

Report of the Supervisory Board



DR. MARTIN SONNENSCHN
Chairman of the Supervisory Board

Dear shareholders,

The past financial year 2019/2020 saw far-reaching changes for Heidelberger Druckmaschinen Aktiengesellschaft, both within the Group and as a result of the initial consequences of the COVID-19 pandemic. Following extensive preparations, the Company implemented a reorientation at the end of the financial year and resolved a comprehensive package of measures aimed at reducing structural costs in the short term and improving its profitability on a sustainable basis. To achieve this, Heidelberg will discontinue the production of individual products that generate far too little in the way of earnings power and that significantly impact the Company's profitability. Heidelberg's reorientation is accompanied by a sustainable reduction in production and structural costs, starting with the downsizing of the Management Board but also including a substantial workforce reduction. These cuts are painful but necessary in order to stabilize the Company and return it to profitability and success.

The almost complete retransfer of around € 380 million from pension trust assets will safeguard the financing of the package of measures and significantly increase Heidelberg's financial stability by enabling a substantial reduction in liabilities, which also means considerable interest savings.

In future, Heidelberg will concentrate on its technology leadership in its core business with a focus on digitization, and hence on the profitable areas in which the Company occupies a world-leading market position. With products such as its new Print Site Contracts, i. e. service agreements covering the entire lifecycle of a printing press, and a digital subscription business model, Heidelberg is continuing to expand its leading technological role. This is made possible by its unique integrated range of solutions for printing presses, software, consumables and performance services, the aim of which is to provide even better support for its customers' success in future with a view to returning the Company to sustainable growth.

The expenses for the package of measures and the significant deterioration in the economic environment as a result of the global COVID-19 pandemic had a pronounced impact on sales and earnings in financial year 2019/2020, and these factors will also affect financial year 2020/2021. However, we are confident that our comprehensive reorientation will have clearly positive effects from financial year 2021/2022 onward.

Close cooperation between Management Board and Supervisory Board

The Supervisory Board of Heidelberger Druckmaschinen AG again performed its duties in accordance with the law, the Articles of Association and its Rules of Procedure in full in financial year 2019/2020. The Supervisory Board continuously monitored the Management Board, regularly advised it on the running of the Company and oversaw key strategic issues. We were assured of the legality, expediency and compliance of the work of the Management Board at all times.

The Management Board reported to the Supervisory Board regularly, promptly and comprehensively in written or verbal form on all matters relevant to the Company. Namely, these include planning, corporate strategy, major transactions by the Company and the Group, and the associated opportunities and risks, in addition to compliance issues. The Management Board kept the Supervisory Board informed continuously and in detail about the Group's sales, earnings, employment and business performance, and the Company's financial position. On receipt of the information, the Supervisory Board discussed and dealt with all the above topics in depth. In particular, the Supervisory Board discussed and examined all business transactions of significance to the Company verbally and in writing with the Management Board. In addition, the Supervisory Board and the Audit Committee dealt intensively with other material concerns of the Company in their meetings and separate discussions. The members of the Supervisory Board also discussed current topics with the Management Board outside of meetings. The Chairman of the Supervisory Board was in continuous contact with the Management Board and especially with the Chief Executive Officer and discussed significant current issues and developments at the Company with them. The focal points of these discussions included strategy, risk management and the subscription business model, as well as the Company's business situation and liquidity. The chairs of the Supervisory Board and the committees reported on key findings no later than the next Supervisory Board meeting. Against this backdrop, the Supervisory Board was always involved in all decisions of material importance to the Company and the Group in good time and reviewed these decisions ahead of their implementation. The members of the Supervisory Board always had sufficient opportunity to scrutinize the information and resolution proposals they received from the Management Board and to make suggestions at the meetings of the committees and the Supervisory Board as a whole.

Where necessary, the shareholder and employee representatives discussed the agenda items for the Supervisory Board meetings in separate preliminary talks. The Supervisory Board granted its approval for individual transactions to the extent so required by law and the Articles of Association or the Rules of Procedure for the Management Board.

In the reporting period, the members of the Management Board and the Supervisory Board did not experience any conflicts of interest that would have required disclosure in accordance with the German Corporate Governance Code.

The members of the Supervisory Board undertake the basic and advanced training they need to carry out their duties, such as on corporate governance issues or new products, autonomously and are supported by the Company where necessary. As part of their induction, the members of the Supervisory Board that were newly appointed in financial year 2019/2020 met with the members of the Management Board to discuss current topics in the respective Management Board divisions in order to obtain an overview of the relevant topics at the Company.

