the auditor. This company audited the single-entity financial statements for financial year 2018/2019, 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 4, 2019. 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, 2019. In line with the Audit Committee's proposal, the Supervisory Board then concurred with the audit findings. Following its examination of the single-entity financial statements, the consolidated financial statements, the management report of Heidelberger Druckmaschinen Aktiengesellschaft and the management report of the Heidelberg Group, the Supervisory Board came to the conclusion that it had no reservations. The Supervisory Board adopted the single-entity financial statements of Heidelberger Druckmaschinen Aktiengesellschaft prepared by the Management Board and approved the consolidated financial statements of the Heidelberg Group for the year ended March 31, 2019.

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

There have been personnel changes among the shareholder representatives on the Supervisory Board of Heidelberger Druckmaschinen AG. Mr. Ferdinand Rüesch was elected as a new member of the Supervisory Board at the Annual General Meeting on July 25, 2018. Dr. Siegfried Jaschinski and Prof. Dr.-Ing. Günther Schuh were each re-elected for a standard term of five years after their previous terms in office ended after the Annual General Meeting on July 25, 2018. Dr. Herbert Meyer did not stand for re-election and left the Supervisory Board at the end of the Annual General Meeting on July 25, 2018. Of the employee representatives on the Supervisory Board, Mr. Rainer Wagner, Mr. Christoph Woesler and Mr. Roman Zitzelsberger left the Supervisory Board at the end of the Annual General Meeting. Mr. Gerald Dörr, Mr. Joachim Dencker and Ms. Petra Otte were elected to the Supervisory Board by the employees on June 19, 2018. Mr. Ralph Arns, Ms. Beate Schmitt and Mr. Mirko Geiger were re-elected.

The Supervisory Board wishes to especially thank the members of the Supervisory Board who have now stepped down for their work.

The Supervisory Board will continue to monitor the Company's interests and its long-term development and work towards the good of the Company.

In its meeting on May 27, 2019, the Supervisory Board of Heidelberger Druckmaschinen AG consented to the amicable termination of the Board activities of the Company's long-standing CFO, Mr. Dirk Kaliebe, as of September 30, 2019. Mr. Kaliebe had informed the Supervisory Board that he was not seeking to renew his current contract, which expires in calendar year 2021. The Supervisory Board noted Mr. Kaliebe's decision with great regret and expressed its sincere thanks for his successful work, including the restructuring necessary due to the financial crisis and the various refinancing measures undertaken in recent years for the realignment of the capital structure and Heidelberg's reorientation as a digital enterprise.

#### **Thank you from the Supervisory Board**

The Supervisory Board would like to thank the members of the Management Board, all the employees of the Heidelberg Group around the world and their representatives on the Supervisory Board, the members of the Works Councils and the Representative Committee for their hard work and achievements in the 2018/2019 financial year.

The Supervisory Board would like to conclude by thanking you, the shareholders, for the confidence you have placed in the Company and in the shares of Heidelberger Druckmaschinen Aktiengesellschaft.

Heidelberg, June 4, 2019

**FOR THE SUPERVISORY BOARD**



**DR. SIEGFRIED JASCHINSKI**

Chairman of the Supervisory Board