Meetings of the Supervisory Board and key topics

The Supervisory Board held eight ordinary meetings and two extraordinary meetings in the reporting year. Until he stepped down from the Supervisory Board, Prof. Günther Schuh only attended half of the meetings of the Supervisory Board in the reporting year. The average attendance rate at the meetings of the Supervisory Board and its committees was around 98 percent in financial year 2019/2020. The following table shows the individual breakdown of meeting participation:

	Meeting attendance
Full Supervisory Board	
Dr. Siegfried Jaschinski (Chairman) until November 30, 2019	7/7
Dr. Martin Sonnenschein (Chairman) since December 1, 2019	3/3
Ralph Arns*	10/10
Mirko Geiger*	10/10
Joachim Dencker*	10/10
Gerald Dörr*	10/10
Karen Heumann	9/10
Oliver Jung	10/10
Kirsten Lange	10/10
Li Li since July 25, 2019	6/6
Petra Otte*	10/10
Ferdinand Rüesch	10/10
Beate Schmitt*	10/10
Prof. Dr.-Ing. Günther Schuh until July 25, 2019	2/4
Audit Committee	
Dr. Siegfried Jaschinski (Chairman) until November 30, 2019	4/4
Oliver Jung (Chairman) since December 1, 2019	5/5
Mirko Geiger*	5/5
Ralph Arns*	5/5
Kirsten Lange	5/5
Beate Schmitt*	5/5
Dr. Martin Sonnenschein since December 1, 2019	1/1
Personnel Committee	
Dr. Siegfried Jaschinski (Chairman) until November 30, 2019	4/4
Dr. Martin Sonnenschein (Chairman) since December 1, 2019	1/1
Ralph Arns*	5/5
Karen Heumann	5/5
Gerald Dörr*	5/5
Ferdinand Rüesch	5/5
Beate Schmitt*	5/5

	Meeting attendance
Nomination Committee	
Dr. Siegfried Jaschinski (Chairman) until November 30, 2019	2/2
Dr. Martin Sonnenschein (Chairman) since December 1, 2019	1/1
Oliver Jung	3/3
Ferdinand Rüesch	3/3
Strategy Committee	
Dr. Siegfried Jaschinski (Chairman) until November 30, 2019	-
Dr. Martin Sonnenschein (Chairman) since December 1, 2019	1/1
Ralph Arns*	1/1
Mirko Geiger*	1/1
Karen Heumann	1/1
Oliver Jung	1/1
Kirsten Lange	1/1
Li Li since July 25, 2019	1/1
Ferdinand Rüesch	1/1
Prof. Dr.-Ing. Günther Schuh until July 25, 2019	-
Mediation Committee	
Dr. Siegfried Jaschinski until November 30, 2019	1/1
Dr. Martin Sonnenschein since December 1, 2020	-
Ralph Arns*	1/1
Gerald Dörr*	1/1
Ferdinand Rüesch	1/1

Supervisory Board members Joachim Dencker, Gerald Dörr, Petra Otte and Beate Schmitt attended the Strategy Committee meeting as guests.

The members of the Management Board took part in the meetings of the Supervisory Board unless it seemed appropriate to discuss individual matters without their participation.

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

In particular, the Supervisory Board discussed the following key topics in the reporting year:

At its meeting on May 27, 2019, the Supervisory Board discussed the ecosystem strategy, the digital printing strategy, financing, and authorized and contingent capital. At the same meeting, the Supervisory Board also approved the cooperation with the company thjnk, in which the Supervisory Board member Karen Heumann holds an equity interest.

At its meeting on June 4, 2019, the Supervisory Board discussed the reporting of the Management Board on the business situation, as at every meeting held in the year under review. In addition, the Supervisory Board adopted the single-entity financial statements for financial year 2018/2019 following the presentation and discussion of the auditor's report and approved the consolidated financial statements, thereby concurring with the recommendation of the Audit Committee. It also approved the agenda for the 2019 Annual General Meeting, including the nomination of Ms. Li for election to the Supervisory Board. Furthermore, the chairs of the respective committees reported on the meetings of the Personnel Matters Committee on May 27 and June 4, 2019, the meeting of the Nomination Committee on June 4, 2019 and the meetings of the Audit Committee on May 7 and June 3, 2019.

The extraordinary meeting of the Supervisory Board on June 25, 2019 discussed the candidates to succeed Mr. Kaliebe.

Discussions at the meeting of the Supervisory Board on July 24, 2019 initially focused in particular on the business situation and financial situation of the Company, including the quarterly results and the adjustment of the margin target and the earnings forecast. The Chairman of the Audit Committee reported on the meeting held on July 24, 2019. The Supervisory Board also resolved to appoint Marcus A. Wassenberg as the CFO of the Company for a term of three years effective September 1, 2019. Furthermore, the Supervisory Board resolved to commission PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft as the auditor of the single-entity and consolidated financial statements for financial year 2019/2020 subject to a resolution by the Annual General Meeting. The corresponding audit engagement was subsequently issued.

At its extraordinary meeting on September 17, 2019, the Supervisory Board discussed the current business situation of the Company and the corporate governance of the Supervisory Board, as well as Management Board matters. At the same meeting, the Supervisory Board also approved the cooperation with the company thjnk, in which the Supervisory Board member Karen Heumann holds an equity interest.

The Supervisory Board meeting on October 28, 2019 discussed Management Board and Supervisory Board matters and the business situation of the Company. Dr. Jaschinski reported on the work of the Audit Committee.

The meeting of the Supervisory Board on November 27, 2019 focused on reporting and discussing the current business situation with the Management Board. After reviewing the recommendations and suggestions of the German Corporate Governance Code, the Supervisory Board also approved the issue, amendment and publication of the declaration of compliance of November 27, 2019 and acknowledged the allocation of duties following the departure of Stephan Plenz. The Supervisory Board also discussed Management Board matters. At the meeting of the Supervisory Board on February 5, 2020, the Supervisory Board was informed by Mr. Jung about the meeting of the Audit Committee on the same date. The meeting also discussed personnel matters of the Management Board and the business situation and portfolio of the Company. In addition, the Supervisory Board resolved the performance of a special audit of two topics and acknowledged the new allocation of duties of the Management Board.

At its meeting on February 25, 2020, the Supervisory Board discussed the potential impact of the coronavirus crisis and the liquidity and business situation of the Company.

The topics discussed at the Supervisory Board's last meeting of the reporting year, on March 26, 2020, included the current business situation, planning for the coming financial year and projections for the following years. The Supervisory Board acknowledged the planning presented to the meeting. The Supervisory Board also addressed the management structure and changes in the Management Board as well as the Second Shareholder Rights Directive (ARUG II) and the new version of the German Corporate Governance Code. The results of the self-assessment of the Supervisory Board were also presented. Furthermore, the Supervisory Board was informed about the new allocation of duties following the departure of Prof. Dr. Ulrich Hermann.

Corporate governance

The Supervisory Board continuously addressed the standards of good corporate governance in the course of financial year 2019/2020. Further information on the Company's corporate governance and related activities of the Supervisory Board can also be found in the corporate governance report on our website www.heidelberg.com under 'Company' About Us' Corporate Governance.

Corporate governance at Heidelberger Druckmaschinen AG is discussed in detail in the combined corporate governance report and corporate governance declaration on pages 183 to 189 of the Annual Report.

Work in the committees

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

- Mediation Committee
- 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.

The chairs of the respective committees reported to the Supervisory Board regularly and comprehensively on their activities at the meetings of the Supervisory Board. The composition of the committees in financial year 2019/2020 is presented in the notes to the consolidated financial statements.

The Personnel Matters Committee met five times in reporting year 2019/2020. Its activities focused on the departure of Management Board members and remuneration issues, in particular the definition and review of the targets for variable remuneration.

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

The Strategy Committee met once in the reporting year and discussed the portfolio of the Company and the next steps in its optimization, as well as planning. It also discussed the business situation and liquidity.

The Nomination Committee met three times in the reporting year to discuss the successors for Prof. Dr.-Ing. Schuh, Dr. Jaschinski and Ms. Lange.

The Management Committee did not meet in the reporting year. The Mediation Committee in accordance with section 27(3) of the German Codetermination Act (MitbestG) had to be convened once in the reporting year in order to address the candidates to succeed Mr. Kaliebe.

Audit of the single-entity and consolidated financial statements

The Annual General Meeting on July 25, 2019, appointed PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, as the auditor of the single-entity and consolidated financial statements. This company audited the single-entity financial statements for financial year 2019/2020, the management report of Heidelberger Druckmaschinen Aktiengesellschaft and the consolidated financial statements and Group management report of the Heidelberg Group prepared by the Management Board on May 25, 2020/June 4, 2020 and issued each with unqualified opinions. The auditor responsible for the audit was Stefan Hartwig, who held this position for the third year. The single-entity financial statements, the consolidated financial statements, the management report of the Company and the management report of the Heidelberg Group were submitted to the Supervisory Board immediately on their completion on May 25, 2020. Following the resolution of the Supervisory Board on the variable compensation of the Management Board of June 4, 2020, the Management Board adjusted the single-entity financial statements, the consolidated financial statements as well as the management report of the Company and the management report of the Heidelberg Group on June 4, 2020 and prepared an amended version and submitted it to the Audit Committee and to the Supervisory Board. The reports of the auditors were distributed to all the members of the Supervisory Board in time before, and the supplement on the supplementary audit on the day of, the accounts meeting of the Supervisory Board on June 4, 2020. The auditors who signed the audit reports took part in the Supervisory Board's discussions. During the meeting, they reported on the results of their audit and supplementary audit and on the fact that there are no significant weaknesses in the internal controlling or risk management system with regard to the (Group) accounting process. They were available to the members of the Supervisory Board to answer questions. The auditor also informed the meeting about the services provided in addition to the audit of the financial statements and confirmed that there were no circumstances giving rise to concerns over its impartiality. The audit report does not include any comments or indications of any inaccuracies in the declaration of compliance with the German Corporate Governance Code. On behalf of the Audit Committee, the Chairman of the Audit Committee recommended the adoption of the single-entity financial statements prepared on May 25, 2020/June 4, 2020 and the approval of the consolidated financial statements at the meeting of the Supervisory Board on June 4, 2020. In line with the Audit Committee's proposal, the Supervisory Board then concurred with the audit findings. Following its examination of the single-entity financial statements, the consolidated financial statements, the management report of Heidelberger Druckmaschinen Aktiengesellschaft and the management report of the Heidelberg Group, the Supervisory Board came to the conclusion that it had no reservations. The Supervisory Board approved the single-entity financial statements of Heidelberger Druckmaschinen Aktiengesellschaft for the year ended March 31, 2020 prepared by the Management Board on May 25, 2020/June 4, 2020 and the consolidated financial statements of the Heidelberg Group for the year ended March 31, 2020. The single-entity financial statements were therefore adopted.

The Supervisory Board also examined the separate combined non-financial report for financial year 2019/2020. This was reviewed by the auditor, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, on the basis of a voluntary content review resolved by the Supervisory Board. The Supervisory Board discussed the separate combined non-financial report with the auditors and came to the conclusion that it had no reservations. The separate combined non-financial report will be published on the Company's website on June 9, 2020.

Personnel changes in the Supervisory Board and the Management Board

There were four personnel changes among the shareholder representatives on the Supervisory Board of Heidelberg Druckmaschinen AG. Prof. Dr.-Ing. Günther Schuh stepped down from the Supervisory Board effective from the end of the Annual General Meeting on July 25, 2019. Ms. Li Li was elected as a new member of the Supervisory Board at the Annual General Meeting on July 25, 2019. Dr. Siegfried Jaschinski stepped down from the Supervisory Board effective November 30, 2019. He was succeeded by Dr. Martin Sonnenschein, who was appointed by court order effective December 1, 2019.

There were four changes in the Management Board of the Company. Dirk Kaliebe stepped down from the Management Board effective September 30, 2019. Marcus A. Wassenberg was appointed as the new CFO effective September 1, 2019. Stephan Plenz stepped down from the Management Board effective November 30, 2019, and Prof. Ulrich Hermann stepped down from the Management Board effective February 16, 2020.

The Supervisory Board wishes to express its particular gratitude to the departing members of the Supervisory Board and the Management Board for their hard work.

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

Thank you from the Supervisory Board

The Supervisory Board would like to thank the members of the Management Board, all the employees of the Heidelberg Group around the world and their representatives on the Supervisory Board, the members of the Works Councils and the Representative Committee for their commitment in financial year 2019/2020 and their achievements in a challenging environment.

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

Heidelberg, June 4, 2020

FOR THE SUPERVISORY BOARD



DR. MARTIN SONNENSCHN
Chairman of the Supervisory Board